

**CITY OF KINGSTON LOCAL
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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KIMBALL & O'BRIEN PC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of the City of Kingston Local Development Corporation (a nonprofit organization which is a component unit of the City of Kingston) as of December 31, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KIMBALL & O'BRIEN PC

By  _____

March 30, 2011

KLDC

KINGSTON LOCAL DEVELOPMENT CORPORATION

James M. Sottile, President

Michael F. Murphy
Portfolio Manager

MANAGEMENT'S DISCUSSION AND ANALYSIS

John H. Dwyer,
Vice President

Daniel P. Mills
Treasurer

Bradley Jordan,
Secretary

Rev. James Childs

Glenn Fitzgerald

Raymond C. Guerin

Richard B. Mathews

John Murphy

Nan Potter

Thomas J. Reinhardt

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, 2010. 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 assets decreased \$77,232 or 1.0% in 2010. Operating revenues decreased 9.5% to \$233,424 while operating expenses decreased 114% to \$283,742 for the year. Non operating revenues were \$143,790 for the year compared \$23,229 in the prior year. Non operating expenses of \$170,704 increased from \$156,406 in 2009.

USING THIS ANNUAL REPORT

The only activities of the Organization are the administration of certain loan programs and operation of the Business Park for the City of Kingston which are business-type activities. Since the Organization conducts only business-type activities, this annual report consists of only the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets 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, "Is the Organization better off or worse off as a result of the year's activities?" 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 assets and changes in them. You can think of the Organization's net assets—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 assets 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 1 lists the amounts that have been generally invested in the Kingston Business Park. These amounts represent a net decrease of \$249,192 or a decrease of 4.52%.

Table 1
Capital Assets at Year-end
(Net of depreciation)

	<u>2010</u>	<u>2009</u>
Land	\$2,784,953	2,784,953
Building	1,854,782	1,854,782
Improvements	1,595,933	1,595,933
Construction in Progress	10,373	130,133
Equipment	<u>32,599</u>	<u>32,599</u>
Subtotals	6,278,640	6,398,400
Accumulated depreciation	<u>(1,015,928)</u>	<u>(886,496)</u>
Totals	<u>\$5,262,712</u>	<u>\$5,511,904</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. Armor Dynamics paid rent of \$5,000 per month for the first 2 years. The rent increased to \$6,581 in August of 2010. The company is presently 8 months in arrears but expects to be current when draw downs begin in 2011 on a \$1,400,000 research and development grant from the U.S. Department of Defense. In addition, the company is planning an expansion of an additional 5,000 square feet in 2011, at which time they will purchase the building.

Construction in Progress decreased \$119,760 in 2010 as renovations to the Kingston Lighthouse were completed. These costs were transferred to the City of Kingston as they are the owner of the Historic Landmark.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net assets changed from a year ago, decreasing from \$7,724,602 to \$7,647,370. Our analysis below focuses on the net assets (Table 2) and changes in net assets (Table 3).

Table 2
Net Assets

	<u>2010</u>	<u>2009</u>
Current and other assets	\$5,241,441	5,448,540
Capital assets	<u>5,262,712</u>	<u>5,511,904</u>
Total assets	<u>10,504,153</u>	<u>10,960,444</u>
Long-term debt outstanding	2,757,290	2,987,290
Other liabilities	<u>99,493</u>	<u>248,552</u>
Total liabilities	<u>2,856,783</u>	<u>3,235,842</u>
Net assets:		
Invested in capital assets, net of debt	5,067,801	5,309,547
Restricted	54,770	5,835
Unrestricted	<u>2,524,799</u>	<u>2,409,220</u>
Total net assets	<u>\$7,647,370</u>	<u>\$7,724,602</u>

Table 3
Changes in Net Assets

	<u>2010</u>	<u>2009</u>
Revenues		
Operating Revenues:		
Revenue from lending activities	\$93,087	124,935
Business Park income	139,917	132,000
Miscellaneous Revenue	420	1,055
Nonoperating Revenues:		
Interest and investment revenue	5,071	8,026
Capital grants	137,979	0
Capital Contributions	740	15,203
Miscellaneous	<u>0</u>	<u>0</u>
Total revenues	<u>377,214</u>	<u>281,219</u>
Expenses		
Lending activities	149,163	550,545
Business Park	134,579	56,766
Nonoperating expenses		
Interest	3,070	3,505
Grants to City of Kingston	<u>167,634</u>	<u>152,901</u>
Total expenses	<u>454,446</u>	<u>763,717</u>
Decrease in net assets	<u>(\$77,232)</u>	<u>(\$482,498)</u>

The Organization's current revenues increased \$95,995 from the prior year. The major reason for the increase in revenue was due to the grant received for improvements to the Kingston Lighthouse from NYS Office of Parks, Recreation & Historic Preservation in the amount of \$167,634.

The Organization's expenses decreased \$309,271 or 68% in 2010. This decrease is attributed to an allowance for bad debts in 2009 of \$302,903 due to a reassessment of collection of outstanding loans, whereas this amount was only \$1,558 in 2010

Debt

Table 4 presents detail of debt. The outstanding debt decreased 7.7% during the year due to the repayment of 108 notes due to HUD on the various loans.

**Table 4
Outstanding Debt at Year-end**

	<u>2010</u>	<u>2009</u>
DOT(Kingston Business Park)	157,290	157,290
HUD Loans	<u>2,600,000</u>	<u>2,830,000</u>
Total Loans	<u>\$2,757,290</u>	<u>\$2,987,290</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.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
(A COMPONENT UNIT OF THE CITY OF KINGSTON)
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	<u>2010</u>
ASSETS:	
Current assets:	
Cash	\$ 965,920
Restricted cash	852,466
Notes receivable - current portion	927,173
Grants receivable	46,147
Other receivables	<u>96,717</u>
Total current assets	<u>2,888,423</u>
Noncurrent assets:	
Restricted cash	339,668
Notes receivable, net	2,013,350
Capital Assets:	
Land	2,784,953
Building	1,854,782
Construction in progress	10,373
Improvements	1,595,933
Equipment	32,599
Less: accumulated depreciation	<u>(1,015,928)</u>
Total noncurrent assets	<u>7,615,730</u>
Total assets	<u>\$ 10,504,153</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 12,389
Accrued liabilities	20,806
Due to other governments	1,000
Prepaid interest income	6,465
Bonds and notes payable - current portion	<u>255,733</u>
Total current liabilities	<u>296,393</u>
Noncurrent liabilities:	
Bonds payable	730,000
Notes payable	1,771,557
Deposits	<u>58,833</u>
Total noncurrent liabilities	<u>2,560,390</u>
Total liabilities	<u>2,856,783</u>
NET ASSETS:	
Invested in capital assets, net of related debt	5,067,801
Restricted net assets	54,770
Unrestricted net assets	<u>2,524,799</u>
Total net assets	<u>\$ 7,647,370</u>

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 ASSETS
YEAR ENDED DECEMBER 31, 2010

	<u>2010</u>
OPERATING REVENUES	
Revenue from lending activities	\$ 93,087
Rental income	139,917
Miscellaneous revenue	420
Total operating revenues	<u>233,424</u>
OPERATING EXPENSES	
Bad debt expense	1,558
Contractual services	30,987
Depreciation	129,435
Insurance expense	3,698
Interest expense - lending activities	60,278
Other supplies and expenses	10,391
Personal services and benefits	39,475
Utilities	7,920
Total operating expenses	<u>283,742</u>
Operating loss	<u>(50,318)</u>
NONOPERATING REVENUES (EXPENSES)	
Capital grants	137,979
Interest income	5,071
Donations	740
Grants to City of Kingston - Lighthouse Renovations	(167,634)
Interest expense	<u>(3,070)</u>
Total nonoperating revenue and expenses	<u>(26,914)</u>
Change in net assets	(77,232)
Net assets - beginning of year	<u>7,724,602</u>
Net assets - end of year	<u>\$ 7,647,370</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, 2010**

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from lending activities	\$ 413,139
Receipts from rental activities	104,917
Receipts from miscellaneous revenues	420
Notes granted	(300,000)
Payment of expenses	<u>(88,376)</u>
Net cash provided by operating activities	<u>130,100</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributions received	740
Grants paid to City of Kingston	(80,000)
Interest paid on noncapital debt	(62,823)
Principal paid on noncapital debt	<u>(230,000)</u>
Net cash used by noncapital activities	<u>(372,083)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants received	84,980
Lighthouse expenditures	<u>(75,895)</u>
Net cash used by capital financing activities	<u>9,085</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on cash investments	<u>3,121</u>
Net cash provided by investing activities	<u>3,121</u>

NET INCREASE IN CASH (229,777)

CASH - BEGINNING OF YEAR 2,387,831

CASH - END OF YEAR \$ 2,158,054

Cash summary:

Cash	\$ 965,920
Restricted cash - current	863,497
Restricted cash - noncurrent	<u>328,637</u>
Total	<u><u>\$ 2,158,054</u></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, 2010

**Reconciliation of operating income to net cash
provided by operating activities:**

Operating loss	\$ (50,318)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	129,435
Bad debt expense	1,558
Interest expense included in noncapital financing for loans granted	60,278
Changes in assets and liabilities:	
Notes and other receivables, net	(47,253)
Deposits	30
Accounts payable and accrued liabilities	4,947
Other receivables	31,826
Prepaid interest income	<u>(403)</u>
 Net cash provided by operating activities	 <u>\$ 130,100</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, 2010

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. KLDC has the option to also apply Financial Accounting Standards pronouncements, but has chosen not to do so.
- 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 services.

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. Loans receivable are placed on non-accrual status when they become over 1 year past due. 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, 2010 the allowance for doubtful accounts was \$953,120.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 Note 6 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 Assets

Net assets present the difference between assets and liabilities in the statement of net assets. 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 assets are reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments. See Note 9 for additional details on restricted net assets.

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 partially 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>Insured (FDIC)</u>	<u>Collateralized</u>	
			<u>Bank</u>	<u>No Collateral</u>
Key Bank	\$ 62,750	62,750	-	-
M&T Bank	1,366,694	341,411	1,048,187	-
JP Morgan Chase	463,508	250,000	230,248	-
Ulster Savings Bank	183,829	183,829	-	-
Rondout Savings Bank	22,440	22,440	-	-
Senate Securities	58,833	58,833	-	-

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

KLDC was required to set aside a portion of the loan proceeds drawn down from HUD under the section 108 loan guarantee program. These funds can only be used if the borrower is unable to repay their obligation. The balance including interest was \$58,833 as of December 31, 2010.

Four of the 108 loans were prepaid by the borrowers. Interest bearing accounts were set up to hold the funds until payments are due. As of December 31, 2010 the balance was \$280,836. In addition, the payments received on 108 loans are restricted to paying the HUD liability. As of December 31, 2010, the balances in the 108 accounts were \$852,467.

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 5 - 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), the Canal Corridor Initiative (CCI) 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. 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 12/31/09	Loans Granted	Loan Payments	Balance 12/31/10
KRLF	\$ 373,807	150,000	46,990	\$ 476,817
CDRLF	679,373	150,000	34,275	795,098
Sec 108	2,394,310	-	98,073	2,296,237
EDI	100,000	-	-	100,000
KNEC	220,222	-	77,430	142,792
Micro	5,908	-	-	5,908
Other - Note 11	220,000	-	80,000	140,000
Façade Improvement	7,500	-	-	7,500
Total	<u>4,001,120</u>	<u>300,000</u>	<u>336,768</u>	<u>3,964,352</u>
Allowance for estimated losses	(1,002,000)			(953,120)
Prepaid loans	(58,102)			(33,087)
Interfund loan to KBP (Note 8)	(45,068)			(37,622)
Net	<u>\$ 2,895,950</u>			<u>\$ 2,940,523</u>
Current portion	\$ 925,598			\$ 927,173
Non-current portion, net	<u>1,970,352</u>			<u>2,013,350</u>
Net	<u>\$ 2,895,950</u>			<u>\$ 2,940,523</u>

A total of \$951,736 in loans is considered to be in nonaccrual status as of December 31, 2010.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 7 – NOTES PAYABLE (CONTINUED)

The principal is due in varying amounts through August 2015. The interest rate varies between 4 and 5 percent. The 2001 note in the amount of \$1,035,000 is due in varying amounts through August 2017. The interest rate varies but is approximately 6%. \$130,000 was paid on these loans during 2010. A total of \$870,000 was outstanding on Section 108 loans at December 31, 2010. These loans are secured by Section 108 income, collateral from businesses 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 due 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 .30% at December 31, 2010. \$100,000 was paid on this loan during 2010. A total of \$1,730,000 was due on interim Section 108 loans at December 31, 2010.

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 the next 5 years.

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

	Principal	Interest
2011	\$ 255,733	53,973
2012	276,458	46,648
2013	276,458	38,754
2014	271,458	30,891
2015	292,183	23,170
2016-2020	885,000	34,818
2021-2025	500,000	7,542
Total Long-term Debt	\$ 2,757,290	235,796

NOTE 8 - 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. There were no repayments made during 2010. These loans are for construction costs and are non-interest bearing. They will be repaid after other outside loans have been repaid.

In addition, the KBP borrowed \$100,000 from the Section 108 loan 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 \$37,622 at December 31, 2010.

NOTE 9 - RESTRICTED NET ASSETS

Restricted net assets are used before unrestricted and are to be used for the following projects:

Donations for City Hall Improvements	\$ 5,835
Donations for Lighthouse	48,935
	\$ 54,770

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 10 - TRANSACTIONS WITH CITY OF KINGSTON

The Organization's only staff person is also the director of the City of Kingston Community Development office (CD). All KLDC activities are conducted out of the CD office. A portion of the director's salary is allocated by the City to KLDC; however, a review of overhead expenses has not been undertaken to determine the portion that should be allocated to KLDC.

KLDC administered the renovation of the Rondout Lighthouse that was recently acquired by the City of Kingston. All costs were capitalized as construction in progress. The total costs of \$167,634 were transferred to the City in 2010 at the completion of the project

NOTE 11 – NOAH HOTEL

Funds loaned by KLDC for the Noah Hotel project were returned in full in August 2007, along with interest on the 108 portion of the loans. These funds included \$3,635,000 of Section 108 loans. In order to complete the return of funds to all other parties, KLDC was required to turn over \$220,000 of the funds that it received to one of the other parties. KLDC holds a first mortgage on the land where the hotel was to be built. The estimated fair market value of the land far exceeds the amount due to KLDC. After two years, KLDC has the right to sell the property if the developer has not. KLDC negotiated a repayment schedule; \$80,000 was repaid in March 2010 and the balance of \$140,000 is to be repaid in quarterly payments of \$40,000.

NOTE 12 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 30, 2011, the date which the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S 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 the financial statements of the City of Kingston Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 30, 2011. 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Kingston Local Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston Local Development Corporation's internal control over reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting 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 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 2010-1 and 2010-2 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any findings other than those noted above as material weaknesses.

To the Board of Directors
City of Kingston Local Development Corporation

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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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2010-3.

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. We did not audit the City of Kingston Local Development Corporation's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KIMBALL & O'BRIEN PC

By  _____

March 30, 2011

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010**

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

2010-1: 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 material 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 organization’s bookkeeping does not have sufficient training in appropriate accounting methods. In addition, there is limited oversight of financial reporting.

Recommendation – Someone with a bookkeeping background should be hired to perform basic bookkeeping tasks. Then management should 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, receivables and payables. In addition, a second approval should be required for bank transfers and draw downs on the line of credit in excess of an established limit. Also, all disbursements must be approved by the President of the Board, or another member of the Board, to maintain appropriate segregation of duties. Finally, the entity must establish policies for interim financial reporting to the board of directors.

Management’s Response – KLDC has hired an assistant with a bookkeeping background and will be entering information into the accounting system by the middle of 2011. By doing this, KLDC will improve internal controls as the Portfolio Manager will be responsible for oversight.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010

2010-2: GRANT MANAGEMENT

Criteria – Management is responsible for establishing and maintaining internal control over grant reporting.

Condition – Grant expenditures for lighthouse renovations were made out of several different departments of the City of Kingston in addition to KLDC.

Effect – There is a risk that the reimbursement requests could be prepared incorrectly and not followed up on a timely basis.

Cause – KLDC is sometimes used as a conduit for financing City grants due to availability of cash. However, management of KLDC has little knowledge of the actual grant activities including reimbursement requests and their status.

Recommendation – All grant expenditures should be recorded in one department of the City. This would be accomplished by the use of transfers. This would increase the controls over grants to help ensure that all activity has been properly recorded due to reconciliation to actual general ledger activity.

Management's Response – All grants in the future will be processed directly through KLDC instead of multiple department within the City of Kingston.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010

2010-3: COMPLIANCE

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.

Condition – KLDC has not implemented the requirements of the Act.

Effect – KLDC is not in compliance with the Act.

Cause – There has been much discussion since the passage of this legislation whether the Act actually applied to local development corporations. KLDC has been informed that they must meet the requirements of the Act.

Recommendation – KLDC must implement the requirements of the Act immediately. The requirements relate to the following: 1) Governance and Oversight by the Board including establishment of audit and governance committees and board training, 2) Management Practices which include assessment of internal control, 3) Procurement policies, 4) Public Access, 5) Annual reporting using the public authorities system, 6) Independent audit completed within 90 days of year-end, and 7) Submission of annual budget to Authority Budget Office 90 days prior to start of year.

Management’s Response – KLDC continues to work towards implementing the requirements noted above and intends to be in compliance by December 31, 2011.

STATUS OF PRIOR FINANCIAL STATEMENT FINDINGS

Findings 2009-1 and 2009-3 are repeated above. Finding 2009-2 has been addressed by the management of KLDC.