

**CITY OF KINGSTON LOCAL
DEVELOPMENT CORPORATION**

FINANCIAL STATEMENTS

DECEMBER 31, 2009

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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, 2009, 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, 2009, 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 November 9, 2010, 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KIMBALL & O'BRIEN PC

By  _____

November 9, 2010

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, 2009. 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 \$482,498 or 5.9% in 2009. Operating revenues decreased 32.3% to \$257,990 while operating expenses decreased 36.2% to \$607,311 for the year. Non operating revenues were \$23,229 for the year compared \$808,653 in the prior year. Non operating expenses of \$156,406 increased from \$7,537 in 2008.

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 \$48,030 or a decrease of .86%.

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

	<u>2009</u>	<u>2008</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	130,133	49,606
Equipment	<u>32,599</u>	<u>31,195</u>
Subtotals	6,398,400	6,316,469
Accumulated depreciation	<u>(886,496)</u>	<u>(756,535)</u>
Totals	<u>\$5,511,904</u>	<u>\$5,559,934</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 pays rent of \$5,000 per month for a 2 year period. The rent increases to \$6,581 in August of 2010. The lease with Armor will be for a period of 20 years with an option to purchase prior to the end of the term. Funding for this new building came from a grant from the Dormitory Authority in the amount of \$1,000,000.00 with the remaining funds from bank financing. The company is planning an expansion of an additional 5,000 square feet in 2011. If this expansion occurs, Armor Dynamics will purchase the building from KLDC for the cost of construction less the \$1,000,000.00 grant from the Dormitory Authority.

CONDENSED COMPARATIVE FINANCIAL STATEMENTS AND ANALYSIS

The Organization's net assets changed from a year ago, decreasing from \$8,207,100 to \$7,724,602. Our analysis below focuses on the net assets (Table 2) and changes in net assets (Table 3).

Table 2
Net Assets

	<u>2009</u>	<u>2008</u>
Current and other assets	\$5,448,540	6,377,846
Capital assets	<u>5,511,904</u>	<u>5,559,934</u>
Total assets	<u>10,960,444</u>	<u>11,937,780</u>
Long-term debt outstanding	2,987,290	3,242,290
Other liabilities	<u>248,552</u>	<u>488,390</u>
Total liabilities	<u>3,235,842</u>	<u>3,730,680</u>
Net assets:		
Invested in capital assets, net of debt	5,309,547	5,351,190
Restricted	5,835	50,523
Unrestricted	<u>2,409,220</u>	<u>2,805,387</u>
Total net assets	<u>\$7,724,602</u>	<u>\$8,207,100</u>

Table 3
Changes in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues		
Operating Revenues:		
Revenue from lending activities	\$124,935	168,467
Business Park income	132,000	211,104
Miscellaneous Revenue	1,055	1,614
Nonoperating Revenues:		
Interest and investment revenue	8,026	37,654
Capital grants	0	764,368
Capital Contributions	15,203	6,631
Miscellaneous	<u>0</u>	<u>0</u>
Total revenues	<u>281,219</u>	<u>1,189,838</u>
Expenses		
Lending activities	550,545	831,994
Business Park	56,766	120,350
Nonoperating expenses		
Interest	3,505	7,537
Grants to City of Kingston	<u>152,901</u>	<u>0</u>
Total expenses	<u>763,717</u>	<u>959,881</u>
Decrease in net assets	<u>(\$482,498)</u>	<u>\$229,957</u>

The Organization's current revenues decreased \$908,619 from the prior year. The major reason for the decrease in revenue was due to the grant received for improvements to the Kingston Business Park from the Dormitory Authority Grant in 2008. No grants were received in 2009.

The Organization's expenses decreased \$196,164 or 20.4% in 2009. This decrease is attributed to an allowance for bad debts in 2008 of \$600,000 due to a reassessment of collection of outstanding loans, whereas this amount was only \$302,903 in 2009

Debt

Table 4 presents detail of debt. The outstanding debt decreased 7.9% 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>2009</u>	<u>2008</u>
DOT(Kingston Business Park)	157,290	157,290
HUD Loans	<u>2,830,000</u>	<u>3,085,000</u>
Total Loans	<u>\$2,987,290</u>	<u>\$3,242,290</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.

The PILOT between Huck Manufacturing and KLDC expired at the end of 2008. They are currently taxed on a commercial basis.

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, 2009

	2009
ASSETS:	
Current assets:	
Cash	\$ 1,223,440
Restricted cash	829,990
Notes receivable - current portion	925,598
Grants receivable	36,216
Other receivables	<u>128,543</u>
Total current assets	<u>3,143,787</u>
Noncurrent assets:	
Restricted cash	334,401
Notes receivable, net	1,970,352
Capital Assets:	
Land	2,784,953
Building	1,854,782
Construction in progress	130,133
Improvements	1,595,933
Equipment	32,599
Less: accumulated depreciation	<u>(886,496)</u>
Total noncurrent assets	<u>7,816,657</u>
Total assets	<u>10,960,444</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	158,530
Accrued liabilities	23,351
Due to other governments	1,000
Prepaid interest income	6,868
Bonds and notes payable - current portion	<u>230,000</u>
Total current liabilities	<u>419,749</u>
Noncurrent liabilities:	
Bonds payable	870,000
Notes payable	1,887,290
Deposits	<u>58,803</u>
Total noncurrent liabilities	<u>2,816,093</u>
Total liabilities	<u>3,235,842</u>
NET ASSETS:	
Invested in capital assets, net of related debt	5,309,547
Restricted net assets	5,835
Unrestricted net assets	<u>2,409,220</u>
Total net assets	<u>\$ 7,724,602</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, 2009

	<u>2009</u>
OPERATING REVENUES	
Revenue from lending activities	\$ 124,935
Rental income	132,000
Miscellaneous revenue	<u>1,055</u>
Total operating revenues	<u>257,990</u>
OPERATING EXPENSES	
Bad debt expense	302,903
Contractual services	37,433
Depreciation	129,957
Forgiveness of debt	750
Insurance expense	3,694
Interest expense - lending activities	76,686
Other supplies and expenses	10,346
Personal services and benefits	40,403
Utilities	<u>5,139</u>
Total operating expenses	<u>607,311</u>
Operating loss	<u>(349,321)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	8,026
Donations - Lunettes	9,317
Donations - Lighthouse	5,886
Grants to City of Kingston	(152,901)
Interest expense	<u>(3,505)</u>
Total nonoperating revenue and expenses	<u>(133,177)</u>
Change in net assets	(482,498)
Net assets - beginning of year	<u>8,207,100</u>
Net assets - end of year	<u>\$ 7,724,602</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, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from lending activities	\$ 307,900
Receipts from rental activities	132,000
Receipts from miscellaneous revenues	1,055
Payment of expenses	<u>(437,298)</u>
Net cash provided by operating activities	<u>3,657</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Contributions received	15,203
Grants paid to City of Kingston	(70,975)
Interest paid on noncapital debt	(87,832)
Principal paid on noncapital debt	<u>(255,000)</u>
Net cash used by noncapital activities	<u>(398,604)</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets	<u>(51,733)</u>
Net cash used by capital financing activities	<u>(51,733)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on cash investments	<u>12,842</u>
Net cash provided by investing activities	<u>12,842</u>

NET INCREASE IN CASH (433,838)

CASH - BEGINNING OF YEAR 2,821,669

CASH - END OF YEAR \$ 2,387,831

Cash summary:

Cash	\$ 1,223,440
Restricted cash - current	835,754
Restricted cash - noncurrent	<u>328,637</u>
Total	<u>\$ 2,387,831</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, 2009

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

Operating loss	\$ (349,321)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	129,957
Bad debt expense	302,903
Forgiveness of debt	750
Interest expense included in noncapital financing for loans granted	76,686
Changes in assets and liabilities:	
Notes and other receivables, net	189,736
Deposits	86
Accounts payable and accrued liabilities	(32,029)
Accrued interest receivable	(2,373)
Due to other governments	(311,759)
Prepaid interest income	<u>(979)</u>
Net cash provided by operating activities	<u>\$ 3,657</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, 2009

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, 2009 the allowance for doubtful accounts was \$1,002,000.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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	\$ 62,266	62,266	-	-
M&T Bank	1,635,196	393,339	1,266,695	-
JP Morgan Chase	425,788	250,000	175,876	-
Ulster Savings Bank	178,663	178,663	-	-
Rondout Savings Bank	27,492	27,492	-	-
Senate Securities	58,803	58,803	-	-

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 \$58,803 as of December 31, 2009.

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, 2009 the balance was \$275,598. In addition, the payments received on 108 loans are restricted to paying the HUD liability. As of December 31, 2008, the balances in the 108 accounts were \$829,990.

See auditors' report.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 <u>12/31/08</u>	Loans Granted	Loan Payments	Balance <u>12/31/09</u>
KRLF	\$ 436,095	-	62,288	\$ 373,807
CDRLF	688,714	-	9,341	679,373
Sec 108	2,515,763	-	121,453	2,394,310
EDI	100,000	-	-	100,000
KNEC	246,309	-	26,087	220,222
Micro	5,908	-	-	5,908
Other - Note 13	220,000	-	-	220,000
Façade Improvement	8,250	-	750	7,500
Total	<u>4,221,039</u>	<u>-</u>	<u>219,919</u>	<u>4,001,120</u>
Allowance for estimated losses	(700,000)			(1,002,000)
Prepaid loans	(81,149)			(58,102)
Interfund loan to KBP (Note 8)	(51,454)			(45,068)
Net	<u>\$ 3,388,436</u>			<u>\$ 2,895,950</u>
Current portion	\$ 729,982			\$ 925,598
Non-current portion, net	<u>2,658,454</u>			<u>1,970,352</u>
Net	<u>\$ 3,388,436</u>			<u>\$ 2,895,950</u>

A total of \$1,000,886 in loans is considered in nonaccrual status as of December 31, 2009.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 6 - 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:

2010	\$	139,917
2011-2017		151,000 per year

2009 activity related to KBP capital assets, consisted of the following:

	Balance 12/31/08	Additions	Disposals/ Transfers	Balance 12/31/09
Land	\$ 2,784,953	-	-	\$ 2,784,953
Construction in progress	6,290	4,083	-	10,373
Depreciated Assets:				
Improvements	1,595,933	-	-	175,876
Buildings	1,854,782	-	-	1,854,782
Total capital assets	6,241,958	4,083	-	4,825,984
Less accumulated depreciation:				
Improvements	736,118	80,289		816,407
Buildings	3,864	46,370		50,234
Total accumulated depreciation	739,982	126,659	-	866,641
Net capital assets	\$ 5,501,976	(122,576)	-	\$ 5,379,400

Other capital assets include equipment with a balance of \$32,599 and accumulated depreciation of \$19,848.

KLDC is administering the renovation of the Rondout Lighthouse that was recently acquired by the City of Kingston. In addition, KLDC (as a 501(c) (3)) has been designated as the recipient for donations for this project. As a result KLDC makes some payments for the renovation out of this fund. All costs are capitalized as construction in progress and will be transferred to the City upon completion. The total at December 31, 2009 was \$119,780.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 7 - 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. KLDC pays interest on these interim loans based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points. Permanent financing was received in October 1997, April 1999 and August 2001 when trust certificates guaranteed by HUD were sold in a public offering. The 1997 and 1999 notes were reissued in 2008 to take advantage of lower interest rates. The unpaid balances at that time were \$310,000 and \$150,000 respectively. 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%. \$155,000 was paid on these loans during 2009. A total of \$1,000,000 was outstanding on Section 108 loans at December 31, 2009. 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 .46% at December 31, 2009. \$100,000 was paid on this loan during 2009. A total of \$1,830,000 was due on interim Section 108 loans at December 31, 2009.

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.

	<u>Principal</u>	<u>Interest</u>
2010	\$ 230,000	59,876
2011	255,733	53,265
2012	276,458	45,988
2013	276,458	38,140
2014	271,458	30,324
2015-2019	1,077,183	52,579
2020-2024	500,000	9,113
2025	100,000	456
Total Long-term Debt	<u>\$ 2,987,290</u>	<u>289,741</u>

NOTE 8 - INTERFUND 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 2009. 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, 2009

NOTE 8 – INTERFUND 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 \$45,058 at December 31, 2009.

NOTE 9 - RESTRICTED NET ASSETS

Restricted net assets are used before unrestricted and are to be used for City Hall improvements, which totaled \$5,835 at December 31, 2009.

NOTE 10 - DONATED SERVICES AND FACILITIES

The Organization's only staff person is also the director of the Kingston Community Development Agency (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.

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 is to be repaid in quarterly payments of \$40,000.

NOTE 12 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 9, 2010, 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, 2009, and have issued our report thereon dated November 9, 2010. 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Directors
City of Kingston Local Development Corporation

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

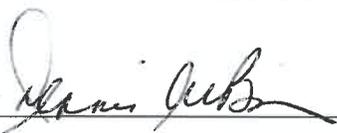
Compliance and Other Matters

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 2009-3.

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 and is not intended to be and should not be used by anyone other than these specified parties.

KIMBALL & O'BRIEN PC

By  _____

November 9, 2010

**CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements	<u>Response</u>
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

2009-1: 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 internal control over financial reporting due to limited management level oversight.

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 and customer loan ledgers. 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. Finally, the entity must establish policies for interim financial reporting to the board of directors.

Management’s Response – During 2010 KLDC hired an assistant with a bookkeeping background to enter information into the accounting system. By doing this, KLDC has improved internal controls as the Portfolio Manager is responsible for oversight.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

2009-2: LOAN VALUATION

Criteria – Management is responsible for the estimation of the amount of loans that may eventually become uncollectible which is based on historical performance and projection of trends. This estimation should be reviewed on a timely basis by both management and the board of directors.

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

Effect – As a result of our audit, we proposed a substantial adjustment to the KLDC's financial records in order to properly value loans receivable.

Cause - The management of KLDC is not addressing delinquent loans balances on a timely basis.

Recommendation – The board of directors should establish a policy to more effectively manage loans receivable. This policy should include reporting to the board on at least a quarterly basis the number of months each loan is delinquent. In addition, notices should be sent on a monthly basis to all borrowers that are behind more than one month. Finally, the board should be more aggressive in determining when collection on a loan is in jeopardy and legal action should be considered.

Management's Response – The board of directors has become more aggressive in collecting accounts in 2010 and taking legal action when appropriate. Also, KLDC has hired an assistant to ensure that monthly notices are sent in a timely fashion.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2009

2009-3: 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 – In 2010 the Portfolio Manager and the consultant from National Development Council were in contact with the Public Authorities Board and will be in compliance by the end of 2010.