

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(Formerly Ulster County Development Corporation)
(A Blended Component Unit of Ulster County, New York)

FINANCIAL STATEMENTS
(and reports of Independent Auditors')

December 31, 2014 and 2013

Ulster County Economic Development Alliance, Inc.
(A Blended Component Unit of Ulster County, New York)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ulster County Economic Development Alliance, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Ulster County Economic Development Alliance, Inc. (a blended component unit of Ulster County, New York), as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Ulster County Economic Development Alliance, Inc.'s basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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 respective financial position of Ulster County Economic Development Alliance, Inc., as of December 31, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ulster County Economic Development Alliance, Inc.'s basic financial statements. The Schedule of Revenues and Expenses - Budget and Actual and USDA Intermediary Relending Program Loan Fund Schedule of Net Position and Schedule of Revenues, Expenses, and Change in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenses - Budget and Actual and USDA Intermediary Relending Program Loan Fund Schedule of Net Position and Schedule of Revenues, Expenses, and Change in Net Position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenses - Budget and Actual and USDA Intermediary Relending Program Loan Fund Schedule of Net Position and Schedule of Revenues, Expenses, and Change in Net Position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 on our consideration of Ulster County Economic Development Alliance, Inc.'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 Ulster County Economic Development Alliance, Inc.'s internal control over financial reporting and compliance.

Pattison, Koskey, Howe & Bucci, CPAs, P.C.

Valatie, New York
March 26, 2015

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Management's Discussion and Analysis of the Ulster County Economic Development Alliance, Inc.'s (UCEDA or the Alliance) financial performance provides an overview of the Alliance's financial activities for the fiscal year ended December 31, 2014. Please read this report in conjunction with the Alliance's 2014 financial statements. The Alliance is a local development corporation which operates in Ulster County, New York and is classified by the New York State Authority Budget Office as a public authority. This summary discussion and analysis includes only the financial and general business of the Alliance.

Financial Highlights

The Alliance's net position has increased by \$37,601 (or 2.5%) as a result of operations in 2014.

In 2014, revenues increased \$87,027 compared to 2013, or 76.1%.

In 2014, expenses decreased \$80,624 compared to 2013, or 33.0%.

Organization Highlights

The Alliance's 2014 highlights include:

- The Alliance initiated a marketing campaign to market Ulster County as a great place to start and expand business; Focus Media was contracted with to lead this effort. As part of the marketing initiative, the Alliance produced all new marketing materials geared at attracting outside businesses to Ulster County and promoting the services available to local businesses. Additionally, the Alliance and Focus Media did external outreach to businesses and site selectors outside the County through three separate mailings and advertisements in trade publications. The Alliance has also started publishing a quarterly newsletter in conjunction with the Office of Economic Development, as well as a monthly "Featured Properties" newsletter to site selectors.
- The Alliance has also hosted several events geared and increasing economic development in Ulster County, including a seminar for Spanish-speaking entrepreneurs and launching a "Building Ulster County Together" series, a quarterly networking breakfast geared towards businesses in the construction, real estate, and banking sectors.
- The Alliance continued to provide oversight on all loan projects, including visits to each site.

See independent auditors' report.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Using This Annual Report

This Annual Report consists primarily of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and the Statements of Cash Flows, which provide information about the activities of the Alliance only.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statements report the Organization's net position and changes in net position. One way to measure the Organization's financial position is to look at the net position - the difference between assets and liabilities.

Condensed Comparative Financial Statements and Analysis

The Organization's net position at the end of the 2014 was \$1,526,514, an increase of \$37,601 over the position of \$1,488,913 at the beginning of 2014.

Our analysis below focuses on net position (Table 1) and the changes in net position (Table 2).

Table 1 – Statements of Net Position

	2014	2013
Assets		
Current assets	\$ 1,317,952	\$ 1,176,996
Other assets	605,319	695,361
Total Assets	\$ 1,923,271	\$ 1,872,357
Liabilities		
Current liabilities	\$ 63,615	\$ 13,027
Long-term liabilities	333,142	370,417
Total Liabilities	\$ 396,757	\$ 383,444
Net Position		
Unrestricted	\$ 1,328,745	\$ 1,292,845
Restricted	197,317	194,180
Invested in Capital Assets	452	1,888
Total Net Position	\$ 1,526,514	\$ 1,488,913

See independent auditors' report.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Current Assets:

Cash totals at the end 2014 were \$1,023,052 versus \$902,607 at the end of 2013. This increase in cash was a direct result of the payoffs of 3 outstanding loans receivable in 2014. The Loans Receivable total at the end of 2014 was \$739,510 versus \$829,044 at the end of 2013.

Current Liabilities:

Liabilities at the end of 2014 were \$396,757 versus \$383,444 at the end of 2013.

Table 2 – Change in Net Position

	2014	2013
Revenues:		
Professional services	\$ -	\$ 75,000
Contract and administrative fees	154,501	-
Interest on loans	35,427	24,097
Other income	11,493	15,297
Total Revenue	201,421	114,394
Expenses:		
Operating expenses	159,753	240,627
Non-operating expenses	4,067	3,817
Total Expenses	163,820	244,444
Changes in Net Position:	\$ 37,601	\$ (130,050)

The Agency's revenues in 2014 were \$201,422 versus \$114,394 in 2013. Expenses in 2014 were \$163,821 versus \$244,444 in 2013. The revenue increase in 2014 compared to 2013 was primarily caused by the base contract in 2014 from Ulster County for economic development and marketing services in 2014. The expenses decreased in 2014 predominantly due to the Alliance incurring significant legal fees in 2013, contracting for accounting services for most of 2013, and incurring minimal legal and accounting fees in 2014.

Capital Assets and Long-Term Debt

There were no capital asset additions in 2014, and the Alliance did not take on any long-term debt in 2014.

See independent auditors' report.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Budget

In October of 2013, the Alliance adopted a 2014 budget projecting revenues to be \$232,100 and expenses to be \$253,050. Actual 2014 revenues totaled \$201,422 and actual 2014 expenses totaled \$163,821.

Contacting UCDC Financial Administrator

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Alliance's finances and to show the Alliance's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Ulster County Economic Development Alliance, Inc. P.O. Box 1800, Kingston, New York 12402.

See independent auditors' report.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE
(A blended component unit of Ulster County, New York)
STATEMENTS OF NET POSITION
December 31, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	\$ 1,023,052	\$ 902,607
Accounts receivable	9,329	10,065
Loans receivable, current portion	134,643	135,571
Due from Ulster County	150,000	125,000
Due from UCIDA and UCCRC	928	1,926
Prepaid expenses	-	1,827
Total current assets	1,317,952	1,176,996
Other assets:		
Property and equipment, net of \$411,058 and \$409,622 of accumulated depreciation as of December 31, 2014 and 2013, respectively	452	1,888
Loans receivable, less current portion, net of an allowance of \$48,314 and \$34,543 as of December 31, 2014 and 2013, respectively	604,867	693,473
Total other assets	605,319	695,361
Total assets	\$ 1,923,271	\$ 1,872,357

LIABILITIES AND NET POSITION

Current liabilities:		
Accounts payable	\$ 26,340	\$ 27
Current portion of note payable	24,275	-
Due to Ulster County, current portion	13,000	13,000
Total current liabilities	63,615	13,027
Long term liabilities:		
Long-term debt	94,725	119,000
Due to Ulster County, long-term portion	39,000	52,000
Unearned revenue	199,417	199,417
Total long-term liabilities	333,142	370,417
Total liabilities	396,757	383,444
Net position:		
Unrestricted	1,328,745	1,292,845
Invested in capital assets	452	1,888
Restricted	197,317	194,180
Total net position	1,526,514	1,488,913
Total liabilities and net position	\$ 1,923,271	\$ 1,872,357

See independent auditors' report and notes to financial statements.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE
(a blended component unit of Ulster County, New York)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Professional services revenue- The Solar Energy Consortium	\$ -	\$ 75,000
Application fees	-	400
Contract and administrative fees	154,502	5,466
Interest on loans	35,427	24,097
Marketing support from UCIDA	5,000	-
Late fees collected	2,051	863
Contributions	-	5,800
Miscellaneous income	3,812	881
Total revenues	200,792	112,507
Operating Expenses:		
Professional services expense - The Solar Energy Consortium	-	75,000
Contractual expense	8,422	48,807
Professional fees	11,712	55,857
Occupancy expenses - rent	2,242	13,479
Dues and subscriptions	10,350	10,054
Salaries	-	4,525
Fringe benefits and payroll taxes	-	3,624
Insurance	5,122	4,162
Marketing and advertising	101,716	3,181
Miscellaneous expenses	5	3,676
Office expense	4,880	4,826
Rental and maintenance of equipment	98	3,609
Telephone	-	2,170
Provision for loan losses	13,771	6,155
Depreciation	1,436	1,502
Total operating expenses	159,754	240,627
Operating income (loss)	41,038	(128,120)
Non-operating revenues (expenses)		
Interest on deposits	630	1,887
Interest expense	(4,067)	(3,817)
Total non-operating expenses	(3,437)	(1,930)
Change in net position	37,601	(130,050)
Net position, beginning	1,488,913	1,618,963
Net position, ending	\$ 1,526,514	\$ 1,488,913

See independent auditors' report and notes to financial statements.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE

(a blended component unit of Ulster County, New York)

STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Professional services revenue	\$ -	\$ 75,000
Administrative fees	133,287	271,160
Interest on loans	35,427	24,097
Contribution revenue	-	5,800
Marketing support revenue- UCIDA	5,000	-
Miscellaneous revenue	3,812	881
Loans disbursed	(100,000)	(300,000)
Loans paid back	175,763	197,353
Professional services grant expense	-	(75,000)
Payments to vendors	(116,407)	(229,898)
Payments to employees	-	(8,149)
Net cash provided by (used for) operating activities	<u>136,882</u>	<u>(38,756)</u>
Cash flows from investing activities		
Interest received	630	1,887
Net cash provided by investing activities	<u>630</u>	<u>1,887</u>
Cash flows from financing activities		
Certificate of deposit- transferred to UCIDA	-	(126,015)
Interest expense	(4,067)	(3,817)
Payments on long-term debt	(13,000)	(13,000)
Net cash used for financing activities	<u>(17,067)</u>	<u>(142,832)</u>
Net increase (decrease) in cash	120,445	(179,701)
Cash and cash equivalents, beginning of year	902,607	1,082,308
Cash and cash equivalents, end of year	<u>\$ 1,023,052</u>	<u>\$ 902,607</u>
Cash flows from operating activities		
Operating income (loss)	\$ 41,038	\$ (128,120)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,436	1,502
Provision for loan losses	13,771	6,155
Changes in operating assets and liabilities		
Decrease in accounts receivable	736	1,997
Decrease (increase) in loans receivable	75,763	(102,647)
(Increase) decrease in due from Ulster County	(25,000)	264,360
Decrease (increase) in due from UCIDA and UCCRC	998	(1,926)
Decrease in prepaid expenses	1,827	777
Increase (decrease) in accounts payable	26,313	(80,854)
Net cash provided by (used for) operating activities	<u>\$ 136,882</u>	<u>\$ (38,756)</u>

See independent auditors' report and notes to financial statements.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS

1. **Nature of Organization:**

Financial Reporting Entity:

The Ulster County Economic Development Alliance, Inc. (“the Alliance” or “UCEDA”) (formerly Ulster County Development Corporation) promotes job growth, economic development and community revitalization for Ulster County by unified regional and national marketing and provides business financing through a variety of countywide and municipal revolving loan funds.

Governance/Accountability:

The Corporation’s sole Member is the County of Ulster, New York (the “County”) acting by and through the County Executive, ex officio. The number of Directors of the Alliance shall be seven as established by resolution adopted by the Member.

Programs of the Alliance:

CDBG

Includes the activities of Community Development Block Grants revolving loan fund which provides loans below \$75,000 to businesses to create and retain jobs in Ulster County. Loans can be issued in excess of \$75,000 with a super-majority of committee approval.

Section 108

Includes the HUD Section 108 Loan Guarantee Program activities administered through Ulster County, New York, which provide loans within the range of \$75,000 to \$750,000 to businesses for development and job creation in Ulster County.

Ready2Go Fund

UCEDA is the fiscal agent for the Ulster Ready2Go Program, a joint activity of UCEDA with the County, Central Hudson and the Ulster County Industrial Development Agency (UCIDA). The program is a revolving loan fund with a lien taken on the subject property and at the sale of the property the lien is removed upon repayment of funds. These funds are then available for other Ready2Go projects. The Program seeks site plan approval on several sites throughout Ulster County for industrial buildings. Up to one half of the engineering and planning costs of these approvals will be offset through the Program with funding contributed by Central Hudson and the UCIDA. Preferred sites will have appropriate zoning (industrial or commercial) or a comprehensive plan that identifies it as in a priority growth zone, acreage sufficient to accommodate a high bay structure of at least 40,000 square feet, water and sewer to site or at least within ¼ mile, and supportive host municipalities.

Telecommunications Fund

Provides matching loan funds under the USDA Intermediary Relending Program Loan Fund.

USDA Intermediary Relending Program Loan Fund

Provides loans to small business at low rates of interest for part of their financing needs. The program will lend up to 16% of a total project cost and another 14% in matching loan funds from the Revolving Loan Funds in conjunction with conventional lending sources for eligible projects. Of the amount loaned by UCEDA to cover the cost of the project, 85% may be lent from USDA borrowings and 15% must be matched by UCEDA from funds raised from other unrestricted sources. At least 50% of the project must come from either the applicant or a conventional lending source.

Other activities include business retention, expansion, recruitment, and incubation, site searches, marketing, and other sector initiatives.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies:

Basis of Accounting:

The financial statements of the Alliance have been prepared on the accrual basis of accounting and reflect all significant receivables, payables, and other liabilities. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with accounting principles generally accepted in the United States of America, the Alliance applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Alliance applies GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements", which was issued by the GASB on December 30, 2010. The Alliance has chosen to only apply GASB pronouncements. The Alliance does not apply any Financial Accounting Standards Board (FASB) or AICPA pronouncements post November 30, 1989, as clarified by GASB No. 62. The government-wide financial statements include the Corporation's only governmental fund (single enterprise fund).

Deferred outflows/inflows of resources:

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities," defined and classified deferred outflows of resources and deferred inflows of resources. A deferred outflow of resources is a consumption of net assets that applies to future period(s), and as such, will not be recognized as an outflow of resources (expense/expenditure) until that time. A deferred inflow of resources is an acquisition of net assets that applies to future period(s), and as such, will not be recognized as an inflow of resources (revenue) until that time.

Statement 63 changed how governments organize their statements of financial position (such as the current government-wide statement of net assets and the governmental funds balance sheet).

As a result of Statement 63, financial statements include deferred outflows of resources and deferred inflows of resources ("deferrals"), in addition to assets and liabilities, and report net position instead of net assets.

Budgetary Data:

The budget policies are as follows:

In October of each year the finance committee submits a tentative budget to the Board of Directors for the next fiscal year which begins the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued):

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The application of these accounting principles involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The Alliance periodically evaluates estimates and assumptions used in the preparation of the financial statements and makes changes on a prospective basis when adjustments are necessary.

The most significant estimate of the Alliance is the allowance for loan losses.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

In connection with the determination of the estimated losses on loans, management may obtain independent appraisals for significant collateral.

The Corporation's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Alliance has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in Ulster County, New York.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term.

Revenue Recognition:

Contributions are recognized when received or in the period of intended use as specified by the donor. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Administrative revenue is recognized in the period services are provided. Grant revenue is recognized on cost reimbursable contracts in the period the costs are incurred. Advances on grants prior to costs being incurred in accordance with the terms of the grant agreement are deferred until the period costs are incurred.

Interest on loans is recognized in the period earned over the life of the related loans receivable.

Operating revenues include revenue generated from ongoing operating activities. Non-operating revenues include investing, financing and other non-recurring activities.

Income Taxes:

A provision for income tax has not been provided for in these financial statements, as the Alliance is a not-for-profit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization has evaluated any uncertain tax positions and related income tax contingencies and determined uncertain positions, if any, are not material to the financial statements, according to FASB ASC 740-10. Penalties and interest assessed by income taxing authorities are included in operating expenses, if incurred. The Organization is no longer subject to examination by federal and state taxing authorities for years prior to fiscal year ended December 31, 2011.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued):

Cash and Cash Equivalents:

The Alliance considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Property and Equipment:

The cost of property and equipment is depreciated over the useful lives of the related assets using the straight-line method. The Alliance capitalizes fixed assets with an estimated useful life of greater than one year and a cost of greater than \$500.

Concentration of Credit and Market Risk:

Financial instruments that potentially expose the Alliance to concentrations of credit and market risk consist primarily of cash and cash equivalents and loans receivable. Cash and cash equivalents are maintained at Federal Deposit Insurance Alliance insured financial institutions and credit exposure is limited to any one institution. To the extent FDIC insurance is not sufficient, the Alliance requires its bank to maintain pledged collateral.

Concentrations of credit risk with respect to notes receivables are limited due to the diverse industry backgrounds of its borrowers. Furthermore, management feels its borrower approval processes and regular review of provisions for loan losses, adequately provides for any material credit risks. Generally, sufficient collateral or a personal guarantee is obtained for all loans at the time of disbursement. Collateral is generally in the form of a mortgage on real property or a chattel lien on equipment title.

Loans and Allowance for Loan Losses:

Loans are stated at their recorded investment, which is the amount of unpaid principal, reduced by an allowance for loan losses. Interest is calculated by using the simple interest method. Interest rates on loans range from 0% to 5.92%.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Alliance uses a disciplined process and methodology to establish the allowance for loan losses. To determine the total allowance for loan losses, management estimates the reserves needed for each loan outstanding.

To determine the balance of the allowance account, loans are evaluated case by case, by portfolio segment and future losses are projected using historical experience adjusted for current economic and industry conditions. Management exercises significant judgment in determining the estimation method that fits the credit risk rating characteristics of each case. Management must use judgment in establishing additional input factors for estimating purposes. The assumptions used to determine the allowance are periodically reviewed by management to ensure that their theoretical foundation, assumptions, data integrity, computational processes, and reporting practices are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to, or release balances from, the allowance for loan losses.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (Continued):

Loans and Allowance for Loan Losses (Continued):

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the assumptions used to estimate incurred losses in these portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Interest Income on Loans:

Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in accordance with adopted policies, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Subsequent Events:

Subsequent events have been evaluated through March 26, 2015, which is the date the financial statements were available to be issued.

3. Cash and Cash Equivalents:

The following is a summary of cash and cash equivalents as included in the statement of net position at December 31, 2014:

Bank	Book Balance	Bank Balance	FDIC Coverage	Pledged Collateral
M&T	\$ 1,023,052	\$ 1,032,615	\$ 250,000	\$ 797,910

The following is a summary of cash and cash equivalents as included in the statement of net position at December 31, 2013:

Bank	Book Balance	Bank Balance	FDIC Coverage	Pledged Collateral
M&T	902,602	\$ 902,331	\$ 250,000	\$ 665,021
Mid-Hudson Valley Federal Credit Union	5	5	250,000	-
	<u>\$ 902,607</u>	<u>\$ 902,336</u>		<u>\$ 665,021</u>

At December 31, 2014 and 2013, deposits of the Alliance were fully covered by federal depository insurance (FDIC) and by collateral held by the Bank in the Alliance's name.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Cash Equivalents (Continued):

The following represents the cash balances at December 31, 2014 and 2013 by fund:

Fund:	2014	2013
Operating Fund	\$ 123,074	\$ 97,036
CDBG Fund	422,961	352,060
Ready2Go Fund	200,181	200,014
USDA Intermediary Relending Program Loan Fund	94,076	83,847
Telecommunications Fund	151,121	144,150
Section 108	29,807	23,669
Revolving Loan Fund	1,832	1,831
Total	<u>\$ 1,023,052</u>	<u>\$ 902,607</u>

4. Property and Equipment:

A summary of property and equipment is as follows as of December 31, 2014 and 2013:

	Balance at 12/31/2013	Additions	Disposals	Balance at 12/31/2014
Equipment- grant related	\$ 352,485	\$ -	\$ -	\$ 352,485
Vehicle and office equipment	59,025	-	-	59,025
	411,510	-	-	411,510
Accumulated depreciation	(409,622)	(1,436)	-	(411,058)
Total property and equipment	<u>\$ 1,888</u>	<u>\$ (1,436)</u>	<u>\$ -</u>	<u>\$ 452</u>

	Balance at 12/31/2012	Additions	Disposals	Balance at 12/31/2013
Equipment- grant related	\$ 352,485	\$ -	\$ -	\$ 352,485
Vehicle and office equipment	59,025	-	-	59,025
	411,510	-	-	411,510
Accumulated depreciation	(408,120)	(1,502)	-	(409,622)
Total property and equipment	<u>\$ 3,390</u>	<u>\$ (1,502)</u>	<u>\$ -</u>	<u>\$ 1,888</u>

Depreciation expense was \$1,436 and \$1,502 during the years ended December 31, 2014 and 2013, respectively.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Loans Receivable:

During the year ended December 31, 2014, the Alliance loaned \$100,000 to a restaurant located in Ellenville, NY.

The total loan balance at December 31, 2014 and December 31, 2013 was comprised of 11 loans totaling \$787,824 and 13 loans totaling \$863,587, respectively. The loan balance at December 31, 2014 was comprised of 4 loans making up 66% of the loan balance and the loan balance at December 31, 2013 was comprised of 4 loans making up 71% of the loan balance.

A summary of changes to loan receivable balances for the year ended December 31, 2014 are as follows:

	Balance 12/31/13	New Loans	Payments	Balance 12/31/14
AmeriBag	\$ 102,858	\$ -	\$ 20,878	\$ 81,980
Bread Alone - CDBG	148,769	-	5,479	143,290
Breath Fitness	5,585	-	5,585	-
Falcon Music & Art	45,582	-	6,851	38,731
Global Palatte	2,713	-	2,713	-
Serra, LLC	28,773	-	4,605	24,168
Tuthillhouse	50,316	-	50,316	-
GAMEX, LLC	-	100,000	5,047	94,953
Gillette Creamery	214,405	-	45,287	169,118
Minard Farms	1,018	-	1,018	-
New World Catering	79,800	-	16,509	63,291
Bread Alone - Telecommunications	29,754	-	1,096	28,658
Oxlove Workshop	20,829	-	3,232	17,597
Bread Alone - USDA	119,015	-	4,383	114,632
Costas & Tate	14,170	-	2,764	11,406
	<u>\$ 863,587</u>	<u>\$ 100,000</u>	<u>\$ 175,763</u>	<u>\$ 787,824</u>

The allowance for loan losses activity during the year ended December 31, 2014 and was as follows:

Balance, beginning of year	\$ 34,543
Provision	13,771
Write-offs	-
Recoveries	-
Balance, end of year	<u>\$ 48,314</u>

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Loan Receivable (Continued):

A summary of changes to loan receivable balances for the year ended December 31, 2013 are as follows:

	Balance 12/31/12	New Loans	Payments	Balance 12/31/13
AmeriBag	\$ 122,747	\$ -	\$ 19,889	\$ 102,858
Bread Alone - CDBG	-	150,000	1,231	148,769
Breath Fitness	11,463	-	5,878	5,585
Falcon Music & Art	51,907	-	6,380	45,582
Global Palatte	9,365	-	6,658	2,713
Serra, LLC	33,311	-	5,230	28,773
Tuthillhouse	57,092	-	6,776	50,316
Gillette Creamery	330,000	-	115,595	214,405
Minard Farms	9,894	-	8,872	1,018
New World Catering	94,532	-	14,732	79,800
Bread Alone - Telecommunications	-	30,000	246	29,754
Oxclove Workshop	23,225	-	2,397	20,829
Bread Alone - USDA	-	120,000	985	119,015
Costas & Tate	16,654	-	2,484	14,170
	<u>\$ 760,190</u>	<u>\$ 300,000</u>	<u>\$ 197,353</u>	<u>\$ 863,587</u>

The allowance for loan losses activity during the year ended December 31, 2013 and was as follows:

Balance, beginning of year	\$ 30,500
Provision	6,155
Write-offs	(2,112)
Recoveries	-
Balance, end of year	<u>\$ 34,543</u>

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt:

The Alliance grants loans to businesses which are funded through Community Development Block Grants and the HUD Section 108 Loan Guarantee Program. The primary objective of the programs is to encourage business expansion and create employment within the County. Interest rates vary but are always below the prime lending rate. Loans are generally secured by liens on real property and security interests in other business assets:

Long term debt at December 31, 2014 and 2013 consisted of:

	2014	2013
<p>The Alliance administers through Ulster County loan guarantee assistance involving permanent and interim loans from the United States Department of Housing and Urban Development (HUD) under the Section 108 program. The Alliance pays Ulster County annual payments of \$13,000 plus interest based on the three month London Interbank Offered Rate (LIBOR) plus 20 basis points (.28% and .25% at December 31, 2014 and 2013, respectively.) The original loan dated August 1, 2008 was for \$130,000.</p>	\$ 52,000	\$ 65,000
<p>The Alliance administers loans from the USDA Intermediary Relending Program. The Alliance has been approved for a loan in the principal sum of \$600,000. The Alliance pays interest at 1%. Interest only payments are to be paid until 2015. Principal and interest will be paid in 4 equal annual installments beginning in February 2015 and one additional installment in February 2019. The annual installments, which include principal and interest, will be \$25,470 with a final installment of \$20,623. This payout schedule is based on the full \$600,000 being drawn despite only \$119,000 being drawn to date.</p>	119,000	119,000
Total:	171,000	184,000
Less current portion:	37,275	13,000
Long-Term Portion:	\$ 133,725	\$ 171,000

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Debt (Continued):

Maturities of long-term debt are as follows:

	2015	\$	37,275
	2016		37,523
	2017		37,768
	2018		38,016
	2019		20,418
Thereafter			-
		<u>\$</u>	<u>171,000</u>

7. Unearned Revenue:

Unearned revenue represents contributions received for the Ready2Go Fund during the year ended December 31, 2012 that have not yet been applied to shared costs or existing projects as of December 31, 2014 and 2013. The Ready2Go program will take as many as five development sites in Ulster County through site plan approval to get them permit ready. Property owners may use the program’s funds to offset the costs of obtaining site plan approval through the program, but will be required to reimburse the funds upon sale or upon refusal to sell to a buyer offering at least 90% of the permitted property’s appraised value. A committee of representatives from Central Hudson, the Ulster County Industrial Development Agency, the Ulster County Legislature, the Ulster County Planning Department, the Ulster County Executive’s Office, and Ulster County Economic Development Alliance, Inc. are responsible for reviewing the applications submitted by private owners and municipalities and overseeing the program. Ulster County Economic Development Alliance, Inc. acts as a fiscal agent for the project, including receiving, holding, and expending funds as well as generally administering the program in accordance with the program purpose. The unearned revenue represents \$148,000 received from Central Hudson and \$50,000 in matching funds received from the Ulster County Industrial Development Agency. The Ulster County Industrial Development Agency has also committed to an additional \$50,000 of matching funds. Costs shall be shared between private developers and funding provided by the Ready2Go Committee. Developers must contribute at least 50% of the project costs. Central Hudson’s contributions to each project shall not be more than 33.33% of the total project cost up to a maximum of \$30,000 per project. There was no activity in the Ready2Go Fund during the years ended December 31, 2014 and 2013.

8. Related Parties:

During the year ended December 31, 2013, the Alliance’s employees were assumed by Ulster County. Ulster County Economic Development Alliance, Inc. no longer has its own employees and recognizes no payroll expenses. Ulster County’s finance department has assumed the accounting responsibilities and the County’s Office of Business Services has assumed the administration of the Alliance. Donated services have not been reflected in these financial statements.

The Alliance had a due from Ulster County at December 31, 2013 for \$125,000. The due from of \$125,000 was from a 2012 performance based contract. The Alliance has a due from Ulster County at December 31, 2014 for \$150,000. The due from of \$150,000 is from a contract signed in December 2014 for the Alliance to provide marketing, education, support services, and program administration for Ulster County. During the year ended December 31, 2013, Ulster County contributed \$75,000 of professional services revenue to the Alliance which was subsequently granted to the Solar Energy Consortium during 2013. During the years ended December 31, 2014 and 2013, the Alliance paid rent of \$2,242 and \$3,363, respectively, to Ulster County.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE, INC.
(a blended component unit of Ulster County, New York)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Related Parties (Continued):

During the year ended December 31, 2013, the Alliance paid Ulster County Community College (a discretely presented component unit of Ulster County) \$10,116 for rent at their previous office location.

Prior to the year ended December 31, 2013, the Alliance had administered the Ulster County Industrial Development Agency (UCIDA) and Ulster County Capital Resource Corporation (UCCRC). As of January 1, 2013, Ulster County's Office of Business Services took over administering the UCIDA and UCCRC. The Alliance had \$5,000 of revenue from the UCIDA for marketing support during the year ended December 31, 2014. At December 31, 2014 and 2013, the unearned revenue balance includes \$50,000 from UCIDA and the Alliance had a receivable of \$928 and \$1,817, respectively, from UCIDA. The Alliance had a receivable balance from the Ulster County Capital Resource Corporation (UCCRC) of \$109 at December 31, 2013.

9. Restricted Net Position:

Restricted net position consists of the following at December 31, 2014 and 2013:

	2014	2013
Telecommunications Fund	\$ 196,552	\$ 193,582
Ready2Go Fund	765	598
Total Restricted Net Position	\$ 197,317	\$ 194,180

10. Commitments and Contingencies:

Government grants received are subject to audit and adjustment by the funding agency or its representatives. If grant revenues are received for expenditures which are subsequently disallowed, Ulster County Economic Development Alliance, Inc. may be required to repay the revenues to the funding agency. During 2005, it became apparent that certain terms of an agreement between the New York State Department of Economic Development and Ulster County Economic Development Alliance, Inc. for the purchase of equipment to benefit a local manufacturing corporation were not being entirely met. Under the terms of the agreement, the State has ceased advancing additional payments of this grant until all terms and conditions are satisfied. As of December 31, 2006, \$352,485 was advanced for the purchase of equipment against a total grant, not to exceed \$500,000. Per a letter from Empire State Development, dated January 16, 2007, the State had decided to cease the advance of further funds due to terms that were not being met in the contract. Ulster County Economic Development Alliance, Inc. was required to still maintain title of the equipment until the end of the term (March 15, 2014), but there is no current requirement to return any of the funds advanced for this project back to the State.



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**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***

Independent Auditors' Report

To the Board of Directors
Ulster County Economic Development Alliance, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ulster County Economic Development Alliance, Inc. as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Ulster County Economic Development Alliance, Inc.'s basic financial statements, and have issued our report thereon dated March 26, 2015.

Internal Control over Financial Reporting

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

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Ulster County Economic Development Alliance, Inc.'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*.

We noted certain matters that we have reported to management of Ulster County Economic Development Alliance in a separate letter dated March 26, 2015.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattison, Koskey, Howe & Bucci, CPAs, P.C.

Valatie, New York
March 26, 2015

SUPPLEMENTARY INFORMATION

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE
(a blended component unit of Ulster County, New York)
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
Year ended December 31, 2014

	<u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Revenues:			
Contract and fees	\$ 156,500	\$ 160,365	\$ 3,865
Contributions	50,000	-	(50,000)
Interest on deposits	600	630	30
Interest income - loans	20,000	35,427	15,427
Fundraising	5,000	5,000	-
Total revenues	232,100	201,422	(30,678)
Expenditures:			
Contractual expense	50,000	8,422	41,578
Professional fees	18,300	11,712	6,588
Occupancy - rent	6,800	2,242	4,558
Dues and subscriptions	12,000	10,350	1,650
Insurance	5,500	5,122	378
Marketing and advertising	155,000	101,716	53,284
Miscellaneous expenses	-	5	(5)
Office expense	4,650	4,880	(230)
Rental and maintenance of equipment	800	98	702
Bad debt expense	-	13,771	(13,771)
Depreciation	-	1,436	(1,436)
Interest expense	-	4,067	(4,067)
Total expenditures	253,050	163,821	89,229
Total revenues in excess/(in deficiency) of expenditures	\$ (20,950)	\$ 37,601	\$ 58,551

See independent auditors' report and notes to financial statements.

ULSTER COUNTY ECONOMIC DEVELOPMENT ALLIANCE
(a blended component unit of Ulster County, New York)
USDA Intermediary Relending Program Loan Fund
December 31, 2014 and 2013
SCHEDULES OF NET POSITION

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,076	\$ 83,847
Loans receivable, current portion	7,094	7,147
Total current assets	101,170	90,994
Loans receivable, less current portion	118,944	120,711
Total assets	\$ 220,114	\$ 211,705

LIABILITIES AND NET POSITION

Current liabilities:		
Due to CDBG fund	\$ -	\$ 1,534
Current portion note payable	24,275	-
Total current liabilities	24,275	1,534
Long-term portion of debt	94,725	119,000
Total liabilities	119,000	120,534
Net position:		
Unrestricted	101,114	91,171
Total liabilities and net position	\$ 220,114	\$ 211,705

SCHEDULES OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the years ended December 31, 2014 and 2013

Operating revenues:		
Late fees collected	\$ 183	\$ -
Interest on loans	5,587	1,821
Total revenue	5,770	1,821
Operating expenses:		
Bad debt expense	(5,327)	5,327
Operating income/(loss)	11,097	(3,506)
Non-operating revenues (expenses):		
Interest on deposits	36	66
Interest expense	(1,190)	(376)
Total non-operating loss	(1,154)	(310)
Change in net position	9,943	(3,816)
Net position, beginning	91,171	94,987
Net position, ending	\$ 101,114	\$ 91,171

See independent auditors' report and notes to financial statements.