

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

Hon. Shayne R. Gallo, President

Amanda L. Bruck-Little, Executive Director

Brenna L. Robinson, Portfolio Manager

MEMORANDUM

BOARD OF DIRECTORS - KINGSTON LOCAL DEVELOPMENT CORPORATION
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CARLY WILLIAMS, CITY CLERK
AMANDA L. BRUCK-LITTLE, KLDC EXECUTIVE DIRECTOR / KLDC RECORDING SECRETARY /COMMUNITY DEVELOPMENT FINANCIALS
BRENNAL. ROBINSON, KLDC PORTFOLIO MANAGER / COMMUNITY DEVELOPMENT DIRECTOR/ ZONE COORDINATOR EZ
GEORGE W. REDDER, ESQ., COUNSEL KLDC
HOWARD KOHN. THE CHESAPEAKE GROUP, INC.
SUZANNE CAHILL, CITY PLANNER
GREGG H. SWANZEY , DIRECTOR OF ECONOMIC DEVELOPMENT
DAILY FREEMAN, 79 HURLEY AVENUE, KINGSTON, NY 12401
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WWBWZ, WPKF, WRNQ & WRWR-FM, 20 TUCKER DRIVE, POUGHKEEPISE, NY 12603
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WDST, 293 TINKER ST., WOODSTOCK, NY 12498
POSTMASTER, KINGSTON, PO BOX 9998, KINGSTON, NY 12402-9998

FROM: SHAYNE R. GALLO, MAYOR/PRESIDENT OF KLDC BOARD OF DIRECTORS

RE: KINGSTON LOCAL DEVELOPMENT CORPORATION BOARD MEETING

Please be advised that a meeting of the Kingston Local Development Corporation will be held at **8:00 a.m., Thursday, May 15, 2014**. Said meeting will be held in the Mayor's Conference Room, City Hall, 420 Broadway, Kingston, NY 12401.

AFFIDAVIT OF MEETING:

I, Bradley Jordan, Secretary for the Board of Directors of the Kingston Local Development Corporation, did on the **5th day of May, 2014** mail this notice to the individuals listed above. Mailing was accomplished by sealing said notice in an envelope and depositing same, with postage thereon, full pre-paid, with the United States Post Office.

Bradley Jordan

BRADLEY JORDAN, SECRETARY

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

Hon. Shayne R. Gallo, President

Amanda L. Bruck-Little, Executive Director

Brenna L. Robinson, Portfolio Manager

AGENDA

Thursday, May 15, 2014 @ 8:00 a.m.

1. Call to Order
2. Alderman Will – KLDC, Q1 2014 Letter Report
3. Portfolio Review & Updates
4. Façade Grant Applications
5. Armor Dynamics Update
6. Seven21 – Request for permanent financing
7. Approval of Minutes of Previous Meeting from April 17, 2014
8. Adjournment

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

Hon. Shayne R. Gallo, President

Amanda L. Bruck-Little, Executive Director

Brenna Robinson, Portfolio Manager

May 15, 2014

PRESENT:

BOARD MEMBERS – President Gallo, Vice President Dwyer, Secretary Jordan, Reinhardt, Turco-Levin, Clement , Potter, Berardi & Fitzgerald

KLDC EXECUTIVE DIRECTOR / KLDC RECORDING SECRETARY - Bruck-Little

KLDC PORTFOLIO MANAGER & COMMUNITY DEVELOPMENT DIRECTOR- Robinson

PLANNING- Cahill

COMMON COUNCIL LIASON – Will

CONSULTANT - Kohn

ABSENT:

BOARD MEMBERS – Treasurer Feeney & Mathews

KLDC COUNSEL – Redder

ECONOMIC DIRECTOR – Swanzey

Meeting was called to order by President Gallo at 8:04 am.

Alderman Will – KLDC, Q1 2014 Letter Report - Mr. Kohn, the consultant for KLDC and the Office of Community Development was present and opened the meeting by speaking about significant issues with Economic Development not just in Kingston but all over the country and the importance of LDC's. The success of any business within the City of Kingston is dependent on drawing people from outside Kingston as well as within its own community. Any impact on business is directly related to Economic Development. The KLDC's formation was a response for helping businesses at a time when mega corps like I.B.M were vacating. He explained Economic Development is a broad terminology involving bringing people into this community as well as outside resources and LDC's are a phenomenal tool to have and are necessary in order to help businesses.

This portion of the meeting was evoked by a 38 page document authored by Alderman Will including attachments to Alderman-at-Large James Noble on April 28, 2014 expressing his opinions as liaison for the City of Kingston Common Council regarding the Kingston Local Development Corporation (KLDC), Board Members and Staff. A response to said memorandum was prepared and forwarded to Alderman-at Large Noble as well as all Members of the Common Council. Both of these correspondences were discussed during this Board Meeting (attached). Upon conclusion of this discussion, President Gallo asked if any of the Board members had any additional questions or comments. Ms. Potter asked Alderman Will to explain to the Board exactly what the liaisons position entails. Alderman Will responded by saying that was an excellent question and the role is not defined anywhere in the charter. He has been unable to ascertain information or guidance on the position from the Common Council therefore, he is unsure of what his roll and responsibilities are. He said he is doing what he believes he should be as a liaison to several boards. Alderman Will stated that he does not make allegations but rather observations and interjects his opinions.

A motion was made by Secretary Jordan to accept the response written on behalf of the KLDC Board Members and staff and to have the response to Alderman Will become record, as part of the minutes. Second by Mr. Fitzgerald. Motion carried.

Portfolio Review and Updates- Counsel Redder did not have anything to report other than he is continuing to move forward with legal matters under the direction of the Board.

Broadway Corridor Façade Grant Program- The Finance Committee received applications for the façade program from the following applicants: Bardavon1869 Opera House, Inc d/b/a/ Ulster Performing Art's Center for improvements to made to replacing lighting fixtures to provide adequate lighting for pedestrian traffic and illumination of marquee and portico; New Lights on Broadway – Kingston, LLC, for storefront window replacement, caulking and painting of windows, new entrance doors and repointing of masonry; Greenkill Management for landscaping, fencing,

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parking area, painting and pointing; Crossfield Management for improvements to landscaping, fencing and parking area; 49 Greenkill Management for fencing, parking area, painting, pointing, windows and doorway; 111 J&M Corp for renovation of entire building. Upon review of the applications the committee accepted both Bardavon1869 Opera House, Inc d/b/a/ Ulster Performing Art's Center and New Lights on Broadway – Kingston, LLC as complete and recommendation of award of façade grant to the full Board. The other four applications were incomplete and three of the four were not within the boundaries of the Broadway Corridor. The question of whether or not the Bardavon would be receiving any rebates was asked, the staff will contact the Bardavon to find out. If they are, the difference between actual cost and the rebate will be the amount the Bardavon will be allowed to request for reimbursement from the KLDC. A motion was made by Mr. Clement to award a façade grant to Bardavon1869 Opera House, Inc d/b/a/ Ulster Performing Art's Center in the amount of \$6,747.00 and that amount would be reduced accordingly should there be any rebates for the lighting. Second by Ms. Turco-Levin. Motion carried. Ms. Turco-Levin made a motion to award a façade grant to New Lights on Broadway – Kingston, LLC in the amount of \$10,000 contingent on their approval from the Heritage Area Commission at the meeting to be held on May 28, 2014. Second by Mr. Clement. Motion carried.

Armor Dynamics, Inc. (ADI) – The Board has been extremely patient with ADI and has extended every courtesy afforded over the past couple of years. On several occasions, the principals have come before the Board explaining how the economic tide is against them, presenting their situation along with requests for additional time and understanding. President Gallo asked the Board if they wanted ADI to come before them yet again and the Board emphatically said no. To protect the KLDC's portfolio, a motion was made by Ms. Turco-Levin to authorize Counsel Redder to compose a letter to ADI exercising written notice per their lease agreement. Second by Mr. Clement. Motion carried.

Seven21 Media- Last month Mr. J. Ellenogen came before the Board and requested for his loan to have a fixed APR. That request was tabled until staff was able to ascertain whether or not that could be done as there are strict guidelines with HUD 108 loans. Staff informed the Board that according to what they were able to find out, Congress is supposed to be making a Public Offering announcement in August and that would allow for 108 loans who are currently paying interest according to Libor to be able to have a fixed APR via permanent financing. Staff will continue to monitor publications and/or notifications regarding the announcement of the Public offering.

Form 990 filing - Staff had received a draft version of the 990 late Tuesday and forwarded it to all Board Members for their review and approval. Though awaiting for approval and the final version, the auditors filed an extension on behalf of the KLDC. A motion was made by Mr. Berardi to accept the 990 as presented. Second by Secretary Jordan. Motion carried .

A motion was made by Vice President Dwyer to approve the minutes of April 17, 2014. Second by Mr. Fitzgerald. Motion carried.

At 8:52 am Mr. Berardi made a motion to adjourn. Second by Mr. Clement. Motion carried.

Respectively Submitted,



Amanda L. Bruck-Little
Recording Secretary



KINGSTON COMMON COUNCIL

FROM THE DESK OF

BRAD WILL, ALDERMAN

T (845) 616-8664

F (845) 750-6332

MEMO

April 28, 2014

The Honorable James L. Noble, Jr., Alderman-at-Large
City of Kingston
420 Broadway
Kingston, NY 12401

Re: Kingston Local Development Corporation, Q1 2014 Letter Report

Dear Alderman-at-Large Noble:

As Alderman Liaison to the Kingston Local Development Corporation (“KLDC”), I am filing the following quarterly letter report. The intent of this report is to inform the Common Council, as the legislative branch of the City of Kingston, of my personal observations based upon three partially-attended KLDC board meetings, and my review of two, published documents: 1) the [Authorities Budget Office \(ABO\) - Review of Activities and Expenditures, City of Kingston Local Development Corporation - October 18, 2013](#); and 2) [City of Kingston Local Development Corporation, Financial Statements - December 31, 2013](#), prepared by Kimball & O’Brien PC, and dated March 31, 2014. Both documents are attached for reference. Findings strongly suggest that the Common Council should take concrete steps toward conducting regular reviews of KLDC activities and progress related to its core mission.

Background

The KLDC was formed almost exactly twenty years ago, and signed into law by the legislative and executive branches. It is referred and assigned two different names in the Certificate of Incorporation (“**City of Kingston Local Development Corporation**,” “**Kingston Development Corporation**”). As described in Section 2 of the BYLAWS of the KLDC, the not-for-profit’s “chief purpose of the corporation is to promote and assist in the growth and development of business concerns within the City of Kingston,” and that it “particularly...encourage location and expansion of industrial, manufacturing and commercial capacity of new and improved job opportunities.” *[side note: the Bylaws also designates the not-for-profit as the **Kingston Local Development Corporation**, different again from the two names stated in the Cert. of Inc.]*.

The KLDC Mission Statement expands on and modifies the purpose as stated in the BYLAWS: “The Kingston Local Development Corporation was organized by the City of Kingston, New York to generally lessen the burdens of government and provide access to capital and programs for businesses and projects that create jobs, stabilize and increase

FROM THE DESK OF
BRAD WILL, ALDERMAN

the real property tax base, and contribute to the revitalization of the City's neighborhoods."

Whatever the case and its core mission may be, the formation of the KLDC was a response to the economic realities of the early 1990's, including but not limited to the closing and departure of Ulster County-based IBM office campuses (and 1,000's of professional jobs), and the increasing popularity of the Hudson Valley Mall that negatively impacted the older shopping districts of Kingston.

Executive Summary

At the October 17, 2013 KLDC board meeting, longtime KLDC Counsel Michael Jordan announced his retirement from the board. The reason given was that "the KLDC has more collections than closings," and he didn't specialize in collections. In addition, "the KLDC has had to hire other attorneys for various reasons due to the delinquencies and non-payment."¹ At the December 19, 2013 KLDC board meeting, attorney George Redder was introduced as the new counsel. As described in the Meeting Minutes, "Mr. Redder will be concentrating on the (Section) 108 loans followed by the other delinquent loans."

Concerns related to disclosure of the Mayor's appointment of Mr. Redder, as well as the lack of minority representation on the KLDC board, were previously filed with your office. They remain open items, (as does the question of executive session, discussed later), and are not the focus of this report.

Reading through the findings of both the ABO Review ("Review") and FY2013 Annual Financial Statement ("AFS"), it can be said that there is common, manifold concern expressed that the KLDC has veered away from its charter. Selected findings from the Review, which was conducted in part to "provide insight into how these (LDC) corporations function, how each relates to the local government for whose benefit it was created, and the types of activities on which the LDC **expends public funds,**" are as follows:

- "KLDC is involved in other activities that appear secondary to the core economic development purposes for which it was formed."
- "It is unclear why this (*related to fund maintenance and a separate bank account for the Historic Kingston Lighthouse*) financial relationship is necessary or supports the job creation mission of the KLDC."
- "Other than to receive tax deductible donations (*for City projects and events, including the 2012 'Great Streets' event*) there appears to be no mission driven reason for the KLDC to be involved in organizing and running this event."
- "KLDC is...engaged in in activities that are not central to its core mission...**the KLDC board should review its involvement in these additional activities and determine whether such activities best serve to advance economic development and job growth in the City of Kingston.**"

From the CPA-prepared FY2013 AFS, the following selected "audit opinions" and highlights are stated:

¹ October 17, 2013 KLDC Meeting Minutes, prepared by Amanda I. Bruck-Little, Recording Secretary

FROM THE DESK OF
BRAD WILL, ALDERMAN

- The Organization's expenses increased \$254,442 in 2013. This increase in expenses was due to bad debt.
- KLDC is considered a governmental entity and a component of the City of Kingston since all the board members are appointed by the Mayor.
- Armor Dynamics tenancy at the Kingston Business Park is noted, its \$1.85m 2008 construction covered in part with a \$1m grant from the NYS Dormitory Authority. Despite a company forecast creation of 200-500 jobs, less than 4% of this range was met as of early 2012. The KBP itself has fallen well short its goal of business development and job creation, and the current status and health of Armor Dynamics remains an open question.
- A bank balance of \$1.892m is reflected as being held on account at Catskill Hudson Bank, with \$478,111 insured by the FDIC - an approximately 25% rate of insurance. In years past (2008-12), KLDC cash balances have been distributed among five or six institutions. This compares with the previous FY2012 cash balance of \$2.275m held at five, separate institutions, with a combined FDIC-insured rate of 49.5%. It should be noted that the current KLDC Board Treasurer is Vice President of Catskill Hudson Bank. The AFS statement that the KLDC "maintains cash balances at several financial institutions" appears to be obsolete.
- Section II - Financial Statement Findings contains recommendations that KLDC management "should continue to develop and implement policies and procedures to ensure proper oversight of the entity's system for financial reporting," including "specific procedures relating to the review of bank reconciliations and overall management of loans receivable."
- "The current staff are scheduled to attend training in 2014 for both Revolving Loan Fund Lending and Section 108 loans." (*note/recommendation: these plans should be met and the directors' attendance confirmed with your office.*)
- 2013 Compliance-PAAA (Public Authority Accountability Act of 2005): "KLDC has only partially implemented the requirements of the Act. In addition there were several errors in the report submitted to the ABO...KLDC is not fully in compliance with the Act and reporting was not correct."
- The AFS recommends that "staff should be very careful when preparing the annual report," and that "the board member approving the report should perform more than a cursory review of the report."
- Related to HUD Section 108 loans assigned to KLDC, a lack of proper, comprehensive review of loan documents by legal counsel has had the effect of diminishing "Kingston's Small Cities grants as they are designated as collateral for these loans." The AFS further states that "any inconsistencies of wording on loan agreements should have been detected upon initial review." Finally, "a contributing factor was the total changeover in staff/management during the prior year (2012) which left KLDC without detailed knowledge of the program."

Current & Changing Conditions

The donated Bank of America property on Broadway was intended to be developed as a new, Midtown Police station, an activity found to be questionable and “unclear” by the ABO. As nothing is truly free, the costs to KLDC of obtaining and maintaining this donated property amounted to \$82,500 - through October 2013. At the January 2014 KLDC board meeting, the Mayor stated his intention to change course on this property, and instead develop a hospitality center at the current City Court/Police Station complex. The old King’s Inn site on Broadway would instead become the new City Court/Police Station complex, leaving unknown and unclear the fate of the B of A property and its ongoing publicly-funded expenses.

The Rosita’s Restaurant foreclosure saga is over, with \$408,000 left on the table due to KLDC “lender of last resort” status. At the April 2014 KLDC board meeting, it was generally accepted that there was nothing the board could do to recoup any monies. Ulster Savings Bank completed foreclosure proceedings, and discussion turned to what the sale and future disposition of the property might be. It was unclear to the board (surprisingly) whether the slips in Rondout Creek were part of the property, and it was unclear to me why talk turned to entertaining the idea of converting the property into a new Maritime Museum or station for the Hudson River Sloop Clearwater - two admirable NPOs that would nonetheless create a non-property-taxed status upon potentially valuable, commercial waterfront property.

Also at the April board meeting, The Mayor’s BEAT program was discussed, related in some way to an internship program and Broadway business facade matching grant program. A press release is due to be sent out, appealing to Broadway businesses. My attendance at the meeting was largely abbreviated due to a lengthy executive session, as such there was not much I could observe or report, and almost nothing the board could vote on other than opening and closing the board meeting and executive session.

The Kingston Business Park has never been fully leased, and the sweetheart property tax deal its prime tenant Alcoa enjoys is a disincentive and inequitable slap at market-rate paying businesses elsewhere in the City. It is a failed policy, and we should consider selling the property and getting out of the land ownership business. A new model for an effective and mission-intensive LDC could still be explored, but this one is obsolete and broken.

Executive Session

I understand we are awaiting an opinion from the Committee on Open Government concerning the Open Meetings Law and conduct of executive sessions. I reiterate my opinion, as Alderman Liaison to the KLDC, and a duly elected official, that the use of executive session at KLDC meetings has been overly extensive and harmful. Further, it is my opinion that the use of executive session undermines the KLDC’s credibility, and is potentially damaging in light of KLDC financial difficulties and confusion as documented by the ABO and the Independent Auditor.

According to the ABO Policy Guidance, “when a public body votes to go into executive session, the motion must include a clear explanation of what will be discussed.” A general explanation is insufficient - the reason must be specific and narrowly defined. For instance, a motion to enter into executive session to “discuss ongoing litigation” is unacceptable. The ABO states definitively that **“invoking the use of executive**

FROM THE DESK OF
BRAD WILL, ALDERMAN

session without providing sufficient justification undermines the public's confidence in the decisions and actions of the board.”

I regret to report that my efforts to simply attend and observe KLDC board meetings have been thwarted at the regular, monthly board meetings. The preferred method - at every 2014 meeting to date - is for the Mayor to enter into executive session as soon as the meeting is convened and once called to order. This maneuver has become “standard operating procedure,” and at April’s meeting resulted in over 1-1/2 hours of executive session, extending long past KLDC legal counsel George Redder’s departure.

Opinion & Recommendations

The financial condition of the KLDC cannot be qualified or characterized as “healthy.” Half measures to correct its problems have not been enough to generate the confidence of the ABO or the KLDC Independent Auditor. It is worth asking whether or not the KLDC has outlived its usefulness and effectiveness, and if it is truly serving the interests of the People of Kingston. Unmet employment goals, failing businesses and unpaid loans, and multiple “non mission-based” activities all call into question the wisdom of perpetuating our local development corporation.

The KLDC should be required to provide regular updates - biannually or annually at least - to the Common Council and the Public on its activities, financial standing, goals and plans for all projects it is managing or anticipates undertaking.

All current and candidate KLDC directors are strongly encouraged to, if any have not already, read the ABO Review, the FY2013 Financial Statement and the [ABO Policy Guidance on Appropriate Use of Executive Session](#) (all documents are attached as appendices).

The good news is that small businesses are looking again at Kingston, thanks in part to a graduated reduction of non-homestead tax rates five years ago. Small businesses, local arts - and the creative promotion of the unique historical and cultural amenities that predate the KLDC - will continue to be the backbone of a recovering Kingston economy.

Respectfully submitted,



Brad Will, Alderman, 3rd Ward

cc: Mayor Shayne Gallo
Alderman Matt Dunn
City Clerk Carly Williams

Attached Appendices:

1. [Authorities Budget Office \(ABO”\) - Review of Activities and Expenditures, City of Kingston Local Development Corporation - October 18, 2013](#)
2. [City of Kingston Local Development Corporation, Financial Statements - December 31, 2013](#)
3. [ABO Policy Guidance on Appropriate Use of Executive Session](#)

Authorities Budget Office
Review of Activities and Expenditures
City of Kingston Local Development Corporation
October 18, 2013



Local development corporations (LDCs) are not-for-profit corporations incorporated pursuant to Section 1411 of Not for Profit Corporation Law. The general statutory purpose of an LDC is to reduce unemployment, promote and maintain employment opportunities, aid communities attract new industry or to encourage the development or retention of existing industries, and lessen the burdens of government and act in the public interest. In furtherance of these public purposes, an LDC has the power to construct and rehabilitate industrial or manufacturing facilities to be used by others; provide grants and loans; borrow money; issue debt; and acquire, sell or lease real property below market value. Any county, city, town or village in New York State, alone or in combination, may cause the incorporation of a LDC by public officers or private individuals.

Section 2(2)b of Public Authorities Law defines local authorities to include not for profit corporations affiliated with, sponsored by, or created by a county, city, town or village government. By law, the operations, practices and reports of these LDCs are subject to the review and analysis of the ABO. The ABO is undertaking a series of reviews of selected LDCs across the state to develop a better understanding of the public purposes for which each LDC was formed, and to provide insight into how these corporations function, how each relates to the local government for whose benefit it was created, and the types of activities on which the LDC expends public funds.

These reviews are intended to focus on the following analytical issues:

- The specific mission of the LDC and the purpose(s) for which it was formed.
- The LDC's corporate governance structure, including its relation to the municipal government and other local authorities.
- The sources of LDC funding.
- The programs, services and public objectives supported by LDC funding.
- Activities of the LDC, if any, that may be inconsistent with or tangential to its core mission.

This report reviewed the extent to which the activities and expenditures of the City of Kingston Local Development Corporation (KLDC) are consistent with and advance the public purpose for which it was formed.

Mission of the City of Kingston Local Development Corporation

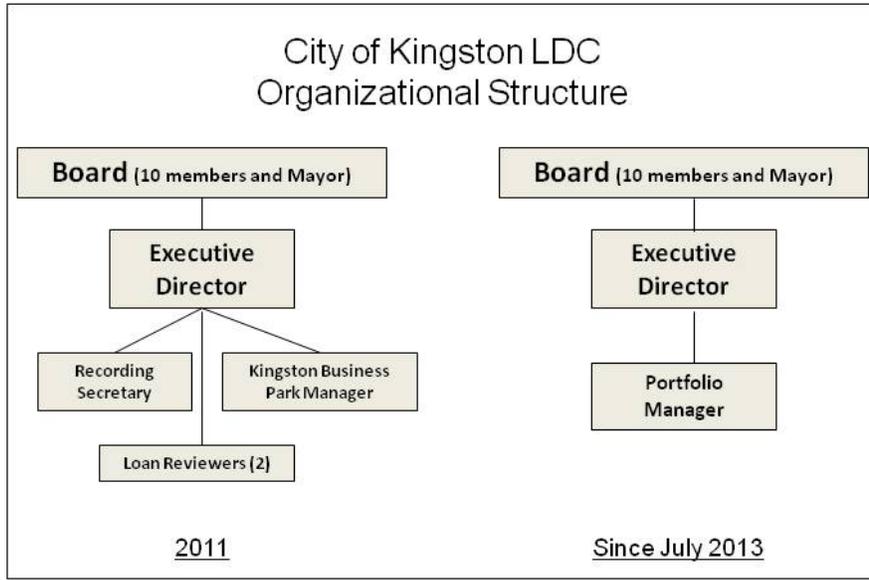
The City of Kingston Local Development Corporation (KLDC) was incorporated in 1994 under Section 1411 of Not for Profit Corporation Law. As articulated in its Certificate of Incorporation, the core mission of KLDC is to reduce unemployment, promote and provide for additional employment, encourage the development and retention of industry, and attract new industry to the area. This mission is consistent with the statutory purposes of LDCs. KLDC carries out its mission by providing loans to businesses and operating a business park. KLDC has also undertaken activities on behalf of the City that appear unrelated to its primary economic development purpose.

KLDC Corporate Governance Structure

According to its bylaws, KLDC is governed by an eleven member board of directors that includes the Mayor as an ex-officio member. The remaining ten members are appointed by the Mayor and are to be comprised of local business and community representatives. The bylaws designate the Mayor as President of the board, and also specify that the Mayor is to act as the chief executive officer of the Corporation. However, KLDC does not adhere to this provision of its bylaws and instead has designated someone else as the chief executive officer.

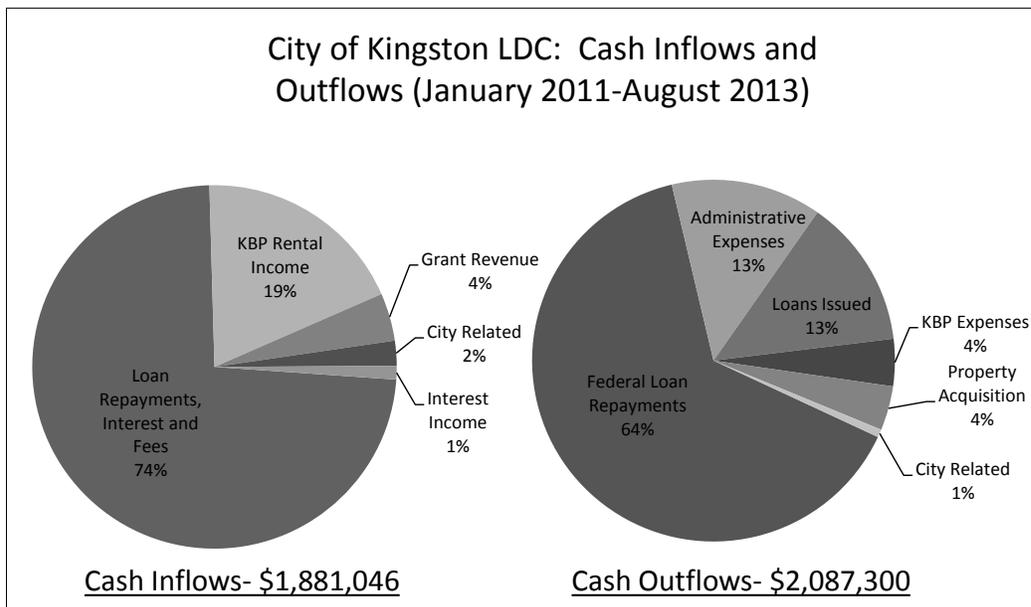
The KLDC is staffed by City employees. As of July 2013, there were two staff: the Executive Director and the Portfolio Manager. The Executive Director is responsible for managing the Kingston Business Park, maintaining the financial records of KLDC, and recording board meeting minutes. The Portfolio Manager is responsible for reviewing loan applications for completeness, maintaining financial records regarding loans, and monitoring the provisions of the loan agreements. Applications are reviewed and approved by a loan committee comprised of KLDC board members. Between January 2011 and July 2013, these functions were being performed by as many as five different City employees.

KLDC has historically reimbursed the City for a portion of the salaries of City employees based on their time spent on KLDC activities. However, KLDC does not reimburse the City for the Portfolio Manager's time as loan activity is limited. For the period 2011 through 2013 KLDC paid the City \$144,789 for KLDC staff functions.



KLDC Finances

From January 2011 through August 2013, KLDC received over \$1.8 million consisting of \$1.3 million in loan repayments, interest, and fees; \$355,000 in rental income from the Kingston Business Park; \$80,000 in grant revenue; \$41,700 for City related activities, projects and events; and \$23,000 in interest income. KLDC's total cash outflows during this period were over \$2 million. This includes \$1.3 million in repayments for a federal loan; \$279,900 for administrative expenses; \$275,000 in new loans issued; \$88,000 for costs related to the Kingston Business Park; \$82,500 to acquire property; and \$14,700 for its City related activities.



KLDC Mission Driven Activities

KLDC's primary economic development activity consists of providing loans to businesses using funds that were originally capitalized by federal funds. In addition, in 2012 KLDC received an \$80,000 grant from the City to provide loans. For the period January 2011 through August 2013, KLDC made three loans totaling \$275,000. Two loans were for property acquisition and the other was for equipment and working capital. KLDC has five different federally funded loan programs, each with its own funding restrictions and eligibility criteria: Community Development Revolving Loan Fund, Kingston Revolving Loan Fund, Section 108 Loan Fund; Kingston-Newburgh Revolving Loan Fund, and Micro Enterprise Program. The three loans issued were from the Community Development Loan Fund and Kingston Revolving Loan Fund.

From January 2011 through August 2013, KLDC received \$1.38 million in loan repayments, interest, and other fees. Proceeds from loan repayments and interest were offset by a \$1.34 million repayment of principal and interest on the Section 108 loan. As of December 2012, KLDC had 44 outstanding loans with an original value of \$4.2 million. These loans were made with the expectation that the recipients would create 147 jobs – or one job created for every \$28,900 in loan value.

KLDC also owns and manages the Kingston Business Park (Park). The Park consists of five parcels. Two parcels are currently leased to businesses. KLDC does not actively market the remaining vacant parcels. From January 2011 through August 2013 KLDC received rental income of \$355,000 and paid \$88,000 for expenses related to maintenance, utilities, property taxes, and insurance. During this period KLDC paid land taxes totaling \$938 for the park. Although KLDC is exempt from paying property taxes, it stated these payments are for road maintenance and other City costs associated with the property surrounding the unoccupied parcels. KLDC stated it will continue to pay these taxes until the properties are leased.

Other KLDC Activities

KLDC is involved in other activities that appear secondary to the core economic development purposes for which it was formed. For example, in January 2013 KLDC acquired a building in the City for \$1 from a private owner. This property was purchased with the expectation that it would be used by the City as a police station, rather than developed and marketed for private commercial use. The Mayor of Kingston indicated that this purchase would help to improve public safety in the area, which would have a direct correlation to economic development. During 2012 and 2013, KLDC paid \$82,500 for expenses related to this project such as closing costs, taxes, insurance, utilities, and consultant fees. It is unclear why KLDC needed to purchase the building other than to defray expenses that would have been incurred by the City to establish a police station in this area.

In addition, KLDC maintains funds for the City's Historic Kingston Lighthouse (Lighthouse) which serves as a navigation aid and museum. A separate bank account is controlled by KLDC for all Lighthouse related transactions. However, a separate Lighthouse Commission manages Lighthouse operations, including determining how funds are spent. From January 2011 through August 2013, KLDC received \$33,544 for the Lighthouse, which consisted of a \$27,000 Environmental Protection Fund grant provided by the City for a rehabilitation project that occurred in 2008, over \$1,500 in merchandise sales, and payments from the City. During this period, KLDC paid \$5,182 for utilities and maintenance of the Lighthouse. It is unclear why this financial relationship is necessary or supports the job creation mission of the KLDC.

KLDC also acts as a conduit for the purpose of receiving tax deductible donations used to fund various City projects and events. In 2012, KLDC spent \$6,162 to improve City property used as a farmer's market, and received a \$5,000 donation to offset these costs. The City provided no additional funding to cover the project costs. KLDC also received \$1,075 in donations for a 'Great Streets' event in 2012 and used the funds to provide entertainment and food. No additional funds were provided by the City of Kingston. Other than to receive tax deductible donations there appears to be no mission driven reason for the KLDC to be involved in organizing and running this event.

Conclusion

KLDC's purpose as a local development corporation is to maximize employment and create employment opportunities. Based on our limited scope review, it appears that the majority of KLDC's activity is related to this public purpose. Nevertheless, KLDC is also engaged in activities that are not central to its core mission, such as managing City projects, funds and events. The KLDC board should review its involvement in these additional activities and determine whether such activities best serve to advance economic development and job growth in the City of Kingston.

**CITY OF KINGSTON LOCAL
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION: Management's Discussion and Analysis	4
FINANCIAL STATEMENTS:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	13
SUPPLEMENTARY AUDITORS' REPORTS:	
Independent Auditors' Reports on Internal Control and Compliance in Accordance with Government Auditing Standards	19
Schedule of Findings and Responses	21

KIMBALL & O'BRIEN PC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 31, 2014 on our consideration of the City of Kingston Local 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 City of Kingston Local Development Corporation's internal control over financial reporting and compliance.

KIMBALL & O'BRIEN PC

By Mary A. Kimball

March 31, 2014

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

Hon. Shayne R. Gallo, President ~ Amanda L. Bruck-Little, Executive Director ~ Brenna L. Robinson, Portfolio Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION's** financial performance provides an overview of the Organization's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the Organization's financial statements that follow. The **CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION (KLDC)** is a component unit of the City of Kingston; therefore, this discussion and analysis includes only the business-type activities of the KLDC. The KLDC is required to present its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

FINANCIAL HIGHLIGHTS

As a result of this year's operations, the Organization's net position increased \$98,306 in 2013. Operating revenues decreased to \$241,530 while operating expenses increased to \$494,361 for the year. Nonoperating revenues were \$412,969 for the year compared to \$15,933 in the prior year. Nonoperating expenses of \$61,832 were up from \$6,819 in 2012.

USING THIS ANNUAL REPORT

The activities of the Organization are the administration of certain loan programs, economic development technical assistance and training, operation of the Business Park for the City of Kingston, and infrastructure improvements aimed at fostering new job creation which are business-type activities. Since the Organization 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 Organization only.

One of the most important questions asked about the Organization's finances is whether investments made serve to further the nonprofit economic development mission of the organization. The statements report information about the Organization's activities in a way that helps answer this question. 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 Organization's net position and changes in them. You can think of the Organization's net position - the difference between assets and liabilities - as one way to measure the Organization's financial health, or financial position. Over time, increases or decreases in the Organization's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the condition of the Organization's Business Park to assess the overall health of the Organization.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net position changed from a year ago, from \$7,634,749 to \$7,733,055. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2).

Table 1
Net Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$2,237,359	\$4,927,105
Capital assets	<u>7,030,232</u>	<u>5,010,880</u>
Total assets	<u>9,267,591</u>	<u>9,937,985</u>
Long-term debt outstanding	1,527,290	2,272,290
Other liabilities	<u>7,246</u>	<u>30,946</u>
Total liabilities	<u>1,534,536</u>	<u>2,303,236</u>
Net Position:		
Invested in capital assets, net of debt	5,140,433	4,823,352
Restricted	0	57,047
Unrestricted	<u>2,592,622</u>	<u>2,754,350</u>
Total net position	<u>\$7,733,055</u>	<u>\$7,634,749</u>

Table 2
Changes
in Net Position

Revenues	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Revenue from lending activities	\$89,160	\$103,255
Business Park income	151,000	151,000
Miscellaneous revenue	1,370	486
CDBG Grant	0	80,000
Nonoperating Revenues:		
Interest and investment revenue	7,769	8,077
Training Sessions	0	1,406
Project Donations	<u>405,200</u>	<u>6,450</u>
Total revenues	<u>\$654,499</u>	<u>\$350,674</u>
Interest expense		
 Expenses		
Lending activities	356,803	161,655
Business Park	137,558	133,277
Nonoperating expenses		
Grants Paid	61,832	0
Project Administration Expenses	0	6,819
Total expenses	<u>556,193</u>	<u>301,751</u>
Increase in net position	<u>\$98,306</u>	<u>\$48,923</u>

The Organization's current revenues increased \$303,825 from the prior year. The major reason for the increase in revenue was due to the acquisition of a donated vacant building and parking lot.

The Organization's expenses increased \$254,442 in 2013. This increase in expenses was due to bad debt.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 3 lists the amounts that have been generally invested in capital assets. These amounts represent a net increase of \$317,081 or an increase of 5.95%.

Table 3
Capital Assets at Year-end
(Net of depreciation)

	<u>2013</u>	<u>2012</u>
Land, temporarily idle property, and construction in progress	\$3,247,918	\$2,801,853
Other capital assets, net of depreciation	<u>2,080,043</u>	<u>2,209,027</u>
Total	<u>\$5,327,961</u>	<u>\$5,010,880</u>

KLDC completed construction of a 10,000 square foot building for Armor Dynamics, Inc in July of 2008 for a total cost of \$1,854,782. KLDC received a grant in the amount of \$1,000,000.00 from the NYS Dormitory to help with the construction. Armor Dynamics paid rent of \$5,000 per month for the first 2 years. The rent increased to \$6,584 in August of 2010 for the next 8 years. The company will have the option to purchase the building for the total cost at the end of the first five (5) years.

In early 2013 the KLDC took possession of the former Bank of America Building on Broadway. This parcel was appraised at \$400,000 and was a donated by the Bank of America for the proposed Midtown Revitalization Strategy Area that includes relocating the City's Police Station to the more central Midtown location. Preliminary rehabilitation figures estimate the conversion of the BOA property to a police station to be \$1,559,000. Acquisition expenses incurred for environmental and architectural review of the parcel, totaling \$6,527, were incurred during 2012. Plans for the building have not been finalized; therefore it is considered idle property as of December 31, 2013. Holding costs of \$46,065 were capitalized in 2013.

Debt

Table 4 presents detail of debt. The outstanding debt decreased by \$745,000 or 48.78% during the year due to regular payments and pre-payment of scheduled repayment 108 notes to HUD.

Table 4
Outstanding Debt at Year-end

	<u>2013</u>	<u>2012</u>
DOT(Kingston Business Park)	\$157,290	\$157,290
HUD Loans	<u>1,370,000</u>	<u>2,115,000</u>
Total Loans	<u>\$1,527,290</u>	<u>\$2,272,290</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

Since the Organization is only engaged in business-type activities, it does not have a legally adopted budget which carries the force of law. However, the Organization's appointed board has prepared a budget to be used as a planning tool. No significant changes from the current year were anticipated in the budget.

CONTACTING THE ORGANIZATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Organization's finances and to show the Organization's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the organization at Kingston Local Development Corporation, 420 Broadway, Kingston, NY 12401 or call (845) 334-3930.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF NET POSITION
DECEMBER 31, 2013

	2013
ASSETS:	
Current assets:	
Cash	\$ 1,440,962
Restricted cash	451,419
Notes receivable - current portion	203,731
Grants receivable	19,661
Other receivables	114,500
Prepaid expenses	7,086
Total current assets	2,237,359
Noncurrent assets:	
Notes receivable, net	1,702,271
Capital Assets:	
Land, temporarily idle property, and construction in progress	3,247,918
Other capital assets, net of depreciation	2,080,043
Total noncurrent assets	7,030,232
Total assets	9,267,591
LIABILITIES:	
Current liabilities:	
Accounts payable	1,684
Accrued liabilities	4,562
Due to other governments	1,000
Bonds and notes payable - current portion	155,733
Total current liabilities	162,979
Noncurrent liabilities:	
Bonds payable	300,000
Notes payable	1,071,557
Total noncurrent liabilities	1,371,557
Total liabilities	1,534,536
NET POSITION:	
Invested in capital assets, net of related debt	5,140,433
Unrestricted net position	2,592,622
Total net position	\$ 7,733,055

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

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

	2013
OPERATING REVENUES	
Revenue from lending activities	\$ 89,160
Rental income	151,000
Miscellaneous revenue	1,370
Total operating revenues	241,530
OPERATING EXPENSES	
Bad debt expense	242,608
Professional fees	39,712
Depreciation	128,984
Forgiveness of debt	2,533
Insurance expense	8,619
Interest expense - lending activities	16,421
Other supplies and expenses	4,767
Repairs and maintenance	4,627
Personal services and benefits	37,034
Property taxes	482
Utilities	8,574
Total operating expenses	494,361
Operating loss	(252,831)
NONOPERATING REVENUES (EXPENSES)	
Interest income	7,769
Donations	405,200
Grants paid	(61,832)
Total nonoperating revenue and expenses	351,137
Change in net position	98,306
Net position - beginning of year	7,634,749
Net position - end of year	\$ 7,733,055

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

**CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from lending activities	\$ 522,004
Receipts from rental activities	111,500
Receipts from miscellaneous revenues	1,370
Loans granted	(17,900)
Payment of operating expenses	<u>(153,311)</u>
Net cash provided by operating activities	<u>463,663</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Contributions received for projects	5,200
Grant receipts	27,034
Transfer of restricted funds to City of Kingston	(61,832)
Interest paid on noncapital debt	(18,350)
Principal paid on noncapital debt	<u>(745,000)</u>
Net cash used by noncapital activities	<u>(792,948)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	<u>(46,065)</u>
Net cash used by capital financing activities	<u>(46,065)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on cash investments	<u>7,769</u>
Net cash provided by investing activities	<u>7,769</u>
NET DECREASE IN CASH	(367,581)
CASH - BEGINNING OF YEAR	<u>2,259,962</u>
CASH - END OF YEAR	<u>\$ 1,892,381</u>
CASH SUMMARY:	
Cash	\$ 1,440,962
Restricted cash	<u>451,419</u>
Total	<u>\$ 1,892,381</u>

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

**CITY OF KINGSTON LOCAL DEVELOPMENT CORP
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013**

Reconciliation of operating income to net cash

provided by operating activities:

Operating loss	\$ (252,831)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	128,984
Bad debt expense	242,608
Forgiveness of debt	2,533
Interest expense included in noncapital financing for loans granted	16,421
Changes in assets and liabilities:	
Notes and other receivables, net	371,086
Accounts payable and accrued liabilities	(22,554)
Other receivables	(18,858)
Due to other governments	(1,146)
Prepaid expenses	<u>(2,580)</u>
 Net cash provided by operating activities	 <u><u>\$ 463,663</u></u>

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

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The City of Kingston Local Development Corporation (KLDC) was organized in 1994 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 City of Kingston.

The Organization is 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, KLDC is considered a governmental entity and a component unit of the City of Kingston since all the board members are appointed by the Mayor.

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

- The financial statements are prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.
- The Management Discussion and Analysis (MD&A) section is management's analysis of the Organization'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.

Loans Receivable

Loans receivable are carried at their estimated collectible amounts (net of allowance for losses). 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. Annually management reviews the listing of delinquent accounts and makes a determination of what loans should be placed non-accrual status. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when loans are removed from non-accrual status. Loans receivable are charged against the allowance account when they are deemed uncollectible. As of December 31, 2013 the allowance for doubtful accounts was \$163,140.

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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.

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. 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.

NOTE 3 - CASH AND COLLATERAL

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

<u>Bank</u>	<u>Bank Balance</u>	<u>Collateralized</u>		
		<u>Insured (FDIC)</u>	<u>Custodial Bank</u>	<u>No Collateral</u>
Catskill Hudson Bank	\$ 1,892,357	478,111	1,674,156	-
Senate Securities	25	25	-	-

For purposes of reporting cash flow, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity.

NOTE 4 - RESTRICTED CASH

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

NOTE 5 - INTRAFUND BORROWING

As of December 31, 2007 the Kingston Business Park (KBP) had borrowed \$412,000 from the EDI grant, \$231,709 from the KRLF and \$29,000 from KNEC. During 2013 KBP paid back loans from the KRLF and KNEC in full. There were no repayments made to the EDI loan in 2013. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5 – INTRAFUND BORROWING (CONTINUED)

In addition, the KBP borrowed \$100,000 from the Section 108 loan 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 balance due was \$30,236 at December 31, 2013.

NOTE 6 - LOAN PROGRAMS

The Organization grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), the Kingston Revolving Loan Fund (KRLF), the Section 108 Loan Guarantee and the related Economic Development Initiative (EDI), the Kingston-Newburgh Enterprise Community (KNEC) and the Micro Enterprise Program (Micro). The primary objective of all loan programs is to enhance job retention and creation in the City of Kingston. Interest rates vary but are always below the prime lending rate when issued. In addition, KLDC grants interest-free loans for façade improvements which are forgiven over a 10-year period. Loans are generally secured by liens on real property and security interests in other business assets. Activity is summarized as follows:

	Balance 12/31/12	Loans Granted	Loan Payments	Loan Write-offs	Balance 12/31/2013
KRLF	\$ 371,712	17,900	41,484	87,382	\$ 260,747
CDRLF	934,375	-	62,234	479,109	393,032
Sec 108	1,967,956	-	235,395	406,722	1,325,839
EDI	90,625	-	7,500	25,000	58,125
KNEC	118,430	-	16,414	45,913	56,103
Micro	5,908	-	-	5,908	-
Noah Hotel	35,000	-	35,000	-	-
Façade Improvement	8,067	-	-	2,534	5,533
Total	<u>3,532,073</u>	<u>17,900</u>	<u>398,027</u>	<u>1,052,568</u>	<u>2,099,378</u>
Allowance for estimated losses	(980,999)				(163,140)
Interfund loan to KBP (Note 8)	(30,236)				(30,236)
Net	<u>\$ 2,520,838</u>				<u>\$ 1,906,002</u>
Current portion	\$ 379,332				\$ 203,731
Non-current portion, net	<u>2,141,506</u>				<u>1,702,271</u>
Net	<u>\$ 2,520,838</u>				<u>\$ 1,906,002</u>

A total of \$163,907 in loans is considered to be in nonaccrual status as of December 31, 2013. During 2013, KLDC wrote-off a large amount of delinquent accounts that had been estimated to be uncollectible during the years 2006-2012. Allowances for the potential losses were posted to bad debts to offset the receivables during those years. Management determined that these loans should be written off based on various efforts made by management and legal counsel to collect the debt.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7 - KINGSTON BUSINESS PARK

KLDC owns and operates the Kingston Business Park (KBP). Phase I 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.

A second tenant, Armor Dynamics (AD), was added to the site in 2007. KLDC negotiated a lease agreement with AD for a period of 20 years with an option to purchase prior to the end of the lease. AD may also extend the lease for 7 additional periods of 10 years plus 1 additional term of 9 years. After the third full year of the lease, AD may terminate the lease by giving KLDC 6 months written notice.

Minimum future annual lease payments are as follows:

2014-2018	683,000
2019-2023	525,000
2024-2028	600,000

NOTE 8 – CAPITAL ASSETS

2013 activity related to capital assets, consisted of the following:

	Balance 12/31/12	Additions	Disposals/ Transfers	Balance 12/31/13
<u>Kingston Business Park</u>				
Land	\$ 2,784,953	-	-	\$ 2,784,953
Construction in progress	10,373	-	-	10,373
Depreciated Assets:				
Improvements	1,595,934	-	-	1,595,934
Buildings	1,854,782	-	-	1,854,782
Total capital assets	<u>6,246,042</u>	<u>-</u>	<u>-</u>	<u>6,246,042</u>
Less accumulated depreciation:				
Improvements	1,057,273	80,244	-	1,137,517
Buildings	189,344	46,370	-	235,714
Total accumulated depreciation	<u>1,246,617</u>	<u>126,614</u>	<u>-</u>	<u>1,373,231</u>
Net Kingston Business Park	<u>4,999,425</u>	<u>(126,614)</u>	<u>-</u>	<u>4,872,811</u>
<u>Other</u>				
Equipment	32,599	-	-	32,599
Less: Accumulated depreciation	(27,670)	(2,370)	-	(30,040)
Temporarily idle property	6,527	446,065	-	452,592
Net other	<u>11,456</u>	<u>443,695</u>	<u>-</u>	<u>455,151</u>
Total capital assets	<u>\$ 5,010,881</u>	<u>317,081</u>	<u>-</u>	<u>\$ 5,327,962</u>

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 – CAPITAL ASSETS (CONTINUED)

The KLDC received a donation from Bank of America of their former building at 635 Broadway. 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. Holding costs of \$46,065 were capitalized for the year.

NOTE 9 – NOTES PAYABLE

KLDC previously entered into an agreement with the US Department of Housing and Urban Development (HUD) for loan guarantee assistance totaling \$3,420,000 under Section 108. After loans to local businesses are approved by KLDC, 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 a public offering. All notes were subsequently refinanced to take advantage of lower interest rates.

Principal on the notes is due in varying amounts through August 2017. The interest rates vary between .29 and 5 percent depending on when the notes were refinanced. \$145,000 was paid on these loans during 2013 and a total of \$440,000 remained outstanding as of December 31, 2013. These loans are secured by Section 108 income and CDBG funds.

During 2005, KLDC 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 .44% at December 31, 2013. \$600,000 was paid on this loan during 2013 with a total of \$930,000 outstanding as of December 31, 2013. KLDC is in talks with borrowers and HUD to obtain permanent financing on the remaining balance.

KLDC has drawn down \$157,290 from DOT as part of the financing of Phase 1A of the Business Park. The loan is interest-free and will be repaid in varying amounts over 5 years, beginning in 2014.

Long-term debt is payable as follows. Interest for interim 108 loans is calculated using current rates.

	<u>Principal</u>	<u>Interest</u>
2014	\$ 155,733	12,337
2015	406,458	8,970
2016	116,458	5,241
2017	101,458	4,204
2018	47,183	3,126
2019-2023	500,000	11,165
2024-2025	200,000	1,340
Total Long-term Debt	<u>\$ 1,527,290</u>	<u>46,383</u>

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10 - TRANSACTIONS WITH CITY OF KINGSTON

The Organization's staff are actually employees of the City of Kingston's Community Development office (CD). All KLDC activities are conducted out of the CD office. A portion of the staff's salary is allocated by the City to KLDC based on estimated time spent on KLDC activities. However, a review of overhead expenses has not been undertaken to determine the portion that should be allocated to KLDC.

The City of Kingston had given the KLDC the authority to accept donations for certain projects due to KLDC's tax exempt status. In 2013 the City decided to take over the administration of those funds so they were transferred from KLDC to the City. This transfer is shown as a non operating grant for \$61,832 on the accompanying statement of changes in net position. This represents the full amount of restricted assets held by KLDC at December 31, 2013; therefore there is no restricted balance at December 31, 2013.

NOTE 11 – SUBSEQUENT EVENTS

Management of Kingston Local Development Corporation has evaluated events after December 31, 2013 and through March 31, 2014, which is the date that the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

**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 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 City of Kingston Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kingston Local 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 City of Kingston Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as 2013-1 and 2013-3 to be material weaknesses.

To the Board of Directors
City of Kingston Local Development Corporation

-2-

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingston Local 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 matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-2 and 2013-3.

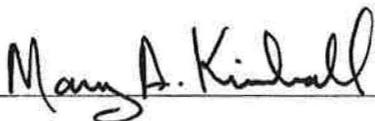
City of Kingston Local Development Corporation's Response to Findings

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

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KIMBALL & O'BRIEN PC

By  _____

March 31, 2014

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

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

SECTION II – FINANCIAL STATEMENT FINDINGS

2013-1: REPORTING

Criteria –Management is responsible for the fair presentation in the financial statements of financial position and changes in financial position in conformity with U.S. generally accepted accounting principles. In addition, management is responsible for establishing and maintaining internal controls over financial reporting.

Condition – There is more than a remote likelihood of a material misstatement in the City of Kingston Local Development Corporation’s financial statements.

Effect –As a result of our audit, we proposed several significant adjustments to the City of Kingston Local Development Corporation’s financial records in order for financial position and results of operations to be presented in conformity with generally accepted accounting principles.

Cause – The individual responsible for the bookkeeping does not have significant training in the appropriate accounting procedures for the organization. In addition, there is limited segregation of duties as this person also serves as the executive director of the organization and there is limited oversight by other members of management.

Recommendation –Improvements have been made in reporting to the board and board oversight of operations; however, additional work needs to be done in order to establish appropriate internal control with such a limited number of staff. Management should continue to develop and implement policies and procedures to ensure proper oversight of the entity’s system for financial reporting. These policies should include specific procedures relating to the review of bank reconciliations and overall management of loans receivable.

Management’s Response – Recognizing deficiencies with respect to oversight, in August 2013 the new Executive Director put into place additional oversight procedures and met with the KLDC Board Treasurer to discuss additional measures that should be taken for oversight of financial transactions. Effective immediately, the Treasurer began review of all vouchers and disbursements to date for 2013. As of August 2013, the Treasurer’s signature is required on all vouchers. Once a month, the Treasurer reviews vouchers, disbursements, all bank reconciliations and signs off on them. Wire transfers are done with authorization and signatures of not less than two people. The current staff are scheduled to attend training in 2014 for both Revolving Loan Fund Lending and Section 108 loans.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-2: COMPLIANCE-PAAA

Criteria – Per the Public Authority Accountability Act of 2005, Kingston Local Development Corporation (KLDC) is considered a “local authority” and must comply with the requirements of this act including an annual report to the Authorities Budget Office (ABO) which oversees the authorities within New York State.

Condition –KLDC has only partially implemented the requirements of the Act. In addition there were several errors in the report submitted to the ABO.

Effect –KLDC is not fully in compliance with the Act and reporting was not correct.

Cause – The staff of KLDC were finally getting all the policies and procedures in place as required by the Act; however, there was a setback in the current year due to the change in staff and related lack of communication.

Recommendation – The Board should review all the requirements set forth by the Act so that they are aware of what must be done to be in compliance. In addition, staff should be very careful when preparing the annual report to help ensure that all required information is included and correct. The board member approving the report should perform more than a cursory review of the report as all information is available to the public on the ABO’s website.

Management’s Response – While current staff cannot be held accountable for previous staff’s lack of compliance in reporting, they have completed all required reporting for the NYSABO in accordance with the required due dates. Board members had not previously been afforded the opportunity to review the reports prior to submission to NYSABO. As of the 2014 submission, the Treasurer has reviewed all reports and related documents sent to the ABO.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-3: COMPLIANCE-HUD

Criteria – The City of Kingston was eligible for participation in HUD’s Section 108 loan program as a recipient of Small Cities grant program. The City assigned these loans to the Kingston Local Development Corporation (KLDC) to lend the money to businesses and collect the principal and interest. There were additional requirements on these loans since the funds used for these loans to businesses came from loans from HUD, and not from a pool of revolving loan funds.

Condition – The wording of the original loan agreements with businesses for these funds included several errors including not being in accordance with the requirement of the program regarding interest rate to be charged. These old agreements were reviewed under the new management at KLDC. It was determined that borrowers had not been repaying their loans in accordance with the loan agreement. As a result the balance of one loan was recalculated from inception based on erroneous terms.

Effect – The revised interest rates are significantly less than those that KLDC must actually pay on their outstanding loan balance to HUD. The recalculation resulted in a material decrease in the outstanding balance on the loan. The negative cash flow from this recalculation could affect the City of Kingston’s Small Cities grants as they are designated as collateral for these loans.

Cause – This unfortunate situation has many causes; however, the root cause was the preparation of a loan agreement many years ago based on boiler plate language which was not reviewed by legal counsel familiar with the workings of the Section 108 loan program. A contributing factor was the total changeover in staff/management during the prior year which left KLDC without detailed knowledge of the program.

Recommendation – The board of KLDC should consult the organization’s corporate attorney and the City’s representative at HUD to ensure that this situation is appropriately addressed. In addition, the board must implement policies and procedures to make sure that any changes made in the terms of loans must be approved by the full board.

Management’s Response – In order to commence a foreclosure matter, the loan file in question was transferred to an attorney retained for this purpose. That attorney brought her concern about the note to the attention of the City Corporation Counsel. After the borrower filed bankruptcy, for purposes of determining the amount of the KLDC’s claim KLDC staff, two board members, a banker and an accountant as well as the City of Kingston Corporation Counsel reviewed the loan documents. The balance due on the loan in question was recalculated using the terms set forth in a legal instrument between borrower and the KLDC. The Board has consulted with Counsel and their Consultant for 108 loans and the City’s CDBG program and there is a uniformity of opinion on this matter.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013

2013-3: COMPLIANCE-HUD (Continued)

The staff and the KLDC board were well aware of the ramifications of this matter, but neither the Board, the staff, nor its attorneys can act contrary to law in filing a Bankruptcy Proof of Claim.

While there may be ramifications, any inconsistencies of wording on loan agreements should have been detected upon initial review. The audit does not set forth the “requirements of the program” with which the loan in question was not in conformance. Management’s attention has been drawn to the 1996 agreement between the City of Kingston and the United States Department of Housing and Urban Development which references interest rates to be charged on business loans. There is no factual finding in the audit that the recalculation of the interest owed on the loan in question was inconsistent with the terms of the agreement. In the absence of such a finding, the assertion that the relative experience of the current staff had anything to do with this situation is unfounded. Even were it the case, any inconsistency between the terms of the loan and the 1996 City-HUD agreement would be the responsibility of the individuals who drafted and approved the loan document, not the current staff, management or board.

STATUS OF PRIOR FINANCIAL STATEMENT FINDINGS

Findings 2013-1 and 2013-2 are repeated from prior years.

Authority Budget Office Policy Guidance



No. 09-01

Date Issued: August 1, 2009

Supersedes: New

Subject: Appropriate Use of Executive Session

Statutory Citation: Public Officers Law, Chapter 7

Provisions: Meetings of a public body are to be open to the general public, except when it is appropriate to enter into executive session. The term “executive session” refers to that portion of a public meeting during which the public may be excluded. Upon a majority vote of its total membership, taken in an open meeting pursuant to a motion identifying the general area or areas of the subject or subjects to be considered, a public body may conduct an executive session only for the purposes enumerated below:

- a. matters which will imperil the public safety if disclosed;
- b. any matter which may disclose the identity of a law enforcement agent or informer;
- c. information relating to current or future investigation or prosecution of a criminal offense which would imperil effective law enforcement if disclosed;
- d. discussions regarding proposed, pending or current litigation;
- e. collective negotiations pursuant to article fourteen of the civil service law;
- f. the medical, financial, credit or employment history of a particular person or corporation, or matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation;
- g. the preparation, grading or administration of examinations; and
- h. the proposed acquisition, sale or lease of real property or the proposed acquisition of securities, or sale or exchange of securities held by such public body, but only when publicity would substantially affect the value thereof.

At no time may a public authority vote to appropriate public moneys while in executive session.

The public authority may limit attendance at an executive session to any member of the public body and any other persons authorized by the public body.

Minutes of an executive session must be recorded if any action is taken by formal vote. The minutes serve as the record of the determination of the board, including the date and results of that vote. Minutes of an executive session need not include information that may be withheld under the Freedom of Information Law.

Minutes of meetings of all public bodies are to be available to the public in accordance with the provisions of the Freedom of Information Law within two weeks from the date of such meeting, except that minutes taken in executive session are to be available to the public within one week of the date of the executive session.

Authority Budget Office Policy Guidance: Public authorities should always conduct business in an environment that fosters transparency and public disclosure, and conforms to the intent of the Public Authorities Accountability Act and the Public Officers Law.

The law is clear that a public body may go into executive session only for specific and limited reasons. The board must provide sufficient details on the purpose of the meeting to assure the public that the subject matter meets the statutory test for executive session. While most of these permissible exclusions are self-explanatory, the use of executive session for discussion of personnel issues, audit findings, potential property transactions, and litigation is less clear. The courts have held and opinions and guidance rendered by the Committee on Open Government advise that, when in doubt as to the legality of meeting in executive session, public bodies should honor their fiduciary responsibilities, adopt a narrow interpretation of the statute and conduct business in public. Invoking the use of executive session without providing sufficient justification undermines the public's confidence in the decisions and actions of the board.

When a public body does vote to go into executive session, the motion must include a clear explanation of what will be discussed. For example, a motion that states the board is going into executive session to discuss "personnel" issues is not sufficient. Rather, the board should vote on a motion to discuss "the employment history of an employee", or "potential disciplinary action against an employee". In either case, it is not necessary to identify the individual who is the subject of the executive session. A board may vote to go into executive session to discuss *matters* leading to the hiring or firing of a particular person, and that is what should be reflected in the minutes of the public session.

The use of executive session to discuss the results of an audit is also limited. If the internal auditor appears before the audit committee or the full board to present his or her findings, that discussion must occur in an opening meeting, since the committee and the board are public bodies. A discussion of the audit findings or a

discussion concerning management's cooperation with the auditor (either internal or independent) is not an acceptable justification for adjourning to executive session.

The presentation of the annual independent audit to the audit committee and any general discussion of its findings with the committee or the board must be done in a public meeting. The independent audit report is a public document. An executive session can only be convened to discuss a finding that is consistent with the exceptions articulated in Public Officers Law. It is appropriate that the details of sensitive or confidential issues be presented to management, rather than to the board. For example, the public audit report can note significant internal control weaknesses with the authority's cash management policies, while the specific weaknesses or implications from the lack of controls can be discussed confidentially with management.

Similarly, a board can vote to go into executive session to discuss a potential property transaction only in limited circumstances. A public body can only convene an executive session if a public discussion of the property transaction would "substantially affect the value of the property." Discussing the merits of selling a piece of property through public bid, or concern about revealing the fair market value of the property, is insufficient justification to adjourn to executive session. As a general rule, if, as a matter of record, the public is aware of the public authority's interest in acquiring, selling or leasing real property, or if the value of the property has already been appraised, then it is not likely that a public discussion of the transaction would substantially affect the value of that property.

Finally, there may be occasions when litigation warrants a vote to convene an executive session. Again, this justification is limited to a discussion by the board of its legal strategy in litigation involving the board or pending before it. The board may not hold an executive session out of concern that a matter raised in public session may provoke a lawsuit, or fear of the threat of potential legal action. In its motion to convene an executive session, the board must be more expansive than "to discuss litigation". It is advisable that the record specifically state the purpose, such as "to discuss litigation issues in the case of XYZ Company vs. [NAME] public authority."

A public authority is advised to consult the Committee on Open Government if it has questions concerning what is appropriate under Public Officers Law. The Committee may be contacted at (518) 474-2518 or by fax at (518) 474-1927. Its web site address is: www.dos.state.ny.us/coog/.

MEMORANDUM

To: Hon. Shayne R. Gallo, Mayor; Hon. James L. Noble, Jr., Alderman-at-Large and
Hon. Members of the City of Kingston Common Council

From: Andrew P. Zweben, Esq.

Re: Memo of Alderman Brad Will to Hon. James L. Noble Jr., Alderman-at-Large dated
April 28, 2014 concerning the KLDC

The Kingston Local Development Corporation (K.L.D.C.) was incorporated on June 1, 1994 pursuant to section 1411 of the Not-for-Profit Corporation Law of the state of New York that specifically authorizes the formation of Local Development Corporations by, among others, counties, cities, towns or villages for the purpose of relieving and reducing unemployment, bettering or maintaining job opportunities, job training and related activities.

The resolution of the Common Council authorizing the formation of the Corporation refers to it as the Kingston Development Corporation. That was a misnomer. The Corporation was formed as the City of Kingston Local Development Corporation. In any case Corporation was formed 20 years ago. None of the staff or counsel remains.

Mr. Will's "concerns" about minority representation is baseless. James Childs Sr. a widely known and respected member of our community was a member of the KLDC Board for over 18 years. He resigned at the end of 2013 and was replaced. Mr. Will's "concern" about the appointment of George Redder as counsel to the corporation is likewise baseless. Mayor Gallo is not now, nor was he ever a partner or associate of Mr. Redder. He was Mr. Redder's tenant.

The current staff and management of the KLDC agreed with the recommendation of the Authorities Budget Office concerning the lighthouse and lunette accounts being the responsibility of the City *not* the KLDC. As the Council knows, following the passage of a resolution by the Common Council establishing City accounts for these funds the monies were turned over to City Comptroller.

Mr. Will's mention that the KLDC Treasurer is a Vice-President of the Catskill Hudson is a pernicious insinuation. Mr. Feeney has been Catskill-Hudson Bank's Vice President of Business Development for Ulster County. He has recently accepted a new position with the bank which will include the function of branch manager. The additional responsibilities will begin soon.

Beginning in 2012 the KLDC staff began the process of consolidating its then over thirty (30) bank accounts after consultation with its auditors. Per United States Department of

Housing and Urban Development, 108 monies are not permitted to be held in local savings banks. The Bank accounts were moved to Catskill Hudson Bank because it offered the best interest rates. His reference to FDIC-insured rates is meaningless. Perhaps Mr. Will does not understand the statement in the auditor's report directly next to the reference to FDIC that there is collateral for the deposit in Catskill Hudson of \$1,674,156. That collateral is held by M & T Bank as a third party custodian. As I believe the members of the Common Council know, public monies held by banks in excess of FDIC amounts must be secured by the purchase by the bank in which the funds are deposited of collateral securities to protect the amount of the deposit. Those securities are held by a third party, usually another bank, pursuant to a collateral security agreement. The KLDC follows that practice.

As of August 2013 the new Executive Director implemented new procedures for oversight and reconciliation of bank accounts.

Mr. Will's references to the deficiencies in ABO reporting are outdated concerns. The Reports for ABO in 2013 were done by previous Executive Director. The 2014 reports have been submitted on time and accurately with oversight of Board, Treasurer and City Comptroller. The KLDC is in compliance with its responsibilities under the Public Authorities Accountability Act. Current staff was extremely careful in compiling the annual report. Staff members spent numerous hours on the phone with the ABO to be sure everything was accurate.

Mr. Will's reference to the auditor's remarks about loan documents is ironic in the extreme. Firstly, neither the current staff, counsel or the City's Counsel were involved in the making of these loans or the drafting of the documents. The entity still involved with the KLDC that was involved at the time of the loans is the auditing firm. It is unclear to the current KLDC Board why any alleged "inconsistencies" in the loan documents were not "detected" during the initial audit after the loans were made or in any subsequent audit heretofore.

Mr. Will's remark that the turnover of the staff "left the KLDC without detailed knowledge of the program" is untrue, pointless and misleading. Having roundly criticized past activities of the program, Mr. Will appears to be, at the same time, lamenting the turnover to a new administration.

The acquisition of the former bank of America property has already had a positive effect on the fortunes of mid-town Kingston. It was a clear signal that the KLDC, in cooperation with the City is committed to a course of action to revitalize the Broadway corridor. The Mayor's suggestion that the City consider building a combined police station courthouse is a reflection of the fact that State legislature has handed the City another "unfunded mandate" in the form of a second full time judgeship with no commitment of funds to build a facility to house or improve the current court facility.

The foreclosure of Rosita's is a lamentable event, by no means the responsibility of the current KLDC Board or staff or the current City administration.

The Kingston Business Park remains a vital element of job development and retention in the City. Were it not for the park, Huck, Alcoa's predecessor, would have left town and taken with it, the jobs of our residents. Mr. Will is entitled to his opinions as reflected in his penultimate remarks. They would be more valuable if supported by facts.

Finally, Mr. Will's complaints about being excluded from meetings with the KLDC Counsel, or executive sessions have been aired and responded to. They gain nothing by repetition. He is not, and cannot be, a member of the KLDC Board. His presence in a meeting with the Corporation's attorney would waive the attorney-client privilege.

Moreover, his actions, including contacting the Auditor for the Year End Financials prior to them being given to the Executive Director & Board Members, contacting the City I.T Department to attempt to surreptitiously locate documents on the server that had not yet been posted on the web and privately contacting KLDC Board members for information and to influence their votes suggests a destructive, rather than productive, intent.