

LEWIS COUNTY DEVELOPMENT
CORPORATION AND SUBSIDIARY

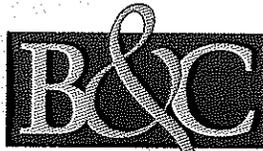
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

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**BOWERS & COMPANY
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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **LEWIS COUNTY DEVELOPMENT CORPORATION** (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lewis County Development Corporation and Subsidiary as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Lewis County Development Corporation and Subsidiary's 2012 consolidated financial statements, and our report dated April 29, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2014 on our consideration of Lewis County Development Corporation and Subsidiary'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 Lewis County Development Corporation and Subsidiary's internal control over financial reporting and compliance.

Bowers & Company

Watertown, New York
April 22, 2014

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2013 with Comparative Totals for 2012

ASSETS		
	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 187,515	\$ 245,289
Grants Receivable	230,387	25,319
Loans Receivable - Current Portion	53,409	25,772
Total Current Assets	<u>471,311</u>	<u>296,380</u>
PROPERTY AND EQUIPMENT		
Land and Land Improvements	247,208	35,392
Building	153,920	153,920
Total Property and Equipment	<u>401,128</u>	<u>189,312</u>
NON-CURRENT ASSETS		
Loans Receivable - Long Term Portion	21,155	73,834
Total Non-Current Assets	<u>21,155</u>	<u>73,834</u>
TOTAL ASSETS	<u>\$ 893,594</u>	<u>\$ 559,526</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 79,833	\$ 27,775
Accrued Interest Payable	3,000	3,000
Deferred Grant Revenue	15,256	87,826
Total Current Liabilities	<u>98,089</u>	<u>118,601</u>
NON-CURRENT LIABILITIES		
Deposits	10,000	10,000
Notes Payable	233,513	100,000
Total Non-Current Liabilities	<u>243,513</u>	<u>110,000</u>
Total Liabilities	<u>341,602</u>	<u>228,601</u>
NET ASSETS		
Unrestricted Net Assets	289,040	70,423
Temporarily Restricted Net Assets	0	2,275
Permanently Restricted Net Assets	262,952	258,227
Total Net Assets	<u>551,992</u>	<u>330,925</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 893,594</u>	<u>\$ 559,526</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013	2012
SUPPORT AND REVENUE					
Contributions	\$ 0	\$ 728	\$ 0	\$ 728	\$ 2,638
Grants and Contracts Earned	277,638	0	0	277,638	167,655
Rent	24,000	0	0	24,000	24,000
Interest	0	46	2,287	2,333	2,281
Net Assets Permanently Restricted	(2,438)	0	2,438	0	0
Net Assets Released					
From Temporary Restrictions	<u>3,049</u>	<u>(3,049)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Support and Revenue	<u>302,249</u>	<u>(2,275)</u>	<u>4,725</u>	<u>304,699</u>	<u>196,574</u>
EXPENSES					
Program Service					
Local Development	77,614	0	0	77,614	85,252
Supporting Service					
Management and General	<u>6,018</u>	<u>0</u>	<u>0</u>	<u>6,018</u>	<u>133</u>
Total Expenses	<u>83,632</u>	<u>0</u>	<u>0</u>	<u>83,632</u>	<u>85,385</u>
Change in Net Assets	218,617	(2,275)	4,725	221,067	111,189
Net Assets, Beginning of Year	<u>70,423</u>	<u>2,275</u>	<u>258,227</u>	<u>330,925</u>	<u>219,736</u>
Net Assets, End of Year	<u>\$ 289,040</u>	<u>\$ 0</u>	<u>\$ 262,952</u>	<u>\$ 551,992</u>	<u>\$ 330,925</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	Program Service Local Development	Management and General	Totals 2013	2012 (Summarized)
Grants Paid	\$ 46,740	\$ 0	\$ 46,740	\$ 49,933
Professional Fees	16,381	0	16,381	17,111
Fees and Permits	3,721	109	3,830	3,849
Conferences and Training	0	0	0	65
Occupancy	567	0	567	560
Insurance	6,371	5,836	12,207	9,718
Advertising, Postage and Printing	196	0	196	60
Repairs and Maintenance	629	0	629	632
Supplies	0	73	73	80
Fundraising	0	0	0	377
Interest	3,000	0	3,000	3,000
Miscellaneous	9	0	9	0
TOTAL FUNCTIONAL EXPENSES	\$ 77,614	\$ 6,018	\$ 83,632	\$ 85,385

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2013 with Comparative Totals for 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 221,067	\$ 111,189
(Increase) Decrease in Operating Assets:		
Grants Receivable	(205,068)	23,843
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	52,058	6,822
Deferred Grant Revenue	(72,570)	(137,856)
Deposits	0	10,000
Net Cash (Used In) Provided By Operating Activities	<u>(4,513)</u>	<u>13,998</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(211,816)	(35,392)
Loans Receivable Paid	0	(45,000)
Principal Received From Loans Receivable	25,042	23,572
Net Cash Used In Investing Activities	<u>(186,774)</u>	<u>(56,820)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Notes Payable	133,513	0
Net Cash Provided By Financing Activities	<u>133,513</u>	<u>0</u>
Net Decrease in Cash	(57,774)	(42,822)
Cash and Cash Equivalents, Beginning of Year	245,289	288,111
Cash and Cash Equivalents, End of Year	<u>\$ 187,515</u>	<u>\$ 245,289</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF OPERATIONS

Operations

The Lewis County Development Corporation (“LCDC”) was established in 2003 under the Not-for-Profit Corporation Law of the State of New York for the following purposes:

- To identify, research, fund, develop and manage projects, programs and business opportunities that will increase economic opportunities for Lewis County, New York (the “County”) and its residents;
- To revitalize and enhance business areas in the County;
- To stabilize and enhance the infrastructure of the County to include the utilization of new technologies;
- To recruit enterprises and businesses to the County;
- To provide education and research on the best practices for the economic development of the County;
- To preserve the cultural, historical, and natural resources of the County; and
- To expand economic development potential through collaboration and partnerships.

LCDC is a duly organized local development corporation formed under the New York State Not-for-Profit Corporation Law.

LCDC’s wholly owned subsidiary, Black Moose Development, LLC, was established in 2011 for the purposes of owning property in the Village of Lyons Falls, New York.

LCDC and Black Moose Development, LLC’s significant sources of operating revenues are from grant and contract revenue, rental revenue, interest received on loans issued, and contributions received.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of LCDC and its wholly owned subsidiary, Black Moose Development, LLC. All significant intercompany transactions and balances have been eliminated. LCDC and its Subsidiary are collectively referred to herein as the “Corporation”.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting

The Corporation's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, revenue is recognized when earned rather than received, and expenses are recognized when incurred, rather than when the obligation is paid.

Basis of Presentation

Financial statement presentation is in accordance with FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Organizations*. Under (ASC) 958-205, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

Equipment purchases are capitalized at cost and depreciated using the straight-line method over their estimated useful lives. Land held for sale and land improvements are capitalized at cost. Depreciation is not recorded on these assets since they have not been placed into service. The Corporation does not have a formal capitalization policy.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status

The Corporation is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision has been made for Federal or State taxes.

The Corporation has adopted the provisions of Financial Accounting Standards Board Codification, "*Income Taxes*." In determining the recognition of uncertain tax positions, the Corporation applies a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with taxing authorities.

The Corporation recognizes potential liabilities associated with anticipated tax audit issues that may arise during an examination. Interest and penalties that are anticipated to be due upon examination are recognized as accrued interest and other liabilities with an offset to interest and other expense. The Corporation analyzed its tax positions taken on their Federal and State tax returns for the open tax years 2010, 2011, and 2012. Based on this analysis, the Corporation determined that there were no uncertain tax positions and that the Corporation should prevail upon examination by the taxing authorities.

Bad Debts

The Corporation has elected not to establish a reserve for bad debts since all receivables are deemed collectible. An allowance will be established when an event occurs in the future that would necessitate a reserve.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2012, from which the summarized information was derived.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 3 – CASH

Cash held by the Corporation at December 31, 2013 and 2012 was adequately insured and collateralized.

NOTE 4 – PROPERTY AND EQUIPMENT

On January 10, 2011, Black Moose Development, LLC purchased property with a building on its premises on Center Street in the Village of Lyons Falls, New York. During the year ended December 31, 2012, the Corporation began work to rehabilitate this property. All costs to rehabilitate this property have been capitalized at cost. There is no depreciation recorded on the building or improvements for the years ended December 31, 2013 and 2012, because a substantial portion of the building and improvements have not been placed into service. This property was purchased using Lewis County Shovel Ready Industrial Development Program (Shovel Ready Program) grant funds. As a result, the County has a security interest in this property. The County has the right to reimbursement for the proceeds of the sale of any property purchased with Shovel Ready Program funds until such time as the grant program closes and all program requirements are satisfied.

NOTE 5 – REVOLVING LOAN FUND

During the year ended December 31, 2004, the Town of Lyonsdale, New York entered into a grant agreement with the New York State Housing Trust Fund Corporation under the Small Cities Program Community Development Block Grant to create a Lyonsdale Economic Assistance Program (LEAP) revolving loan fund. During the year ended December 31, 2008, after completing the initial round of loans and collecting all amounts receivable from borrowers, the Town of Lyonsdale, New York entered into a servicing agreement with LCDC to continue the revolving loan fund under LCDC's administration. Under this agreement the Town of Lyonsdale, New York transferred \$257,371 of its Small Cities Community Development Block Grant to LCDC. Interest earned on these funds is to be capitalized into the program and is recorded as permanently restricted net assets. Principal amounts loaned out are deducted from the balance of deferred revenue and recognized as permanently restricted revenue in the period loaned. Interest earned on loans receivable is also capitalized into the program as permanently restricted revenues. Deferred revenue associated with funds not yet loaned at December 31, 2013 and 2012 totaled 15,065 and 15,065, respectively.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 5 – REVOLVING LOAN FUND - Continued

Loans outstanding under this servicing agreement are as follows at December 31,:

	2013	2012
<p>On February 5, 2009, the Town of Lyonsdale, New York entered into a loan agreement under the LEAP revolving loan fund with TMT BioFuels, LLC. LCDC is named as the agent for the Town of Lyonsdale, New York, and is responsible for administering the loan. The original amount of the loan was \$122,306. The loan is payable over five years at an interest rate of 3.25% at a monthly amount of \$1,459, beginning March 2009 and maturing on January 1, 2014. If TMT BioFuels, LLC meets certain job creation goals, \$41,584 of the total loan will be forgiven upon maturity.</p>	\$ 44,491	\$ 61,608
<p>On February 14, 2012, the Town of Lyonsdale, New York entered into a loan agreement under the LEAP revolving loan fund with Boondocks of Lyons Falls, Inc. LCDC is named as the agent for the Town of Lyonsdale, New York and is responsible for administering the loan. The original amount of the loan was \$45,000. The loan is payable over five years at an interest rate of 3.25% at a monthly amount of \$814, beginning March 2012 and maturing February 28, 2017.</p>	30,073	37,998
<p>During the year ended December 31, 2012, the Corporation entered into an agreement approved by the Town of Lyonsdale, New York to use \$75,000 of the funds granted to the Corporation under the LEAP revolving Loan Fund to cover operating expenses for local development. Under the terms of this agreement the Corporation must contribute cash to the Corporation's LEAP revolving loan fund in the amount of \$99,375. This amount represents what a third party would be required to pay back to the Corporation under the same terms of the agreement.</p>	0	0
<p>Total</p>	<u>\$ 74,564</u>	<u>\$ 99,606</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 6 – NOTES PAYABLE

The Corporation had notes payable as follows at December 31,:

	2013	2012
<p>A note and mortgage dated May 10, 2011 in the amount of \$100,000. The mortgage created a lien on real estate located in the Village of Lyons Falls, New York. The value of all property and equipment subject to this lien at December 31, 2013 and 2012 was \$401,128 and \$189,312, respectively. Annual payments of interest only at 3.00% commenced on May 10, 2012 and will continue through April 10, 2016. Monthly installments of approximately \$833 plus interest will commence on May 10, 2016 and will continue through the maturity date of April 10, 2026.</p>	\$ 100,000	\$ 100,000
<p>A note dated September 13, 2012 in the amount of \$330,000 from the Development Authority of the North Country. The note is secured by the property owned by Black Moose Development, LLC. The value of all property and equipment subject to this lien at December 31, 2013 and 2012 was \$401,128 and \$189,312, respectively. Monthly payments of interest only at 1.50% commenced on October 1, 2013 and will continue through the maturity date of February 18, 2015.</p>	133,513	0
<p>Total</p>	<u>\$ 233,513</u>	<u>\$ 100,000</u>

Maturities of long-term debt over the next five years are estimated as follows:

2014	\$ 0
2015	133,513
2016	6,667
2017	10,000
2018	10,000
Thereafter	<u>73,333</u>
Total	<u>\$ 233,513</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 7 – DEFERRED GRANT REVENUE

On August 15, 2008, LCDC entered into an agreement with the County. In exchange for services to be provided by LCDC to the County, the County shall pay LCDC a total sum of \$100,000. As of December 31, 2013 and 2012, the amount of deferred revenue associated with this agreement was \$191 and \$22,761, respectively. Revenue is recognized from this agreement when LCDC recognizes economic development expenses unrelated to other grants programs.

On July 30, 2009, LCDC entered into an agreement with the County. Through this agreement, LCDC received \$100,000 of program income funds to create the Shovel Ready Program. The agreement commenced March 1, 2009 and will continue through February 28, 2014. Program funds are recognized as revenue when expended or loaned under the terms of the agreement. Income from program funds is to be used to capitalize the program and is recorded as temporarily restricted net assets. As of December 31, 2013 and 2012, the amount of deferred revenue associated with this agreement was \$0 and \$50,000, respectively.

NOTE 8 – RESTRICTIONS ON NET ASSETS

The Corporation's net assets are temporarily restricted for unexpended contributions received for the Croghan Dam Rehabilitation Project as of December 31, 2013 and 2012, for \$0 and \$215, respectively. The Corporation's net assets were temporarily restricted for interest earned on cash associated with deferred revenue that is required to be capitalized into the Shovel Ready Program as of December 31, 2013 and 2012, for \$0 and \$2,060, respectively. The funds associated with the Shovel Ready Program must be used to either purchase property to be used for economic development or to provide loans to encourage economic development.

NOTE 9 – GRANTS AND CONTRACTS EARNED

The Corporation recognized grant and contract revenue during the year ended December 31, 2013 as follows:

United States Department of Agriculture Rural Business Enterprise Grant for Rehabilitation of the Croghan Dam	\$ 45,358
County of Lewis, New York Shovel Ready Grant for Rehabilitation of the Lyons Falls Paper Mill	50,000

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 9 – GRANTS AND CONTRACTS EARNED - Continued

Empire State Development Fund Incentive Award for Rehabilitation of the Lyons Falls Paper Mill	159,710
County of Lewis, New York Service Agreement for Local Development	<u>22,570</u>
Total	<u>\$ 277,638</u>

NOTE 10 – ADVERTISING

The Corporation uses advertising to notify the public of grant opportunities and to make public announcements. Advertising costs are expensed as incurred.

NOTE 11 – CASH FLOW INFORMATION

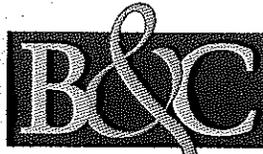
Cash paid for interest was as follows for the years ended December 31,:

	2013	2012
Interest	<u>\$ 3,000</u>	<u>\$ 3,000</u>

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 22, 2014 which is the date the consolidated financial statements were available to be issued.

The Corporation was awarded a \$1,000,000 grant from Empire State Development in 2012 for the demolition and removal of contaminants at the Lyons Falls Paper Mill. In January 2014 the Corporation entered into a loan agreement with the Development Authority of the North Country for a maximum of \$500,000 and an agreement to receive a local matching contribution totaling \$450,000 from Northbrook Lyons Falls, LLC to finance the work to be performed under this grant.



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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

BOARD OF DIRECTORS

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

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 consolidated financial statements of Lewis County Development Corporation (a nonprofit organization) and Subsidiary, which comprise the consolidated statement of financial position for the year then ended December 31, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lewis County Development Corporation and Subsidiary'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lewis County Development Corporation and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Lewis County Development Corporation and Subsidiary'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 Corporation's consolidated 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 the 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. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Preparation of Financial Statements

In accordance with accounting standard SAS 115, should management choose to allow the auditors to prepare the Corporation's consolidated financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the consolidated financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare consolidated financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with the knowledge and ability to prepare the consolidated financial statements or hiring another accountant to prepare the consolidated financial statements before the audit commences.

Management has decided the cost of implementing the control outweighs the benefit to be gained.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lewis County Development Corporation and Subsidiary's consolidated 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 consolidated 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*.

Lewis County Development Corporation and Subsidiary's Response to Findings

Lewis County Development Corporation and Subsidiary's response to the finding identified in our audit is described in this letter. Lewis County Development Corporation and Subsidiary's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burns & Company

Watertown, New York
April 22, 2014