NIAGARA COUNTY
INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2015

NIAGARA COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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December 31, 2015

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Niagara County Industrial Development Agency

We have audited the accompanying balance sheet of Niagara County Industrial Development Agency (the Agency), a business-type activity, as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2015, and the changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle
As described in Note 2 to the financial statements, the Agency adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* Our opinion is not modified with respect to this item.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying supplementary information as listed in the table of contents, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information including the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 April 13, 2016 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

April 13, 2016

BACKGROUND

Niagara County Industrial Development Agency (NCIDA) is a not-for-profit public benefit corporation established in 1972 by the County Legislature. Under the provisions of the New York Industrial Development Agency Act, NCIDA is empowered to actively attract and develop economically sound commerce and industry, thereby fostering job opportunities, general prosperity, and economic welfare for all residents of Niagara County (the County). As a public benefit corporation, NCIDA is required to comply with accounting standards issued by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, NCIDA is required to present management's discussion and analysis (MD&A) to assist readers in understanding NCIDA's financial performance.

At the time of its creation, the primary economic development tool of NCIDA was the industrial revenue bond. Throughout the years, NCIDA received various grants from the U.S. Department of Housing and Urban Development (HUD) to establish revolving loan funds. The loan funds grew as additional grants from the U.S. Economic Development Administration and other sources helped to further capitalize it in ensuing years. NCIDA utilizes its resources to plan, implement, and support economic development within the County by promoting the stability and growth of the County's present business base, supporting the retention and creation of jobs, establishing regional and international collaborations, and attracting capital investment and new business ventures.

Niagara County Development Corporation (NCDC) was organized March 27, 1984 as a local development corporation to promote economic growth and business prosperity in the County. NCDC's function is to make loans at favorable interest rates to businesses located within the County, thus encouraging startup of new businesses and relocation and expansion of existing businesses within the County. NCDC had not engaged in financial activities from the date of its incorporation, March 27, 1984, until November 21, 1991, when certain assets were transferred to it by NCIDA. In accordance with accounting standards, NCDC is considered a blended component unit of NCIDA. NCDC also has separate audited financial statements for the year ended December 31, 2015 that express an unmodified opinion.

Niagara Area Development Corporation (NADC), a local development corporation, was organized on September 12, 2011 to undertake and promote economic development initiatives in the County. The Legislature appointed the NCIDA Board as the NADC Board. NADC is empowered to issue industrial revenue bonds for the benefit of not-for-profit organizations. The bonds are not obligations of NADC, NCIDA, nor New York State. Neither NADC nor NCIDA record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange financing between the borrowing companies and the bondholders. Funds arising from these agreements are controlled by trustees or banks acting as fiscal agents. For providing this service, NADC receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds. NADC has entered into an administrative agreement with NCIDA which requires that all fees generated by NADC be remitted to NCIDA. In accordance with accounting standards, NADC is considered a blended component unit of NCIDA.

As management of NCIDA and its component units, NCDC and NADC, we offer the readers of NCIDA's financial statements this narrative overview and analysis of the financial activities of NCIDA for the year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with NCIDA's audited financial statements.

FINANCIAL ANALYSIS OF NCIDA

Overview of the Financial Statements

The financial statements in this annual report are those of a special-purpose government and its component units. The following statements are included:

- Balance Sheets - report NCIDA's current and long-term financial resources with capital assets and long-term debt obligations.

- Statements of Revenues, Expenses, and Changes in Net Position - report NCIDA's operating and nonoperating revenues by major source, along with operating and nonoperating expenses.

- Statement of Cash Flows - reports NCIDA's cash flows from operating, capital and related financing, and investing activities.

The following table summarizes NCIDA's balance sheets at December 31, 2015 and 2014:

			Change	
	2015	**2014**	**$**	**%**
Current assets	**$ 4,252,000**	$ 4,393,000	$ (141,000)	-3.2%
Noncurrent assets	**5,294,000**	5,625,000	(331,000)	-5.9%
Deferred outflows of resources	**63,000**	-	63,000	100.0%
Total assets and deferred outflows of resources	**$ 9,609,000**	$ 10,018,000	$ (409,000)	-4.1%
Current liabilities	**$ 266,000**	$ 369,000	$ (103,000)	-27.9%
Noncurrent liabilities	**41,000**	-	41,000	100.0%
Total liabilities	**307,000**	369,000	(62,000)	-16.8%
Total net position	**9,302,000**	9,649,000	(347,000)	-3.6%
Total liabilities and net position	**$ 9,609,000**	$ 10,018,000	$ (409,000)	-4.1%

Current assets decreased by $141,000 primarily due to a decrease in cash. The decrease is primarily a result of operating losses incurred during 2015 as shown on the following page.

- Noncurrent assets decreased by $331,000 due to the net decrease in noncurrent loans receivable of $132,000 and a decrease in capital assets of $199,000. The decrease in loans receivable is due to repayments of $439,000, net of new loans made of $275,000. See page 4 of this MD&A for an analysis of capital assets.

- Total liabilities decreased by $62,000 primarily due to timing of invoices paid near year end and repayment of a pass-through loan provided by New York State Department of Transportation. See page 5 of this MD&A for details on this agreement.

- Deferred outflows of resources and noncurrent liabilities represent amounts required to be reported for NCIDA's participation in the New York State and Local Employees' Retirement System. This recognition is required due to the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (*GASB 68) and related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* The cumulative effect of implementing these statements resulted in a restatement of beginning net position as detailed in Note 2 to the financial statements.

The following table summarizes NCIDA's changes in net position for the years ended December 31, 2015 and 2014:

			Change	
	2015	**2014**	**$**	**%**
Operating revenues:				
Admin fees, program, rental income	**$ 886,000**	$ 1,148,000	$ (262,000)	-22.8%
Other income	**238,000**	143,000	95,000	66.4%
Total operating revenues	**1,124,000**	1,291,000	(167,000)	-12.9%
Operating expenses:				
Salaries, benefits, contractual, occupancy	**1,125,000**	1,241,000	(116,000)	-9.3%
Depreciation, interest, bad debts	**212,000**	208,000	4,000	1.9%
Total operating expenses	**1,337,000**	1,449,000	(112,000)	-7.7%
Operating loss	**(213,000)**	(158,000)	(55,000)	34.8%
Nonoperating revenues (expenses):				
Affiliate organization income	**60,000**	68,000	(8,000)	-11.8%
Investment income	**1,000**	1,000	-	0.0%
Transfers to NFTA	**(104,000)**	(73,000)	(31,000)	42.5%
Return of grant funds	**(83,000)**	-	(83,000)	-100.0%
Total nonoperating revenues (expenses)	**(126,000)**	(4,000)	(122,000)	3050.0%
Change in net position	**(339,000)**	(162,000)	(177,000)	109.3%
Net position - beginning	**9,649,000**	9,811,000	(162,000)	-1.7%
Cumulative effect of restatement	**(8,000)**			
Net position - ending	**$ 9,302,000**	$ 9,649,000	$ (347,000)	-3.6%

- Operating revenues decreased $167,000 partially due to fewer project closings in 2015, resulting in decreased fees of $310,000. Rental income increased $76,000 as a new tenant occupied two suites beginning in May 2014 and another new tenant began renting in January 2015. Other income includes a $55,000 gain on sale of land located at Vantage International Pointe compared to a gain of $15,000 in 2014. The increase in other income is also due to $35,000 received from a private company for easement purposes.

- Operating expenses were relatively consistent. Salary and related benefits decreased $98,000 due to the retirement of the former Manager of Finance in 2015. This savings was partially offset by a $6,000 provision for bad debts related to unpaid project administrative fees.

- Nonoperating revenues are primarily from affiliate organization income from Niagara Industrial Incubator Association (NIIA). These distributions are based on the annual activity of NIIA and decreased from the prior year.

- Transfers to NFTA are based on the results of operations of Niagara Industrial Suites (NIS). Annual transfers are required based on the lease agreement between NFTA and NCIDA.

- NCDC returned unused grant funds to the Town of Lockport in 2015. Funds were originally provided in 2002 and intended to be used as a revolving loan fund. Other than one loan in 2002, no other loans had been awarded from this fund.

LEASEBACK, IRB PROJECTS AND LOAN PORTFOLIO TRANSACTIONS

NCIDA's and NADC's leaseback projects and industrial revenue bond (IRB) programs closed six projects in 2015 representing $32,870,000 in new capital investments in the County as compared to fourteen projects in the prior period representing $77,337,000 in capital investments.

NCDC has five (six in 2014) Revolving Loan Funds (RLFs); separate revolving loan fund accounts were established to segregate the initial funding source. Four of the accounts were established through federal grants from the Economic Development Administration and the Department of Housing and Urban Development. During 2015, NCDC closed one of the RLFs and returned the funds to the Town of Lockport as discussed on the previous page.

NCDC's 2015 revolving loan activities include four new loans in the amount of $275,000 as compared to two new loans for $55,000 in 2014.

Industrial revenue bonds and notes issued by NCIDA are secured by property that is leased to companies and is retired by lease payments. The bonds and notes are not obligations of NCIDA or the State. NCIDA does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange financing between the borrowing companies and the bond and noteholders. Funds arising from these are controlled by trustees or banks acting as fiscal agents. For providing this service, NCIDA receives administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes.

CAPITAL ASSETS

	2015	2014
Land and land improvements	$ 96,000	$ 89,000
Buildings and improvements	7,291,000	7,291,000
Furniture and fixtures	248,000	248,000
	7,635,000	7,628,000
Accumulated depreciation	(3,530,000)	(3,324,000)
	$ 4,105,000	$ 4,304,000

The decrease in capital assets is attributed to $212,000 of depreciation expense and land disposals, offset by $13,000 in land improvements.

LOAN PAYABLE, NCDC

NCIDA borrowed funds from NCDC to complete construction of NCIDA's office space within the NIS Multi-Tenant Facility. The 15 year promissory note bears an interest rate of 5%, with principal and interest payments of $2,533 monthly. At the end of fifteen years, a balloon payment of $95,821 is due and payable, or a mutually acceptable renewal option may be negotiated ninety days prior to the final payment. The remaining balance at December 31, 2015 is $120,741. See further details in Note 6 to the financial statements.

LOAN PAYABLE, NEW YORK STATE DEPARTMENT OF TRANSPORTATION

In 2011, NCIDA entered into an agreement with the New York State Department of Transportation and a third party as part of the State Industrial Access Program. This award consisted of a grant portion and a loan portion. The loan of $186,000, to be paid back over five years, is non-interest bearing. NCIDA serves as a pass-through entity, collecting amounts owed from the third party and submitting them to the State. Amounts due from the third party amount to $35,800 as of December 31, 2015 and are further detailed in Note 3 to NCIDA's financial statements. Amounts outstanding under the related loan amounted to $55,800 as of December 31, 2015, which is further detailed in Note 6. The difference between the receivable and payable is due to the timing of the loan payment.

FUTURE EVENTS AND OTHER CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

NCIDA's real estate development objective for 2016 is the sale of the remaining 6 acres in Vantage International Pointe Park. NCIDA is marketing the remaining acreage through a realtor and as part of the Canadian Marketing Program.

In addition to promoting properties owned/controlled by NCIDA, industrial park sites in the Cities of Lockport, Niagara Falls, and North Tonawanda, as well as the Town of Niagara and Town of Lockport Industrial Parks, and many other sites throughout the County will be advertised and marketed by NCIDA. These activities are intended to stimulate new construction, increase the local tax base, and create employment opportunities for area residents.

Target industries include computer and electronic products manufacturing; electrical equipment, appliances and component manufacturing; food and beverage manufacturing and processing; warehouse/distribution; and logistics and defense-related industries. These sectors were chosen to complement and not duplicate the efforts of the Buffalo Niagara Enterprise, whose main Canadian target sectors include life sciences, medical devices, and pharmaceuticals.

NIAGARA COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Henry M. Sloma, Chairperson
Samuel M. Ferraro, Executive Director/Treasurer

NIAGARA COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Balance Sheets

December 31, 2015
(with summarized comparative totals as of December 31, 2014)

	Primary Government Business-Type Activity	Component Unit Niagara County Development Corporation (Not-for-Profit)	Total Blended	Total 2014 Summarized
Assets				
Current assets:				
Cash				
Unrestricted	$ 1,268,891	$ 2,340,346	$ 3,609,237	$ 3,730,016
Restricted	128,889	-	128,889	163,811
Accounts receivable				
Trade	187,354	100	187,454	78,030
Internal balances	36,551	(36,551)	-	-
Prepaid expenses	46,699	-	46,699	61,859
Loans receivable (Note 3)	35,800	244,282	280,082	359,762
	1,704,184	2,548,177	4,252,361	4,393,478
Noncurrent assets:				
Loans receivable, net (Note 3)	-	1,158,293	1,158,293	1,290,659
Capital assets, net (Note 4)	4,105,773	-	4,105,773	4,304,232
Investment in affiliate (Note 5)	30,000	-	30,000	30,000
	4,135,773	1,158,293	5,294,066	5,624,891
Deferred Outflows of Resources:				
Deferred outflows of resources from pensions (Note 8)	62,722	-	62,722	-
	$ 5,902,679	$ 3,706,470	$ 9,609,149	$ 10,018,369
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$ 60,425	$ 7,458	$ 67,883	$ 119,641
Due to other governments	103,771	-	103,771	73,125
Due others (Note 6)	55,800	-	55,800	93,000
Internal balances (Note 6)	120,741	(120,741)	-	-
Unearned revenue	-	-	-	45,000
Security deposits	38,216	-	38,216	38,178
	378,953	(113,283)	265,670	368,944
Long-term obligations:				
Net pension liability (Note 8)	41,169	-	41,169	-
	420,122	(113,283)	306,839	368,944
Net position:				
Net investment in capital assets	4,105,773	-	4,105,773	4,304,232
Restricted	-	3,819,753	3,819,753	3,455,434
Unrestricted	1,376,784	-	1,376,784	1,889,759
	5,482,557	3,819,753	9,302,310	9,649,425
	$ 5,902,679	$ 3,706,470	$ 9,609,149	$ 10,018,369

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2015
(with summarized comparative totals for December 31, 2014)

	Primary Government Business-Type Activity	Component Unit Niagara County Development Corporation (Not-for-Profit)	Total Blended	Total 2014 Summarized
Operating revenues:				
Fees	$ 303,750	$ -	$ 303,750	$ 624,024
Program income	-	68,272	68,272	88,452
Rental income and common area charges	513,654	-	513,654	435,500
Occupancy income	27,387	-	27,387	27,387
Administrative fees from affiliates	97,442	(36,602)	60,840	60,416
Gain on sale of land	55,160	-	55,160	14,274
Bad debt recoveries	-	-	-	27,502
Miscellaneous	92,817	1,000	93,817	13,614
Total operating revenues	1,090,210	32,670	1,122,880	1,291,169
Operating expenses:				
Personnel services	418,285	-	418,285	477,989
Contractual expenses	295,417	28,059	323,476	277,314
Occupancy	150,693	-	150,693	216,872
Program and related expenses	-	45,851	45,851	44,402
Employee benefits	186,381	-	186,381	224,316
Interest expense	6,684	(6,684)	-	90
Provision for bad debts	5,622	-	5,622	-
Depreciation	205,509	-	205,509	207,669
Total operating expenses	1,268,591	67,226	1,335,817	1,448,652
Operating loss	(178,381)	(34,556)	(212,937)	(157,483)
Nonoperating revenues (expenses):				
Investment income	512	168	680	787
Income from investment in affiliated organization	60,000	-	60,000	68,145
Transfer to Niagara Frontier Transportation Authority	(103,771)	-	(103,771)	(73,125)
Return of grant funds	-	(83,295)	(83,295)	-
Total nonoperating expenses	(43,259)	(83,127)	(126,386)	(4,193)
Net loss	(221,640)	(117,683)	(339,323)	(161,676)
Net position - beginning	5,711,989	3,937,436	9,649,425	9,811,101
Cumulative effect of restatement (Note 2)	(7,792)	-	(7,792)	-
Net position - beginning, as restated	5,704,197	3,937,436	9,641,633	9,811,101
Net position - ending	$ 5,482,557	$ 3,819,753	$ 9,302,310	$ 9,649,425

See accompanying notes.

Statement of Cash Flows

For the year ended December 31, 2015

	Primary Government Business-Type Activity
Operating activities:	
Cash received from loan and administrative fees	$ 251,677
Cash received from rental, occupancy, and common area charges	541,079
Cash received from other sources	92,817
Payments to employees, suppliers, and other	(1,113,432)
Payments for interest	(6,684)
Cash received from sale of land	60,795
Net operating activities	(173,748)
Capital and related financing activities:	
Purchases of equipment	(12,685)
Loan payments to affiliates, net	(14,079)
Net capital and related financing activities	(26,764)
Investing activities:	
Cash received from investment in affiliate	60,000
Cash payments to Niagara Frontier Transportation Authority	(73,125)
Interest income	512
Net investing activities	(12,613)
Net change in cash	(213,125)
Cash - beginning	1,610,905
Cash - ending	$ 1,397,780
Reconciliation of operating loss to net cash flows from operating activities:	
Operating loss	$ (178,381)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	205,509
Gain on sale of land	(55,160)
Proceeds from sale of land	60,795
Net pension activity	(13,646)
Changes in other current assets and liabilities:	
Accounts receivable and other assets	(62,232)
Accounts payable and other liabilities	(130,633)
Net operating activities	$ (173,748)

1. Summary of Significant Accounting Policies:

Nature of Organization:

Niagara County Industrial Development Agency (the Agency) is a public benefit corporation authorized under the laws of the State of New York (the State). The Agency was formed under the State Industrial Development Agency Act, constituting Title I of Article 18-A of the General Municipal Law; Chapter 24 of the Consolidated Laws of New York, as amended; and Chapter 569 of the 1962 Laws of New York (collectively, the "Act"). Its purpose is to promote, develop, encourage and assist in the acquiring, constructing, reconstructing, importing, maintaining, equipping and furnishing of industrial, manufacturing, warehousing, commercial and research facilities and thereby advance the job opportunities, general prosperity and economic welfare of the people of the State, particularly Niagara County (the County), and to improve their prosperity and standard of living. The Agency is governed by a Board of Directors appointed by the County Legislature.

The Agency is empowered to issue industrial revenue bonds for the purpose of constructing, acquiring, equipping and furnishing industrial manufacturing, warehousing and certain commercial research and recreational facilities. To accomplish the purposes of the Act, the Agency may acquire property and enter into lease agreements, mortgage agreements, and pledge agreements.

Basis of Presentation:

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

Grants:

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures.

Typically, grants received are passed through to other entities less an administrative fee charged by the Agency if permissible.

Financial Reporting Entity:

In evaluating how to define the Agency for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the Agency's reporting entity is based on several criteria set forth in accounting standards, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following entities are included in the Agency's financial statements:

<u>Niagara Area Development Corporation</u>
NADC is a governmental entity formed to undertake and promote economic development initiatives in the County. Its functions include real estate leasing, acquisition, development, and management; real estate project financing; and other community-based economic development activities for the benefit of nonprofit organizations.

NADC was formed by the County, which requires the Directors of the Agency to serve as the directors of NADC. In addition, the Agency is entitled to all financing fees generated by NADC in exchange for providing ongoing management and administrative services to NADC. As a result, NADC is presented as a blended component unit of the Agency. Internal balances have been eliminated for purposes of this presentation in the accompanying financial statements to avoid the impact of "grossing-up" the affected financial statement line items. In addition, separate financial statements for NADC are available from the Agency.

Niagara County Development Corporation

NCDC is a nonprofit corporation formed to promote economic growth and prosperity in the County. Its function is to make loans at favorable interest rates to small businesses that are located within the County, thus encouraging startup of new businesses and relocation and expansion of existing businesses within the County.

These loans are made at favorable interest rates that vary with the prime rate. The governing board approves these loans after giving consideration to the major criteria, including enhancement of the economic environment. Normally, these loans are made in conjunction with other third-party lender financing. The businesses' assets and personal guarantees of the owners collateralize most of these loans; however, in many instances, NCDC's collateral interest is subordinated to the third-party lender. These loans have variable maturities dependent upon use, such as working capital or equipment acquisition. Interest is recognized on these loans as it is paid.

The membership of NCDC consists of the nine Board members of the Agency, the Chairperson of the County Legislature or his/her designee, and three additional members appointed by the Board at its discretion. In accordance with accounting standards, NCDC is reflected as a blended component unit of the Agency. Separate financial statements for NCDC are available from the Agency.

Measurement Focus:

The Agency reports as a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The Agency's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

The Agency's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for services and payments made to purchase those goods or services. Certain other transactions are reported as nonoperating activities and include investment income.

Estimates:

The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash:

Cash management is governed by State laws and as established in the Agency's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Management is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. At December 31, 2015, the Agency's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's agent in the Agency's name.

Restricted cash includes security deposits and cash whose use is limited by legal requirements.

Allowance for Uncollectible Loans and Receivables (NCDC):

Loans receivable are stated at the principal amount outstanding, net of an allowance for uncollectible loans that includes loan forgiveness. The allowance method is used to compute the provision for uncollectible loans.

Determination of the balance of the allowance for uncollectible loans is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses. Loans are written off when, in management's judgment, no legal recourse is available to collect the amount owed.

Interest on notes receivable is accrued as required by the terms of the agreement; management considers that collection is probable based on the current economic condition of the borrower. Interest accrual stops when a loan becomes past due and does not commence again until the loan is current.

Capital Assets:

Capital assets are recorded at cost. Contributed assets are recorded at fair value at the time received. Depreciation is provided over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization policy		Estimated Useful life
Buildings and improvements	$	5,000	3-40 years
Furniture and equipment	$	1,000	5-40 years
Infrastructure	$	5,000	25 years

Pensions:

The Agency uses GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the defined benefit pension plan. The Agency has elected to participate in the New York State and Local Employees' Retirement System (ERS). ERS recognizes benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value. More information on pension activity is included in Note 8.

Net Position:

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets whose use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or, in the case of NCDC, amounts represent revolving loan funds from the U.S. Economic Development Administration (EDA) and the U.S. Department of Housing and Urban Development (HUD).
- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use.

Industrial Revenue Bond and Note Transactions:

Certain industrial revenue bonds and notes issued by the Agency are secured by property that is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State. The Agency does not record the assets nor liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange financing between the borrowing companies and the bond and note holders. Funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes. The original value of the property leased by the Agency aggregated $32,870,000 in 2015.

From time to time, management may determine that certain administrative fees receivable are not likely to be collectible. For the year ended December 31, 2015, such fees amounted to $5,622 and are reported as provisions for bad debts.

2. Change in Accounting Principle:

Effective January 1, 2015, the Agency adopted GASB 68 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These statements address accounting and financial reporting for the pension provided to Agency employees and administered by ERS. The statements also require various note disclosures (Note 8) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, January 1, 2015	$ 5,711,989
Net pension liability	(55,069)
Deferred outflows of resources for contributions made subsequent to the measurement date	47,277
Net position as restated	$ 5,704,197

Pursuant to accounting standards, the 2014 financial statements were not adjusted to reflect the change in accounting principle.

3. Loans Receivable:

Agency:	
Note receivable from third party for repayment of loan to State Department of Transportation (Note 6)	**$ 35,800**
NCDC:	
Various notes receivable from companies with operations in Niagara County, due in aggregate monthly installments of approximately $20,000 plus interest at rates ranging from 2.6% to 5.6%, generally secured by secondary position on assets and personal guarantees, due through February 2022.	**$ 1,602,575**
Less allowance for uncollectible loans	**200,000**
Less current portion	**244,282**
	$ 1,158,293

NCDC has five revolving loan programs offering low interest commercial loans to area businesses. The programs' original funding was from a variety of sources, including the Agency, EDA, and HUD. The governing board approves loans after giving consideration to the major criteria, including enhancement of the economic environment. Non-accrual loans amounted to $84,053 at December 31, 2015.

4. Capital Assets:

	Balance January 1, 2015	Increases	Retirements/ Reclassifications	Balance December 31, 2015
Non-depreciable capital assets:				
Land	$ 6,484	$ -	$ (5,635)	$ 849
Depreciable capital assets:				
Land improvements	82,604	12,685	-	95,289
Buildings	7,180,711	-	-	7,180,711
Furniture and equipment	248,554	-	-	248,554
Infrastructure	110,097	-	-	110,097
Total depreciable assets	7,621,966	12,685	-	7,634,651
Less accumulated depreciation:				
Land improvements	64,090	3,464	-	67,554
Buildings	2,998,053	190,454	-	3,188,507
Furniture and equipment	234,199	7,341	-	241,540
Infrastructure	27,876	4,250	-	32,126
Total accumulated depreciation	3,324,218	205,509	-	3,529,727
Total depreciable assets, net	4,297,748	(192,824)	-	4,104,924
	$ 4,304,232	**$ (192,824)**	**$ (5,635)**	**$ 4,105,773**

5. Investments:

Incubator Facility Fund:

During 1985, the Agency made a $30,000 capital contribution to Niagara Industrial Incubator Associates (NIIA), a limited partnership and related party, formed for the purpose of developing an incubator facility in the area designated as a foreign trade zone. The partnership is composed of the general partner, Niagara Industrial Incubator Company (itself a partnership between the Agency and Niagara Frontier Transportation Authority) and the limited partner, Niagara Wheatfield Investments. This investment is accounted for at cost. Separate audited financial statements for NIIA are available from the Agency.

6. Long-Term Debt:

Loans Payable, Operating:

In 2011, the Agency entered into an agreement with the State Department of Transportation and a third party as part of the State Industrial Access Program. This award consisted of a grant portion and a loan portion. The loan of $186,000, to be paid back over five years, is non-interest bearing. The Agency serves as a pass-through entity, collecting amounts owed from the third party (Note 3) and submitting them to the State. Amounts outstanding under this loan and due within one year total $55,800 at December 31, 2015.

Internal Balances – Loan Payable:

In 1993, NCDC loaned the Agency $165,000 to complete construction of the Agency's office space within the multi-tenant facility. In 1996, NCDC loaned the Agency an additional $145,000 for capital requirements of the multi-tenant facility. Interest on this loan was established at the investment return experienced by NCDC's Industrial Development Agency Revolving Loan Account. In prior years, accrued interest was added to the loan balance, but remained unpaid. Lastly, in 1996 NCDC loaned the Agency $6,900 to be used to fund a storage room for the resource center.

On December 31, 2001, the Agency formalized the borrowing arrangement through a 15-year promissory note bearing interest at 5%, with monthly principal and interest payments of $2,533. On December 31, 2016, a balloon payment of $95,821 is due and payable unless a mutually acceptable renewal option negotiated 90 days prior to the final payment date has been exercised. For the year ended December 31, 2015, interest amounted to $6,684. The balance outstanding on this loan as of December 31, 2015 was $120,741.

7. Operating Leases:

The Agency leases space at two of its multi-tenant/incubator facilities to multiple tenants under the terms of noncancelable operating leases. Rental income under these leases was $455,403 for the year ended December 31, 2015. The carrying value of all leased property is approximately $4,103,000.

Future annual rental receipts anticipated under noncancelable leases are:

2016	$ 417,350
2017	338,224
2018	121,433
2019	87,417
	$ 964,424

The Agency also charges common area expenses to tenants that amounted to $58,251 for the year ended December 31, 2015. Intra-Agency charges have been eliminated in the accompanying financial statements.

8. Pension:

The Agency participates in ERS, a cost-sharing, multiple employer, public employee retirement system. ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: ERS provides retirement, disability, and death benefits for eligible members, including an automatic cost of living adjustment. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

Contribution requirements: No employee contribution is required for those hired prior to July 1976. ERS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined between July 1976 and December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Agency to the pension accumulation fund. For 2015, these rates ranged from 15.3% - 18.6%.

Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources:

At December 31, 2015, the Agency reported a liability of $41,169 for its proportionate share of the net pension liability.

The net pension liability was measured as of March 31, 2015, and the total pension liability was determined by an actuarial valuation as of April 1, 2014. The Agency's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2015 measurement date, the Agency's proportion was 0.0012186%.

For the year ended December 31, 2015, the Agency recognized pension expense of $37,927. At December 31, 2015, the Agency reported deferred outflows of resources as follows:

Differences between expected and actual experience	$	1,318
Net difference between projected and actual earnings on pension plan investments		7,151
Changes in proportion and differences between Agency contributions and proportionate share of contributions		2,680
Agency contributions subsequent to the measurement date		51,573
	$	**62,722**

Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending December 31,		**Deferred Outflows of Resources**
2016	$	2,788
2017		2,787
2018		2,787
2019		2,787
	$	**11,149**

Actuarial Assumptions:

The actuarial assumptions used in the April 1, 2014 valuation, with update procedures used to roll forward the total pension liability to March 31, 2015, were based on the results of an actuarial experience study for the period April 1, 2005 to March 31, 2010. These assumptions are:

Inflation - 2.7%
Salary increases - 4.9%
Investment rate of return - 7.5% compounded annually, net of investment expense, including inflation
Mortality - Based on ERS experience from April 1, 2005 - March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014
Discount rate - 7.5%

The long-term expected rate of return on ERS's pension plan investments was determined in accordance with Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Investment Asset Allocation:

Best estimates of arithmetic real rates of return for each major asset class and ERS's target asset allocations as of the valuation date are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	38%	7.3%
International equities	13%	8.5%
Private equities	10%	11.0%
Real estate	8%	8.3%
Domestic fixed income	2%	4.0%
Bonds and mortgages	18%	4.0%
Short-term	2%	2.3%
Other	9%	6.8%-8.6%
	100%	

Discount Rate:

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The Agency's proportionate share of its net pension liability is calculated using the discount rate of 7.5%. The impact of using a discount rate that is 1% lower (6.5%) than the current rate would result in a net pension liability of $274,408 and a 1% higher (8.5%) rate would result in a net pension asset of $155,743.

9. Related Party Transactions:

Administration Fees:

The Agency received $4,000 in administration fees from NIIA during the year ended December 31, 2015.

During 2015, the Agency received $50,000 in administration fees from Niagara Economic Development Fund (NEDF), a business trust whose membership consists of representatives of the Empire State Development Corporation, the New York Power Authority, the City of Niagara Falls, and the Agency. The Agency serves as its trustee and NCDC as the loan fund administrator.

The Agency also received $6,840 during 2015 as reimbursement for consulting fees paid on behalf of Niagara County Brownfield Development Corporation (NCBDC). The Agency's Executive Director is on the three member Board of NCBDC and the Agency provides administrative support and management.

Other:

The Agency and NCDC have entered into various borrowing arrangements with each other. All short-term borrowings are of an interest-free nature, while longer term borrowings carry an interest rate that reflects borrowings that would be made to third parties. Borrowings are reflected as internal balances in the accompanying financial statements and appropriately eliminated for the total blended presentation.

10. Risk Management:

The Agency purchases commercial insurance for various risks of loss due to torts, theft, damage, injuries to employees, errors and omissions, and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

11. Contingencies:

Grants:

The Agency receives financial assistance from federal and state agencies in the form of grants. The expenditure of grant funds generally requires compliance with the terms and conditions specified in the agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Agency. Based on prior experience, management expects any such amounts to be immaterial.

Litigation:

The Agency is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of the Agency.

Required Supplementary Information
Schedule of the Agency's Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System

As of the measurement date of March 31, 2015

Agency's proportion of the net pension liability		0.0012186%
Agency's proportionate share of the net pension liability	$	41,169
Agency's covered-employee payroll	$	357,138
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll		11.53%
Plan fiduciary net position as a percentage of the total pension liability		97.90%

Data prior to 2015 is unavailable.

Required Supplementary Information
Schedule of Agency Contributions
New York State and Local Employees' Retirement System

December 31,	2015	2014	2013
Contractually required contribution	$ 51,573	$ 62,976	$ 73,054
Contribution in relation to the contractually required contribution	(51,573)	(62,976)	(73,054)
Contribution deficiency (excess)	$ -	$ -	$ -
Agency's covered-employee payroll	$ 324,634	$ 357,138	$ 355,308
Contributions as a percentage of covered-employee payroll	15.89%	17.63%	20.56%

Data prior to 2013 is unavailable.

Supplementary Information
Schedules of Intra-Agency Balance Sheets by Operating Unit

December 31, 2015
(with summarized comparative totals as of December 31, 2014)

	Operating	Multi-Tenant Facility Operating	VIP Multi-Tenant Operating	Total	Total 2014 Summarized
Assets					
Current assets:					
Cash					
Unrestricted	$ 549,379	$ 461,692	$ 257,820	$ 1,268,891	$ 1,447,094
Restricted	-	21,217	107,672	128,889	163,811
Accounts receivable					
Trade	201,925	-	(14,571)	187,354	77,761
Internal balances	36,551	-	-	36,551	46,179
Prepaid expenses	24,213	6,921	15,565	46,699	61,859
Due from other operating units	670,805	-	-	670,805	609,265
Loans receivable	35,800	-	-	35,800	83,700
	1,518,673	489,830	366,486	2,374,989	2,489,669
Noncurrent assets:					
Capital assets, net	2,832	1,216,688	2,886,253	4,105,773	4,304,232
Investment in affiliate	30,000	-	-	30,000	30,000
	32,832	1,216,688	2,886,253	4,135,773	4,334,232
Deferred Outflows of Resources:					
Deferred outflows of resources from pensions	62,722	-	-	62,722	-
	$ 1,614,227	$ 1,706,518	$ 3,252,739	$ 6,573,484	$ 6,823,901
Liabilities and Net Position					
Current liabilities:					
Accounts payable	$ 30,611	26,686	$ 3,128	$ 60,425	$ 108,896
Due to other governments	-	103,771	-	103,771	73,125
Due others	55,800	-	-	55,800	93,000
Current portion of internal balances	-	120,741	-	120,741	23,707
Unearned revenue	-	-	-	-	45,000
Security deposits	-	21,217	16,999	38,216	38,178
Due to other operating units	-	106,652	564,153	670,805	609,265
	86,411	379,067	584,280	1,049,758	991,171
Long-term obligations:					
Internal balances	-	-	-	-	120,741
Net pension liability	41,169	-	-	41,169	-
	41,169	-	-	41,169	120,741
	127,580	379,067	584,280	1,090,927	1,111,912
Net position:					
Net investment in capital assets	2,832	1,216,688	2,886,253	4,105,773	4,304,232
Unrestricted (deficit)	1,483,815	110,763	(217,794)	1,376,784	1,407,757
	1,486,647	1,327,451	2,668,459	5,482,557	5,711,989
	$ 1,614,227	$ 1,706,518	$ 3,252,739	$ 6,573,484	$ 6,823,901

Supplementary Information
Schedules of Intra-Agency Revenues, Expenses, and Changes in Net Position by Operating Unit

For the year ended December 31, 2015
(with summarized comparative totals for December 31, 2014)

	Operating	Multi-Tenant Facility Operating	VIP Multi-Tenant Operating	Eliminations	Total	Total 2014 Summarized
Operating revenues:						
Fees	$ 303,750	$ -	$ -	$ -	$ 303,750	$ 624,024
Rental income and common area charges	580	285,922	233,888	(6,736)	513,654	435,500
Occupancy income	27,387	-	-	-	27,387	27,387
Administrative fees from affiliates	103,962	-	-	(6,520)	97,442	107,316
Gain on sale of land	-	-	55,160	-	55,160	14,274
Miscellaneous	92,817	-	-	-	92,817	12,214
Total operating revenues	528,496	285,922	289,048	(13,256)	1,090,210	1,220,715
Operating expenses:						
Personnel services	418,285	-	-	-	418,285	477,989
Contractual expenses	278,245	6,855	16,837	(6,520)	295,417	267,380
Occupancy	46,163	32,018	79,248	(6,736)	150,693	216,872
Employee benefits	186,381	-	-	-	186,381	224,316
Interest expense	-	6,684	-	-	6,684	7,929
Provision for bad debts	5,622	-	-	-	5,622	-
Depreciation	6,698	85,090	113,721	-	205,509	207,669
Total operating expenses	941,394	130,647	209,806	(13,256)	1,268,591	1,402,155
Operating gain (loss)	(412,898)	155,275	79,242	-	(178,381)	(181,440)
Nonoperating revenues (expenses):						
Investment income	391	80	41	-	512	647
Income from investment in affiliated organization	60,000	-	-	-	60,000	68,145
Transfer to Niagara Frontier Transportation Authority	-	(103,771)	-	-	(103,771)	(73,125)
Internal transfer	110,000	-	(110,000)	-	-	-
Income from joint venture	103,771	(103,771)	-	-	-	-
Total nonoperating revenues (expenses)	274,162	(207,462)	(109,959)	-	(43,259)	(4,333)
Net loss	(138,736)	(52,187)	(30,717)	-	(221,640)	(185,773)
Net position - beginning	1,633,175	1,379,638	2,699,176	-	5,711,989	5,897,762
Cumulative effect of restatement	(7,792)	-	-	-	(7,792)	-
Net position - beginning, as restated	1,625,383	1,379,638	2,699,176	-	5,704,197	5,897,762
Net position - ending	$ 1,486,647	$ 1,327,451	$ 2,668,459	$ -	$ 5,482,557	$ 5,711,989

Supplementary Information
Schedule of Expenditures of Federal Awards

For the year ended December 31, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grantor Number	Expenditures
U.S. Department of Housing and Urban Development:			
Passed through Niagara County			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	Various	$ 1,023,933
U.S. Department of Commerce:			
Passed through Niagara County			
Economic Adjustment Assistance	11.307	Various	850,519
Total Expenditures of Federal Awards			$ 1,874,452

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs administered by Niagara County Industrial Development Agency (the Agency) and its component unit, Niagara County Development Corporation (NCDC), entities defined in Note 1 to the Agency's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the SEFA.

Expenditures are calculated as required by the Uniform Guidance or the applicable program and do not constitute actual program disbursements.

The Economic Adjustment Assistance program, administered by the U.S. Economic Development Administration (EDA), specifically requires the amount on the SEFA to be calculated as follows:

EDA grants	$	700,000
Total revolving loan funds		1,133,334
Total EDA share		61.7647%
Balance of loans outstanding	$	806,783
Cash		535,786
Administrative expenses		34,462
		1,377,031
		61.7647%
	$	850,519

Basis of Accounting:

The Agency and NCDC use the accrual basis of accounting for each federal program, consistent with the financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Agency's financial reporting system.

Indirect Costs:

The Agency and NCDC have elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. Furthermore, neither the Agency nor NCDC has received Federal awards including indirect cost reimbursement for the year ended December 31, 2015.

2. Revolving Loan Funds

NCDC's revolving loan funds include funding from EDA and the U.S. Department of Housing and Urban Development (HUD). At December 31, 2015, loan balances for EDA and HUD amounted to $806,783 and $795,792 respectively.

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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*

The Board of Directors
Niagara County Industrial Development Agency

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 balance sheet of Niagara County Industrial Development Agency (the Agency), a business-type activity, as of December 31, 2015, and the related statement of revenues, expenses, and changes in net position and cash flows, as applicable, for the year then ended, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated April 13, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

April 13, 2016

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNFORM GUIDANCE

The Board of Directors
Niagara County Industrial Development Agency

Report on Compliance for Each Major Federal Program

We have audited Niagara County Industrial Development Agency's (the Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2015. The Agency's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item [2015-001]. Our opinion on each major federal program is not modified with respect to this matter.

The Agency's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lumsden & McCormick, LLP

April 13, 2016

Schedule of Findings and Questioned Costs

For the year ended December 31, 2015

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	*Unmodified*
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes [2015-001]

Identification of major programs:

Name of Federal Program or Cluster	CFDA #	Amount
Economic Adjustment Assistance	11.307	$ 850,519

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II. Financial Statement Findings

No findings were reported.

Section III. Federal Award Findings and Questioned Costs

2015-001

Federal Program – CFDA #11.307 Economic Adjustment Assistance

Criteria – The portion of the Revolving Loan Fund (RLF) capital base that is not loaned out must be made available for lending. The Economic Development Administration (EDA) requires recipients to have at least 75% of the RLF's capital base loaned or committed at any given time (13 CFR 307.16).

Condition – The loan fund administered by NCDC has fallen below the required 75% utilization rate as required by the EDA. The utilization rate as of December 31, 2015 is 60.7%.

Cause – Although NCDC provided a borrower with a new loan in 2015 of $200,000, it also received $260,169 in loan repayments. Of this amount, one borrower repaid $159,124 of principal in advance of required terms.

Effect – NCDC is not in compliance with the required utilization rate.

Questioned Costs – None.

Context – NCDC's utilization rate at December 31, 2015 of 60.7% is approximately $190,000 below the required 75% rate. Over the past five years, loans made by NCDC have ranged between $200,000 and $400,000.

Auditors' Recommendation – We recommend that management of NCDC continue their efforts to seek out qualified borrowers.

Views of Responsible Officials and Planned Corrective Actions – Management continues to seek qualified borrowers and administer the revolving loan fund in accordance with the terms of the agreement. During 2015, management began using a consultant to assist in finding qualified borrowers.

NIAGARA COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Summary Schedule of Prior Audit Findings

December 31, 2015

No findings were reported and as such no corrective action plan is needed.

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

The Board of Directors
Niagara County Industrial Development Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Niagara County Industrial Development Agency (the Agency), a business-type activity, as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated April 13, 2016.

In connection with our audit, nothing came to our attention that caused us to believe that the Agency failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended December 31, 2015. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Agency's noncompliance with the above rules and regulations.

The purpose of this report is solely to describe the scope and results of our testing. This communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

April 13, 2016