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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Catskill Local Development Corporation
Catskill, New York

We have audited the accompanying statements of financial position of The Catskill Local Development Corporation (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 generally accepted auditing standards. 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 Catskill Local Development Corporation as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with generally accepted accounting principles.

Alexander Varga & Co.

March 24, 2012

THE CATSKILL LOCAL DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

| ASSETS | <u>2011</u> | <u>2010</u> |
|--|--------------------------|--------------------------|
| Current Assets | | |
| Cash | \$ 45,892 | \$ 13,042 |
| Loans Receivable - due within one year | <u>69,202</u> | <u>82,988</u> |
| Total Current Assets | <u>\$ 115,094</u> | <u>\$ 96,030</u> |
| Other Assets | | |
| Loans Receivable - due beyond one year | \$ 283,055 | \$ 280,221 |
| Less: Allowance for Uncollectible Loans | <u>(94,672)</u> | <u>-</u> |
| Loans Receivable - at Net Realizable Value | <u>\$ 188,383</u> | <u>\$ 280,221</u> |
| Total Assets | <u>\$ 303,477</u> | <u>\$ 376,251</u> |
| LIABILITIES AND NET ASSETS | | |
| Non-Current Liabilities | | |
| Unearned Closing Fee Income | <u>\$ 3,064</u> | <u>\$ 3,583</u> |
| Total Non-Current Liabilities | <u>\$ 3,064</u> | <u>\$ 3,583</u> |
| Net Assets | | |
| Unrestricted | <u>\$ 300,413</u> | <u>\$ 372,668</u> |
| Total Net Assets | <u>\$ 300,413</u> | <u>\$ 372,668</u> |
| Total Liabilities and Net Assets | <u>\$ 303,477</u> | <u>\$ 376,251</u> |

See Independent Auditor's Report and Notes to Financial Statements

THE CATSKILL LOCAL DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|--------------------|--------------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Support and Revenue | | |
| Grants | \$ 23,085 | \$ 1,955 |
| Interest Income - Loans | 3,561 | 5,148 |
| Interest Income - Banks | 178 | 358 |
| Closing Fee Income | <u>519</u> | <u>519</u> |
| Total Unrestricted Income | \$ 27,343 | \$ 7,980 |
| Expenses | | |
| Program Services | | |
| Community Development | \$ - | \$ 3,000 |
| Total Program Services | <u>\$ -</u> | <u>\$ 3,000</u> |
| Support Services | | |
| Consultants | \$ - | \$ 13,299 |
| Professional Fees | 2,732 | 1,901 |
| Insurance | 2,074 | 1,977 |
| Office and Miscellaneous | 120 | 75 |
| Provision for Uncollectible Loans | <u>94,672</u> | <u>-</u> |
| Total Support Services | <u>\$ 99,598</u> | <u>\$ 17,252</u> |
| Total Program and Support Services | <u>\$ 99,598</u> | <u>\$ 20,252</u> |
| INCREASE (DECREASE) IN NET ASSETS | \$ (72,255) | \$ (12,272) |
| NET ASSETS AT BEGINNING OF YEAR | <u>372,668</u> | <u>384,940</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 300,413</u> | <u>\$ 372,668</u> |

THE CATSKILL LOCAL DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (Decrease) in Net Assets | \$ (72,255) | \$ (12,272) |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities: | | |
| Non-Cash Expense: Provision for Uncollectible Loans | 94,672 | - |
| New Loans Issued | - | (61,028) |
| Principal Collected on Loans | 10,952 | 17,964 |
| Decrease in Unearned Closing Fee Income | <u>(519)</u> | <u>(770)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ 32,850 | \$ (56,106) |
| Net Change in Cash | \$ 32,850 | \$ (56,106) |
| Cash, Beginning of Year | <u>13,042</u> | <u>69,148</u> |
| Cash, End of Year | <u><u>\$ 45,892</u></u> | <u><u>\$ 13,042</u></u> |

THE CATSKILL LOCAL DEVELOPMENT CORPORATION

(SEE INDEPENDENT AUDITORS' REPORT)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

1. NATURE OF THE ORGANIZATION

The Catskill Local Development Corporation (the Organization) is a not-for-profit, public purpose corporation located in the Village of Catskill, New York. The Organization was incorporated in May 2004 under Sections 102 and 1411 of the New York State Not-For-Profit Law. The Organization was organized by the Catskill Village Board of Trustees in order to encourage economic development in the village of Catskill, including the attraction, development and retention of industry and business, and promotion of employment in the area.

The Organization serves as a sub-recipient (through the Village of Catskill) of various federal and state grants, including the Rural Business Enterprise Grant (RBEG) administered by the U.S. Rural Development Administration, and the Small Cities Grant administered by the N.Y.S. Office of Community Renewal.

The Organization operates a Microenterprise Revolving Loan Fund which offers loans to local business in order to expand. Loan criteria include preferences to business owners who meet certain income guidelines and that agree to increase employment levels.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

This summary of significant accounting policies is presented to assist in the understanding of the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

The following is a description of the significant accounting policies followed in the preparation of these financial statements.

Support and Expenses

Income and expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services

Unpaid volunteers have made contributions of their time to the Organizations' programs during the year; however, these donated services are not reflected in the financial statements.

Loans Receivable

Loans made under the Microenterprise Revolving Loan Fund program are recorded according to individual repayment schedules. No interest has been accrued on overdue balances, or balances in between due dates.

Allowance for Uncollectible Loans – Provision for Uncollectible Loans

In 2011 the Organization established an Allowance for Uncollectible Loans in order to reflect the likelihood that two loans will not be repaid. The Statement of Financial Position reports an Allowance for Uncollectible Loans in the amount of \$94,672 as a reduction of Loans Receivable. The Statement of Activities reports an expense called Provision for Uncollectible Loans in the amount of \$94,672.

Closing Fee Income - Unearned Closing Fee Income

Loans made under the Microenterprise Revolving Loan Fund program often include an additional amount financed to cover the Organizations' costs associated with the transaction. This income is amortized over the lives of the loans, typically ten years. The amount of closing fees that have yet to be recorded as income are recorded as a liability, "Unearned Closing Fee Income".

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

3. LOANS RECEIVABLE

As of December 31, 2011 the Organization has issued 13 loans to area businesses. These loans accrue interest at 3% per annum and are payable in monthly installments over 10 years, and are secured by liens on property and equipment. The original loan amounts range between \$10,000 and \$75,000.

Loans Receivable consisted of the following at December 31:

| | December 31, | |
|---|-------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Loans Receivable | \$ 352,257 | \$ 363,209 |
| Less: Amounts Due Within One Year | <u>(69,202)</u> | <u>(82,988)</u> |
| Loans Receivable Due Beyond One Year | \$ 283,055 | \$ 280,221 |
| Less: Allowance for Uncollectible Loans | <u>(94,672)</u> | <u>-</u> |
| Loans Receivable, at Net Realizable Value | <u>\$ 188,383</u> | <u>\$ 280,221</u> |

As of December 31, 2011 eight loans totaling \$261,003 were in default for lack of payment. Of this amount, two loans totaling \$94,672 were written off as Uncollectible. The Organization is still pursuing all available legal recourse to collect these amounts.