CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

Year ended December 31, 2016

CITY OF KINGSTON
LOCAL DEVELOPMENT CORPORATION

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Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the City of Kingston Local Development Corporation (the "LDC") (a component unit of the City of Kingston), as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 – 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017 on our consideration of the LDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the LDC's internal control over financial reporting and compliance.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 14, 2017

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2016

As financial management of the City of Kingston Local Development Corporation ("LDC"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the LDC for the fiscal year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented herein conjunction with the financial statements taken as a whole.

Budget

The LDC depends on grants, with a minimal amount of operating income, to extend its programs. The LDC files for various grants and loans to provide economic development assistance in City of Kingston. However, the funding of these grants is not assured at the beginning of the year. Because the LDC does not know how much funding will be received during any year, how many loan applications will be approved, or what programs can be made available, the LDC cannot project the amount that it can use for its programs to project an accurate budget. The LDC strictly adheres to financial procedures and requirements of New York State General Municipal Law, Article 18A, and its own bylaws, as audited by our accountants at Mostert, Manzanero & Scott, LLP.

Overview of the Financial Statements

This management's discussion and analysis accompanies the LDC's financial statements, notes to the financial statements and the reports on compliance and internal control to help the reader better understand the financials.

Financial Statements

The LDC's financial statements provide readers with a comprehensive reporting of the LDC's 2016 transactions and balances. The difference between the assets and liabilities are reported as the net position. Increases or decreases in the net position are an indicator of strengthened or weakened financial position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The LDC's net position decreased by $112,372 in 2016. Operating revenues decreased by $16,282 and operating expenses decrease by $46,152 for the year. Non-operating activities increased by $113,795, due to the loss on the sale of a building in 2015. The LDC's prime objective is administration of certain loan programs, economic development, technical assistance and training, operation of the Business Park of the City of Kingston, and infrastructure improvement aimed at fostering new job creation which are business-type activities. Since the LDC conducts only business-type activities, this annual report consists only of the statements of net position, revenues, expenses and changes in net position and cash flows, which provide information about the activities of the LDC.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2016

The following is a 2016 – 2015 comparative summary of the LDC's financial statements showing the change in net position:

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
NET POSITION

	2016	2015
Current assets	$ 2,453,730	$ 2,284,579
Non-current assets	5,615,952	5,984,177
Total assets	8,069,682	8,268,756
Long-term debt	927,290	1,012,290
Other current liabilities	7,828	9,529
Total liabilities	935,118	1,021,819
Net position:		
Invested in capital assets, net	4,338,035	4,563,567
Unrestricted	2,796,530	2,683,370
Total net position	$ 7,134,565	$ 7,246,937

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
CHANGES IN NET POSITION

	2016	2015
Operating revenues:		
Lending activities	$ 67,064	$ 99,756
Business Park	90,560	74,150
Total operating revenues	157,624	173,906
Non-operating revenues:		
Interest and investments	7,735	6,532
Loss on sale of building	-	(112,592)
Total non-operating revenues	7,735	(106,060)
Total revenues	165,359	67,846
Operating expenses:		
Lending activities	132,364	104,396
Business Park	145,367	219,487
Total operating expenses	277,731	323,883
Decrease in net position	$ (112,372)	$ (256,037)

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
CAPITAL ASSETS

	2016	2015
Capital assets:		
Land, property and construction, net of depreciation	$ 4,495,325	$ 4,620,857
Total capital assets	$ 4,495,325	$ 4,620,857

In July 2008, The LDC completed construction of a 10,000 square foot building for a total cost of $1,854,782. The LDC received a grant in the amount of $1,000,000 from the NYS Dormitory to help with the construction costs. This building was vacant for 2016. The LDC continues to actively market the vacant building as well as the entire park.

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

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION
OUTSTANDING DEBT

	2016	2015
Outstanding debt:		
DOT (business park)	$ 157,290	$ 157,290
HUD Loans	770,000	855,000
Total outstanding debt	$ 927,290	$ 1,012,290

Economic Factors

The management of the LDC is not aware of any changes in economic factors or conditions since December 31, 2016 that will have any significant effect on the LDC into the future.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Amanda L. Bruck-Little, Executive Director, City of Kingston Local Development Corporation, 420 Broadway, Kingston, New York 12401.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF NET POSITION

December 31, 2016

ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,930,378
Restricted cash	280,749
Grants receivable	19,661
Current portion of loans receivable	214,038
Prepaid expenses	8,904
Total current assets	2,453,730
Non-current assets:	
Long-term portion of loans receivable, net of allowance	1,120,627
Land, property and construction	4,495,325
Total non-current assets	5,615,952
Total assets	8,069,682
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	1,370
Accrued liabilities	6,458
Current portion of debt	85,733
Total current liabilities	93,561
Long-term liabilities:	
Long-term debt	841,557
Total liabilities	935,118
Net position:	
Invested in capital assets, net related debt	4,338,035
Unrestricted	2,796,530
Total net position	$ 7,134,565

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Year ended December 31, 2016

Operating revenues:	
Lending activities	$ 67,064
Rental activities	90,560
Total operating revenues	157,624
Operating expenses:	
Professional fees	17,004
Depreciation	125,532
Forgiveness of debt	750
Bad debt	47,667
Insurance	7,971
Interest	19,375
Office expenses	641
Other	445
Repairs and maintenance	1,239
Personal services and benefits	36,505
Façade payments	6,500
Utilities	14,102
Total operating expenses	277,731
Operating loss	(120,107)
Non-operating revenues:	
Interest	7,735
Total non-operating revenues	7,735
Change in net position	(112,372)
Net position - Beginning of year	7,246,937
NET POSITION - END OF YEAR	$ 7,134,565

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year ended December 31, 2016

Cash flows from operating activities:	
Cash received from lending activities	$ 304,926
Cash received from rental activities	90,560
Payment of operating expenses	(101,534)
NET CASH PROVIDED BY OPERATING ACTIVITIES	293,952
Cash flows from non-capital activities:	
Principal paid on non-capital debt	(85,000)
Interest paid on non-capital debt	(19,375)
NET CASH USED IN NON-CAPITAL ACTIVITIES	(104,375)
Cash flows from investing activities:	
Interest on cash investments	7,735
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,735
NET INCREASE IN CASH	197,312
Cash - Beginning of year	2,013,815
CASH - END OF YEAR	$ 2,211,127
Cash summary:	
Cash	$ 1,930,378
Restricted cash	280,749
Total	$ 2,211,127
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	$ (120,107)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	125,532
Forgiveness of debt	750
Interest paid on non-capital debt	19,375
Changes in assets and liabilities:	
Notes receivable, net	230,362
Accrued interest	47,667
Accounts payable and accrued liabilities	(1,702)
Prepaid expenses	(7,925)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 293,952

See accompanying notes.

CITY OF KINGSTON LOCAL DEVELOPMENT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2016

NOTE 1 ORGANIZATION

The City of Kingston Local Development Corporation (the "LDC"), in Kingston, New York, was incorporated in 1994, under Not-For-Profit Corporation Law and is exempt from Federal income tax as an Organization described in Section 501(c)(3) of the Internal Revenue Code.

The LDC is operated exclusively for the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, promoting instruction or training of individuals to promote or develop their capabilities for such jobs, aiding in attracting new business and industry, or by encouraging the development or retention of, business and industry within the City of Kingston.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

For purposes of applying accounting and financial reporting standards, the LDC is considered a governmental entity and a component unit of the City of Kingston since all board members are appointed by the Mayor.

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

- The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

- The Management's Discussion and Analysis (MD&A) section is management's analysis of the LDC's overall financial position and results of operations.

- The financial statements are prepared using the full accrual basis for all activities. Operating revenues and expenses result from providing lending services and also operation of a business park.

Allowance for Uncollectible Amounts

Notes receivable are recorded at full value. Uncollectible accounts are charged to expenditures using the reserve method. The allowance for uncollectible accounts was $163,140 as of December 31, 2016.

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 6 and 7 for additional information on the Park.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and liabilities in the statement of net position. Net assets invested in capital assets are reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are external restrictions by creditors, grantors, laws or regulations of other governments.

Federal Income Taxes

The LDC is a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and similar New York State laws and, as such, is not subject to Federal or State income taxes. In addition, the LDC qualifies for the charitable contribution deduction under Section 170(b)(a)(2) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The LDC reviews the components of revenues, gains, and other support and analyzes whether the position that the LDC takes with regard to a particular item of income would meet the definition of an uncertain tax position under U.S. GAAP. The LDC files information tax returns in the U.S. federal jurisdiction and New York State jurisdiction. The tax years that remain subject to examination by authorities are generally the previous three years.

Events Occurring After Reporting Date

Subsequent events were evaluated through March 14, 2017, which is the date the financial statements were available to be issued.

NOTE 3 CASH AND CASH EQUIVALENTS

The LDC maintains its cash balances at several financial institutions located in Kingston, New York. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 each for interest and non-interest bearing accounts. Deposits at year-end were covered by the FDIC or by collateral held by a custodial bank in the LDC's name. The deposits consisted of the following:

	Bank Balance	Insured by FDIC	Collateralized Custodial Bank	Collateral
Catskill Hudson Bank	$ 2,210,303	$ 250,000	$ 1,960,303	$ -

NOTE 4 RESTRICTED CASH

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

NOTE 5 LOANS RECEIVABLE

Kingston Business Park

Economic Development Initiative (EDI) loaned the Kingston Business Park (KBP) $412,000. There were no repayments made on this loan in 2016. This loan is for construction costs and are non-interest bearing. It will be repaid after other outside loans have been repaid. Since this is an internal loan, the asset and liability have been netted and are not reflected in the financial statements.

Revolving Loan Funds (RLF)

The LDC grants loans to businesses through the Community Development Revolving Loan Fund (CDRLF), Kingston Revolving Loan Fund (KRLF), Section 108 Loan Guarantee Program (Section 108), Kingston Newburgh Enterprise Corp. (KNEC), EDI and the Micro Enterprise Program (Micro). These loan funds allow the LDC to offer low interest loans to area businesses creating jobs in the City of Kingston. The proceeds of these loans are used to offer new loans once the previous loans have been paid in full. The activity for the year ended December 31 is as follows:

Borrower	01/01/2016 Balance	Loans Granted	Loan Payments	Loans Write-Offs	12/31/2016 Balance
CDRLF	$ 342,635	$ -	$ 25,387	$ -	$ 317,248
KRLF	218,189	-	59,226	-	158,963
Section 108	1,104,870	-	137,150	-	967,720
KNEC	16,065	-	8,599	-	7,466
EDI	43,125	-	7,500	-	35,625
Micro	-	7,500	-	-	7,500
Facade improvement	4,033	-	-	750	3,283
	1,728,917	$ 7,500	$ 237,862	$ 750	1,497,805
Allowance for estimated losses	(163,140)				(163,140)
Net	$ 1,565,777				$ 1,334,665
Current portion	$ 202,457				$ 214,038
Non-current portion, net	1,363,320				1,120,627
Net	$ 1,565,777				$ 1,334,665

NOTE 6 KINGSTON BUSINESS PARK

The LDC owns and operates the KBP. Phase 1 of the Park was substantially completed during 1997. The first tenant, Huck International, moved into its facility in May 1997. The lease is for 20 years with additional options to extend for a total of 99 years.

NOTE 7 CAPITAL ASSETS

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

	01/01/16 Balance	Additions	Deletions	12/31/16 Balance
Kingston Business Park (KBP)				
Land	$ 2,784,953	$ -	$ -	$ 2,784,953
Depreciated assets:				
Improvements	1,606,304	-	-	1,606,304
Buildings	1,854,782	-	-	1,854,782
Total	6,246,039	-	-	6,246,039
Less: Accumulated depreciation:				
Improvements	(1,296,729)	(79,163)	-	(1,375,892)
Buildings	(328,453)	(46,369)	-	(374,822)
Total	(1,625,182)	(125,532)	-	(1,750,714)
Total KBP	4,620,857	(125,532)	-	4,495,325
Other				
Equipment	32,599	-	-	32,599
Less: Accumulated depreciation	(32,599)	-	-	(32,599)
Net other	-	-	-	-
Total capital assets	$ 4,620,857	$ (125,532)	$ -	$ 4,495,325

NOTE 8 LOANS PAYABLE

During 2005, the LDC drew down $5,359,000 under the Section 108 loan guarantee program. The first principal payment on this loan was paid in August 2008 with varying amounts due through 2025. Interest is payable based on the three-month London Interbank Offered (LIBO) rate plus 200 basis points and was 1.00% at December 31, 2016. A total of $770,000 is outstanding as of December 31, 2016. The LDC is working with borrowers and HUD to obtain permanent financing on the remaining balance.

The LDC has drawn down $157,290 from DOT as part of the financing Phase 1 of the Park. The loan is interest-free and was expected to be paid in varying amounts over 5 years. Repayment has been deferred several years but is expected to start in 2017.

These loans can be summarized as follows:

	Principal	Interest
2017	$ 85,733	$ 9,169
2018	31,457	8,630
2019	131,457	8,630
2020	131,457	7,690
2021	147,186	6,700
2022 – 2025	400,000	14,200
Loans payable, long-term	$ 927,290	$ 55,019

NOTE 9 TRANSACTIONS WITH THE CITY OF KINGSTON

The LDC's staff members are actually employees of the City of Kingston's Community Development Office (CD). All of the LDC's activities are conducted out of the CD office. 50% of the staff's salary is allocated by the City of Kingston to the LDC based on estimated time spent on the LDC's activities.

In 2007, the Kingston Business Park's road and utility systems were transferred to the City of Kingston. The costs of maintaining this should have transferred to the City of Kingston at this time, but the LDC continued to pay these costs. The LDC management is requesting reimbursement of these prior costs which, at December 31, 2016, amounted to $136,287. The LDC continues to pay these costs. Management of the LDC conservatively believes that repayment may come down to a negotiation with the City of Kingston. Because of this, these amounts are not reflected in the financial statements of the LDC for 2016.

NOTE 10 FEDERAL AND STATE AID

The LDC has received federal and state aid and grants that are subject to audits by agencies of the federal and state governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. The LDC believes disallowances, if any, will be immaterial.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City of Kingston Local Development Corporation (the "LDC"), which comprise the statement of net position as of and for the year ended December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the LDC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LDC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

This report is intended solely for the information and use of the City of Kingston Local Development Corporation audit committee, management, the State of New York, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 14, 2017