

LEWIS COUNTY DEVELOPMENT
CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

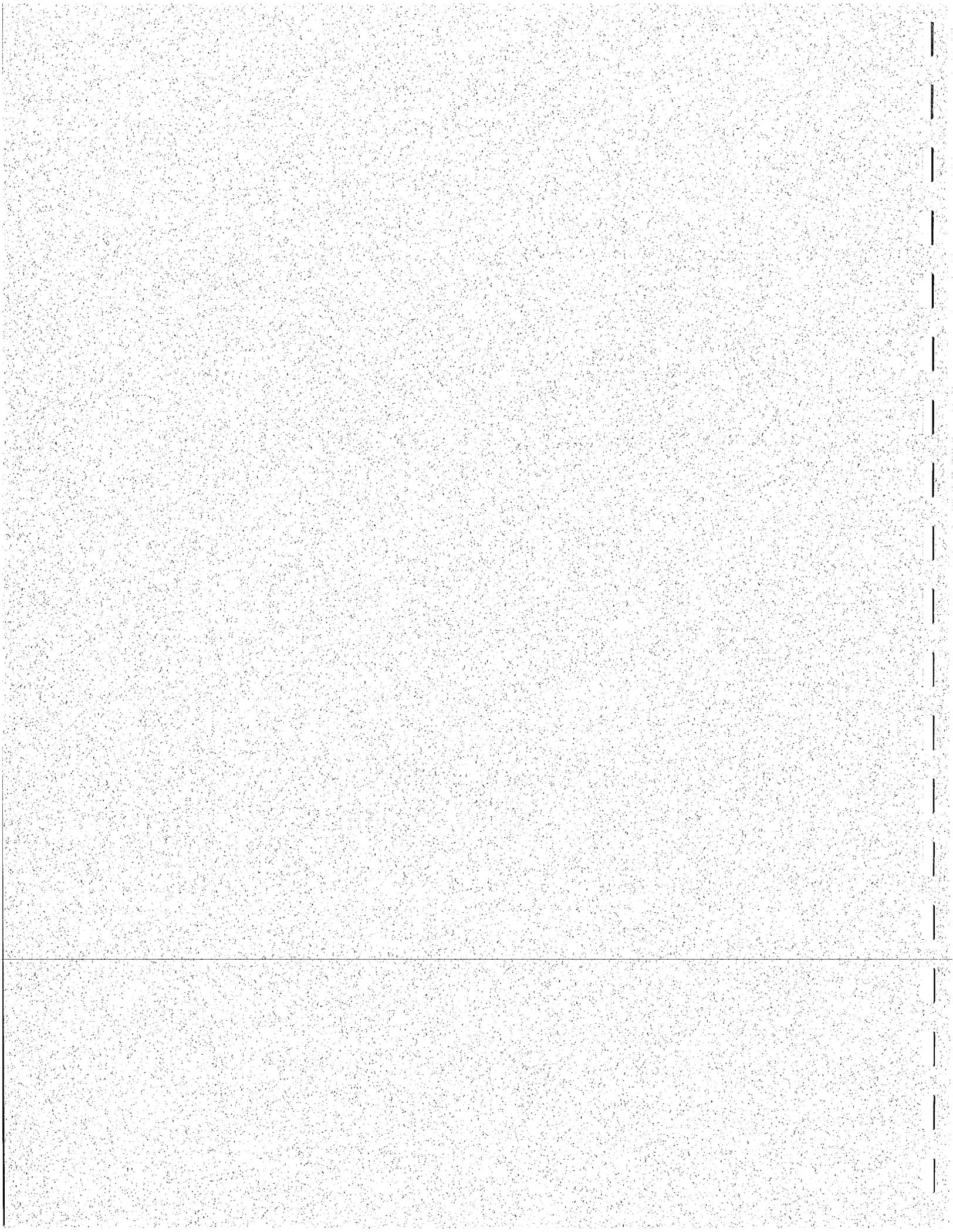


Table of Contents

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

INDEPENDENT AUDITORS' REPORT	1
AUDITED FINANCIAL STATEMENTS	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENT OF ACTIVITIES	4
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	7
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 <i>GOVERNMENT AUDITING STANDARDS</i>	15



BOWERS & COMPANY CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, consolidated functional expenses, and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 entity'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 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 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 as of December 31, 2014, 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 the Lewis County Development Corporation's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, 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 3, 2015, on our consideration of Lewis County Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.

Barnes & Company

Watertown, New York
April 3, 2015

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY
AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2014 with Comparative Totals for 2013

	ASSETS	
	2014	2013
CURRENT ASSETS		
Cash	\$ 386,115	\$ 187,515
Grants Receivable	994,542	230,387
Loans Receivable - Current Portion	50,760	53,409
Total Current Assets	1,431,417	471,311
PROPERTY AND EQUIPMENT		
Land and Land Improvements	1,333,992	247,208
Building	115,440	153,920
Total Property and Equipment	1,449,432	401,128
NON-CURRENT ASSETS		
Loans Receivable - Long Term Portion	11,943	21,155
Total Non-Current Assets	11,943	21,155
TOTAL ASSETS	\$ 2,892,792	\$ 893,594
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 134,828	\$ 79,833
Retainage Payable	42,761	-
Accrued Interest Payable	8,572	3,000
Deferred Grant Revenue	15,065	15,256
Total Current Liabilities	201,226	98,089
NON-CURRENT LIABILITIES		
Deposits	10,000	10,000
Notes Payable	880,475	233,513
Total Non-Current Liabilities	890,475	243,513
Total Liabilities	1,091,701	341,602
NET ASSETS		
Unrestricted Net Assets	1,534,817	289,040
Permanently Restricted Net Assets	266,274	262,952
Total Net Assets	1,801,091	551,992
TOTAL LIABILITIES AND NET ASSETS	\$ 2,892,792	\$ 893,594

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2014 with Summarized Totals for 2013

	Unrestricted	Permanently Restricted	2014	2013 (Summarized)
SUPPORT AND REVENUE				
Contributions	\$ 489,652	\$ -	\$ 489,652	\$ 728
Grants and Contracts Earned	814,049	-	814,049	277,638
Rent	24,000	-	24,000	24,000
Interest	-	884	884	2,333
Loss on Disposal of Property	(38,480)	-	(38,480)	-
Net Assets Permanently Restricted	<u>(2,438)</u>	<u>2,438</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,286,783</u>	<u>3,322</u>	<u>1,290,105</u>	<u>304,699</u>
EXPENSES				
Program Service				
Local Development	23,058	-	23,058	77,614
Supporting Service				
Management and General	<u>17,948</u>	<u>-</u>	<u>17,948</u>	<u>6,018</u>
Total Expenses	<u>41,006</u>	<u>-</u>	<u>41,006</u>	<u>83,632</u>
Change in Net Assets	1,245,777	3,322	1,249,099	221,067
Net Assets, Beginning of Year	<u>289,040</u>	<u>262,952</u>	<u>551,992</u>	<u>330,925</u>
Net Assets, End of Year	<u>\$ 1,534,817</u>	<u>\$ 266,274</u>	<u>\$ 1,801,091</u>	<u>\$ 551,992</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014 with Summarized Totals for 2013

	Program Service Local Development	Management and General	Totals 2014	Totals 2013 (Summarized)
Grants Paid	\$ -	\$ -	\$ -	\$ 46,740
Professional Fees	502	11,471	11,973	16,381
Fees and Permits	2,916	-	2,916	3,830
Occupancy	1,324	-	1,324	567
Insurance	5,836	6,366	12,202	12,207
Advertising, Postage and Printing	114	111	225	196
Repairs and Maintenance	3,794	-	3,794	629
Supplies	-	-	-	73
Interest	8,572	-	8,572	3,000
Miscellaneous	-	-	-	9
TOTAL FUNCTIONAL EXPENSES	\$ 23,058	\$ 17,948	\$ 41,006	\$ 83,632

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2014 with Comparative Totals for 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,249,099	\$ 221,067
(Increase) Decrease in Operating Assets:		
Grants Receivable	(764,155)	(205,068)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	54,995	52,058
Retainage Payable	42,761	-
Accrued Interest Payable	5,572	-
Deferred Grant Revenue	(191)	(72,570)
Deposits	-	-
Net Cash Provided By (Used In) Operating Activities	<u>588,081</u>	<u>(4,513)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,086,784)	(211,816)
Loss on Disposal of Property	38,480	-
Principal Received From Loans Receivable	11,861	25,042
Net Cash Used In Investing Activities	<u>(1,036,443)</u>	<u>(186,774)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Notes Payable	646,962	133,513
Net Cash Provided By Financing Activities	<u>646,962</u>	<u>133,513</u>
Net Increase (Decrease) in Cash	198,600	(57,774)
Cash, Beginning of Year	187,515	245,289
Cash, End of Year	<u>\$ 386,115</u>	<u>\$ 187,515</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 1 – NATURE OF OPERATIONS

Lewis County Development Corporation (the “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, 2014 with Comparative Totals for 2013

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, 2014 with Comparative Totals for 2013

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 2011, 2012, and 2013. 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, 2013, from which the summarized information was derived.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 3 – CASH

Cash held by the Corporation at December 31, 2014 and 2013 of \$6,572 and \$0, respectively, was not insured or 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, 2014 and 2013, 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, 2014 and 2013 totaled 15,065 and 15,065, respectively.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 5 – REVOLVING LOAN FUND - Continued

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

	2014	2013
<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. At December 31, 2014 TMT BioFuels, LLC had not met its job creation goals. The Corporation is in the process of exercising its collection rights over the remaining balance.</p>	\$ 41,548	\$ 44,491
<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>	21,155	30,073
<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>	-	-
Total	<u>\$ 62,703</u>	<u>\$ 74,564</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 6 – NOTES PAYABLE

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

	2014	2013
<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, 2014 and 2013 was \$1,496,861 and \$401,128, respectively. Interest accrues monthly at 1.50%. Repayment will occur when related grant funding is received.</p>	323,749	133,513
<p>A note dated January 7, 2014 in the amount of \$500,000 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, 2014 and 2013 was \$1,496,861 and \$401,128, respectively. Interest accrues monthly at 1.50%. Repayment is due July 7, 2015 or when grant funding is received, whichever occurs first.</p>	456,726	-
<p>Total</p>	<u>\$ 880,475</u>	<u>\$ 233,513</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 6 – NOTES PAYABLE - Continued

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

2014	\$ 780,475
2015	6,667
2016	10,000
2017	10,000
2018	10,000
Thereafter	<u>63,333</u>
Total	<u>\$ 880,475</u>

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, 2014 and 2013, the amount of deferred revenue associated with this agreement was \$0 and \$191, respectively. Revenue is recognized from this agreement when LCDC recognizes economic development expenses unrelated to other grants programs.

NOTE 8 – GRANTS AND CONTRACTS EARNED

The Corporation recognized grant and contract revenue during the year ended December 31, 2014 as follows:

County of Lewis, New York Grant for Rehabilitation of the Lyons Falls Paper Mill	\$ 100,000
Empire State Development Fund Incentive Award for Rehabilitation of the Lyons Falls Paper Mill	713,858
County of Lewis, New York Service Agreement for Local Development	<u>191</u>
Total	<u>\$ 814,049</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals for 2013

NOTE 9 – ADVERTISING

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

NOTE 10 – CONTINGENCY

The Corporation has a grant receivable from Empire State Development in the amount of \$330,000 at December 31, 2014. The full amount of the original award was recorded as grants receivable, but is ultimately subject to final approval by Empire State Development. The Corporation's management believes the entire \$330,000 will be realized upon final determination by Empire State Development.

The Corporation has been named in a notice of claim. Although the outcome of this claim is not presently determinable, in the opinion of management, the resolution of this matter will not have a material adverse effect on the Corporation's financial position, results of operations, or cash flows.

NOTE 11 – CASH FLOW INFORMATION

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

	2014	2013
Interest	<u>\$ 3,000</u>	<u>\$ 3,000</u>

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 3, 2015 which is the date the consolidated financial statements were available to be issued.



BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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 financial statements of Lewis County Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lewis County Development Corporation'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 Lewis County Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Lewis County Development Corporation'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.

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 in the accompanying schedule of findings and responses that we consider to be a significant deficiency. 2014-01.

Compliance and Other Matters

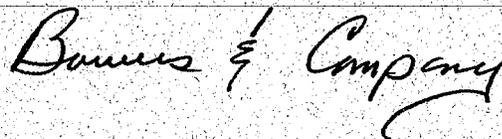
As part of obtaining reasonable assurance about whether Lewis County Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

Lewis County Development Corporation's Response to Findings

Lewis County Development Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Lewis County Development Corporation's response was not subjected to the auditing procedures applied in the audit of the 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Watertown, New York
April 3, 2015

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2014

Significant Deficiency

2014-01 Preparation of Financial Statements

Condition: Management chooses to have the auditor prepare the financial statements, including full footnote disclosures, instead of preparing the financial statements themselves.

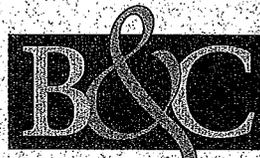
Criteria: The preparation of the financial statements by an auditor may be considered an internal control deficiency.

Cause: The Corporation does not have the resources to apply nonprofit generally accepted accounting principles in preparing the financial statements.

Effect: While it is a common practice for the auditor to prepare the financial statements; management's choice to have the auditor prepare the financial statements is a significant deficiency.

Recommendation: An appropriate control could be hiring additional staff with the resources to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

Response: The Corporation will continue to have the CPA firm prepare the financial statements. There would be no benefit to preparing the statements internally, and the cost would be prohibitive.



BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

April 3, 2015

To the Board of Directors
Lewis County Development Corporation

We have audited the financial statements of Lewis County Development Corporation for the year ended December 31, 2014, and have issued our report thereon dated April 3, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 11, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lewis County Development Corporation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the Empire State Development grant receivable is based on collectability from Empire State Development. We evaluated the key factors and assumptions used to develop the collectability from Empire State Development in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of contingency in Note 10 to the financial statements discusses the grant receivable from Empire State Development.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following schedule of material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 3, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Lewis County Development Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Burns & Company

Client: 4000975-1000 - Lewis County Development Corporation
 Engagement: 2014 - Lewis County Development Corporation
 Period Ending: 12/31/2014
 Trial Balance: 01-02.01 - Lewis County TB Database
 Workpaper: 01-03.01 - Lewis County Adjusting Journal Entries Report

Account	Description	Debit	Credit
---------	-------------	-------	--------

Adjusting Journal Entries JE # 1

To adjust beginning balances per prior period audit

1050-1	Investment in Black Moose LLC	6,404.00	
1202-1	Grant Receivable	235,029.00	
1203-1	Grant Receivable - USDA	86,238.00	
2009-1	DANC Short Term 330,000	59,643.00	
3002-1	Temporarily Restricted Net Asse	2,275.00	
32000	Unrestricted Net Assets	139,816.00	
1202	Grant Receivable		25,319.00
20000	Accounts Payable		1,586.00
3001-1	Unrestricted Fund Balance		247,310.00
3003-1	Restricted Fund Balance		4,725.00
3004-1	Unrestricted Fund Balance		250,465.00
Total		529,405.00	529,405.00

Adjusting Journal Entries JE # 2

To reverse prior year accounts payable accrual, adjust for voided check recorded to accounts payable and to record current year accounts payable per the search for unrecorded liabilities

1000-1	General Checking Community	2,539.00	
5003-1-M	Legal Fees	513.00	
5007-1-M	Postage & Shipping	10.00	
5010-1-M	Accounting Fees	1,305.00	
5300-L	Mill Project - Other	10,660.00	
5301-L	Village Of LF Project Mgmt	2,638.00	
5302-L	Demolition - Phase 1	109,487.00	
5303-L	Demolition Environmental	10,214.00	
20000	Accounts Payable		57,533.00
5304-L	Mill Project Engineering		79,833.00
Total		137,366.00	137,366.00

Adjusting Journal Entries JE # 3

To record retainage payable on contracts

5302-L	Demolition - Phase 1	42,761.00	
20001	Retainage Payable		42,761.00
Total		42,761.00	42,761.00

Adjusting Journal Entries JE # 4

To reclassify loan balances by loan and accrue interest expense

2009-1	DANC Short Term 330,000	234,295.00	
5025-1-L	Interest	5,572.00	
2007-1	Accrued Interest Payable		5,572.00
2009-2	DANC Financing - Phase 2		234,295.00
Total		<u>239,867.00</u>	<u>239,867.00</u>

Adjusting Journal Entries JE # 7

To record grant revenue and related receivable

1202-1	Grant Receivable	759,513.00	
4000-2	Contributions - Kruger		45,655.00
4009-1	Grants & Contracts Earned		713,858.00
Total		<u>759,513.00</u>	<u>759,513.00</u>

Adjusting Journal Entries JE # 8

To record income from investment in Black Moose Development, LLC

1050-1	Investment in Black Moose LLC	1,055,424.00	
4010-1	Income from Investments		1,055,424.00
Total		<u>1,055,424.00</u>	<u>1,055,424.00</u>

Adjusting Journal Entries JE # 9

To reclassify revenue earned during the year from deferred revenue and to

1202-1	Grant Receivable	50,000.00	
2001-1	Lewis County Service Contract	191.00	
2001-2	Lewis County Contract 2013	50,000.00	
4002-1	Lewis County Service Contract		191.00
4011-1	County of Lewis, New York Grant Revenue		100,000.00
Total		<u>100,191.00</u>	<u>100,191.00</u>

Client: **4000975-1000 - Lewis County Development Corporation**
 Engagement: **2014 - Lewis County Development Corporation**
 Period Ending: **12/31/2014**
 Trial Balance: **02-02.01 - Black Moose TB Database**
 Workpaper: **02-03.01 - Black Moose Adjusting Journal Entries Report**

Account	Description	WIP Ref	Debit	Credit
Adjusting Journal Entries JE # 1		01-X01		
To record grant revenue and related land improvements from grants passed through LCDC.				
1050-2	Land Improvements		1,086,784.00	
6020-2	Grants			1,086,784.00
Total			1,086,784.00	1,086,784.00
Adjusting Journal Entries JE # 2		02-101		
To record disposal of buildings.				
6030-2	Loss on Disposal of Property and Equipment		38,480.00	
1040-2	Building			38,480.00
Total			38,480.00	38,480.00

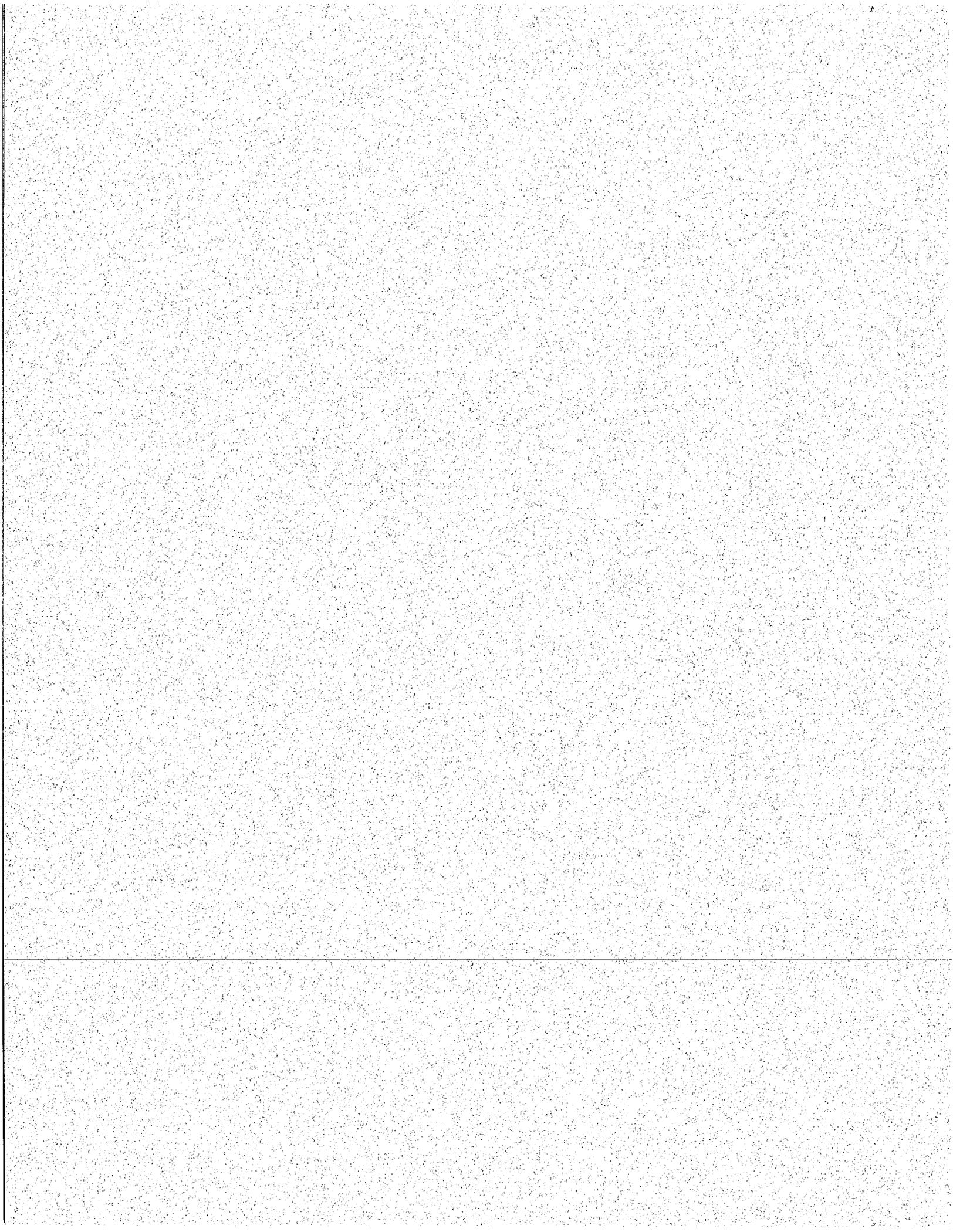
Client: 4000975-1000 - Lewis County Development Corporation
 Engagement: 2014 - Lewis County Development Corporation
 Period Ending: 12/31/2014
 Trial Balance: RP 02.01 - Cons TB Database
 Workpaper: RP 05.01 - Eliminating Journal Entries Report

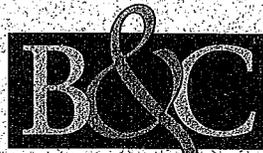
Account	Description	W/P Ref	Debit	Credit
Eliminating Journal Entries JE # 1		01-X01		
To eliminate grant related intercompany revenues/expenses.				
X01-X110	Grants and Contracts Earned		1,086,784.00	
Y01-Y100	Grants Paid			1,086,784.00
Total			1,086,784.00	1,086,784.00
Eliminating Journal Entries JE # 2		01-W01		
To eliminate intercompany balances.				
W-W01	Unrestricted Net Asstes		318,957.00	
X01-X130	Income from Investments		1,055,424.00	
B-B01	Investments			1,374,381.00
Total			1,374,381.00	1,374,381.00

LEWIS COUNTY DEVELOPMENT
CORPORATION AND SUBSIDIARY

MANAGEMENT COMMENTS

December 31, 2014





BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

April 3, 2015

**TO THE BOARD OF DIRECTORS OF
LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY**

In planning and performing our audit of the consolidated financial statements of **LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY** as of and for the year ended December 31, 2014, 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, we considered Lewis County Development Corporation and Subsidiary's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 3, 2015, on the consolidated financial statements of Lewis County Development Corporation and Subsidiary.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Corporation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bowers & Company

Approval of Bank Reconciliations

Throughout the bank reconciliation process, it is important to maintain adequate internal controls. These controls include having a person other than the person who reconciles the bank account receive and review the bank statement as well as having the bank reconciliation reviewed in a timely fashion. We recommend assigning an individual to receive and review the statement before it is reconciled by the Bookkeeper. In addition, once the reconciliation is complete, we recommend that it be approved reviewed and approved by an individual other than the Bookkeeper.

Grants

Under the Lyonsdale Economic Assistance Program the Corporation is required to maintain a revolving loan fund. Although principal and interest returned to the Corporation from loans made under this agreement are essentially defederalized, and no longer required to follow the federal Community Development Block Grant program requirements, the original agreement creating a revolving loan fund with the Town of Lyonsdale, New York is still in effect. We recommend that the Corporation create a process to track this revolving loan fund to ensure the program is adequately funded for future loan activities. Additionally, we recommend the Corporation work with the Town of Lyonsdale, New York to contact the appropriate State agency to determine if there are any allowable alternative uses for these funds and if any contract amendments are necessary to allow for these uses.

Under the Lyonsdale Economic Assistance Program the Corporation is required to capitalize any interest earned on bank or loan balances associated with these funds into the respective programs. We recommend the Corporation adopt a process to track interest earned on these program funds and ensure any restrictions on these funds are appropriately recorded.

Form 1099

We noted that the Corporation did not issue any Forms 1099 for the calendar year ended December 31, 2014. We recommend the Corporation review its policy for identifying vendors required to receive a Form 1099 at the end of each calendar year. This is to ensure all required parties are properly identified and issued the necessary forms.
