

LEWIS COUNTY DEVELOPMENT
CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

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>	16



**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, 2015, 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, 2015, 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 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 3, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, 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 March 18, 2016, 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.

Bowers & Company

Watertown, New York
March 18, 2016

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY
AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015 with Comparative Totals for 2014

	ASSETS	
	2015	2014 (As Restated)
CURRENT ASSETS		
Cash	\$ 291,117	\$ 386,115
Grants Receivable	720,997	994,542
Loans Receivable - Current Portion	<u>53,491</u>	<u>50,760</u>
Total Current Assets	<u>1,065,605</u>	<u>1,431,417</u>
PROPERTY AND EQUIPMENT		
Land and Land Improvements	190,000	190,000
Building	<u>50,585</u>	<u>115,440</u>
Total Property and Equipment	<u>240,585</u>	<u>305,440</u>
NON-CURRENT ASSETS		
Loans Receivable - Long Term Portion	<u>-</u>	<u>11,943</u>
Total Non-Current Assets	<u>-</u>	<u>11,943</u>
TOTAL ASSETS	<u><u>\$ 1,306,190</u></u>	<u><u>\$ 1,748,800</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 28,266	\$ 134,828
Retainage Payable	26,950	42,761
Accrued Interest Payable	6,901	8,572
Deferred Grant Revenue	15,065	15,065
Line of Credit	<u>200,000</u>	<u>-</u>
Total Current Liabilities	<u>277,182</u>	<u>201,226</u>
NON-CURRENT LIABILITIES		
Deposits	10,000	10,000
Notes Payable	<u>300,000</u>	<u>880,475</u>
Total Non-Current Liabilities	<u>310,000</u>	<u>890,475</u>
Total Liabilities	<u>587,182</u>	<u>1,091,701</u>
NET ASSETS		
Unrestricted Net Assets	449,677	390,825
Permanently Restricted Net Assets	<u>269,331</u>	<u>266,274</u>
Total Net Assets	<u>719,008</u>	<u>657,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,306,190</u></u>	<u><u>\$ 1,748,800</u></u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2015 with Summarized Totals for 2014

	Unrestricted	Permanently Restricted	2015	2014 (Summarized) (As Restated)
SUPPORT AND REVENUE				
Contributions	\$ 161,255	\$ -	\$ 161,255	\$ 489,652
Grants and Contracts Earned	967,197	-	967,197	814,049
Rent	24,000	-	24,000	24,000
Interest	-	619	619	884
Loss on Disposal of Property	(64,855)	-	(64,855)	(38,480)
Miscellaneous	370	-	370	
Net Assets Permanently Restricted	<u>(2,438)</u>	<u>2,438</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,085,529</u>	<u>3,057</u>	<u>1,088,586</u>	<u>1,290,105</u>
EXPENSES				
Program Service				
Local Development	987,185	-	987,185	1,109,842
Supporting Service				
Management and General	<u>39,492</u>	<u>-</u>	<u>39,492</u>	<u>17,948</u>
Total Expenses	<u>1,026,677</u>	<u>-</u>	<u>1,026,677</u>	<u>1,127,790</u>
Change in Net Assets	58,852	3,057	61,909	162,315
Net Assets, Beginning of Year	390,825	266,274	657,099	551,992
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,208)</u>
Net Assets, Beginning of Year, As Restated	<u>390,825</u>	<u>266,274</u>	<u>657,099</u>	<u>494,784</u>
Net Assets, End of Year	<u>\$ 449,677</u>	<u>\$ 269,331</u>	<u>\$ 719,008</u>	<u>\$ 657,099</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015 with Summarized Totals for 2014

	Program Service Local Development	Management and General	2015	Totals 2014 (Summarized) (Restated)
Grants Paid	\$ 895,377	\$ -	\$ 895,377	\$ 1,086,784
Professional Fees	61,014	13,602	74,616	11,973
Fees and Permits	13,953	3,130	17,083	2,916
Occupancy	-	-	-	1,324
Insurance	10,128	5,523	15,651	12,202
Advertising, Postage and Printing	-	14	14	225
Repairs and Maintenance	410	-	410	3,794
Interest	6,303	5,998	12,301	8,572
Miscellaneous	-	11,225	11,225	-
TOTAL FUNCTIONAL EXPENSES	\$ 987,185	\$ 39,492	\$ 1,026,677	\$ 1,127,790

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2015 with Comparative Totals for 2014

	2015	2014 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 61,909	\$ 162,315
(Increase) Decrease in Operating Assets:		
Grants Receivable	273,545	(764,155)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(106,562)	54,995
Retainage Payable	(15,811)	42,761
Accrued Interest Payable	(1,671)	5,572
Deferred Grant Revenue	200,000	(191)
Deposits	-	-
Net Cash Provided By (Used In) Operating Activities	<u>411,410</u>	<u>(498,703)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	-
Loss on Disposal of Property	64,855	38,480
Principal Received From Loans Receivable	<u>9,212</u>	<u>11,861</u>
Net Cash Used In Investing Activities	<u>74,067</u>	<u>50,341</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Notes Payable	<u>(580,475)</u>	<u>646,962</u>
Net Cash Provided (Used) By Financing Activities	<u>(580,475)</u>	<u>646,962</u>
Net Increase (Decrease) in Cash	(94,998)	198,600
Cash, Beginning of Year	<u>386,115</u>	<u>187,515</u>
Cash, End of Year	<u>\$ 291,117</u>	<u>\$ 386,115</u>

See notes to financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

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, 2015 with Comparative Totals for 2014

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, 2015 with Comparative Totals for 2014

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 2012, 2013, and 2014. 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, 2014, from which the summarized information was derived.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 3 – CASH

Cash held by the Corporation at December 31, 2015 and 2014 of \$0 and \$6,572, 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. There is no depreciation recorded on the building or improvements for the years ended December 31, 2015 and 2014, 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, 2015 and 2014 totaled \$15,065 and \$15,065, respectively.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 5 – REVOLVING LOAN FUND - Continued

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

	2015	2014
<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, up to \$41,584 of the total loan will be forgiven upon maturity. At December 31, 2015, TMT BioFuels, LLC had not met its job creation goals. During the year ended December 31, 2015 the Town of Lyonsdale stated that they would waive the job creation stipulation and allow the remaining \$41,548 to be forgiven. The Corporation is in the process of determining if the Town of Lyonsdale, New York has the proper authority to waive the job creation stipulation for the forgiveness of the remaining \$41,548 as the amount came from a state funded program. This issue is currently being investigated by the Corporation's attorneys.</p>	\$ 41,548	\$ 41,548
<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>	<u>11,943</u>	<u>21,155</u>
<p>Total</p>	<u>\$ 53,491</u>	<u>\$ 62,703</u>

NOTE 6 – LINE OF CREDIT

The Corporation has a \$250,000 line of credit with Community Bank. The interest rate is one percent above the prime rate, currently 4.25%. The line is secured by various assets of the Corporation. The amount owed as of December 31, 2015 and 2014 was \$200,000 and \$0 respectively.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 7 – NOTES PAYABLE

The Corporation had notes payable as follows at December 31:

	2015	2014
<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, 2015 and 2014 was \$240,585 and \$305,440, 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, 2015 and 2014 was \$240,585 and \$305,440, respectively. Interest accrues monthly at 1.50%. As of December 31, 2015 this note and any outstanding interest has been fully repaid.</p>	-	323,749
<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, 2015 and 2014 was \$240,585 and \$305,440, respectively. Interest accrues monthly at 1.50%. As of December 31, 2015 this note and any outstanding interest has been fully repaid.</p>	-	456,726
<p>A note dated September 17, 2015 in the amount of \$250,000 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, 2015 was \$240,585. Interest accrues monthly at 1.50%. Repayment is due September 1, 2016 or when grant funding is received, whichever occurs first.</p>	200,000	-
<p>Total</p>	\$ 300,000	\$ 880,475

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 7 – NOTES PAYABLE - Continued

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

2016	\$	206,667
2017		10,000
2018		10,000
2019		10,000
2020		10,000
Thereafter		<u>53,333</u>
Total	\$	<u>300,000</u>

NOTE 8 – 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, 2015 and 2014, the amount of deferred revenue associated with this agreement was \$0 and \$0 respectively. Revenue is recognized from this agreement when LCDC recognizes economic development expenses unrelated to other grants programs.

NOTE 9 – GRANTS AND CONTRACTS EARNED

The Corporation recognized grant and contract revenue during the year ended December 31, 2015 as follows:

National Grid Economic Development Plan	\$	106,250
Empire State Development Fund Incentive Award for Rehabilitation of the Lyons Falls Paper Mill		810,947
County of Lewis, New York Service Agreement for Local Development		<u>50,000</u>
Total	\$	<u>967,197</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 10 – ADVERTISING

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

NOTE 11 – CONTINGENCY

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 12 – CASH FLOW INFORMATION

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

	2015	2014
Interest	\$ 5,572	\$ 3,000

NOTE 13 – RESTATED FINANCIAL STATEMENTS/PRIOR PERIOD ADJUSTMENT

Expenses associated with the rehabilitation of the property purchased by Black Moose Development, LLC on Center Street in the Village of Lyons Falls, New York were capitalized for the year ended December 31, 2013. It has been determined that the capitalized items should have been expensed. Accordingly, property and equipment were reduced by \$57,208 at January 1, 2014. A corresponding adjustment of \$57,208 was made to decrease beginning net assets to actual for the year ended December 31, 2014.

Expenses associated with the rehabilitation of the property purchased by Black Moose Development, LLC on Center Street in the Village of Lyons Falls, New York were capitalized for the year ended December 31, 2014. It has been determined that the capitalized items should have been expensed. Accordingly, an entry was made to reduce property and equipment by \$1,086,784 at December 31, 2014. A corresponding adjustment of \$1,086,784 was made to increase grants paid expense to actual for the year ended December 31, 2014.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2016 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, 2015, 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 March 18, 2016.

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. 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. 2015-01.

Compliance and Other Matters

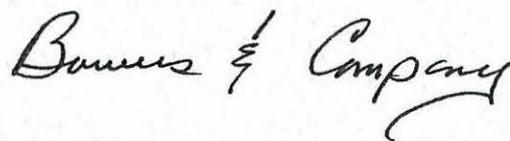
As part of obtaining reasonable assurance about whether Lewis County Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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
March 18, 2015

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2015

Significant Deficiency

2015-01 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

**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, 2015, 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 March 18, 2016, on the consolidated financial statements of Lewis County Development Corporation and Subsidiary.

Form 1099

We noted that the Corporation did not issue any Forms 1099 for the calendar year ended December 31, 2015. 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.

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.

A handwritten signature in cursive script that reads "Bowers & Company". The signature is written in dark ink and is positioned to the right of the main body of text.

Watertown, New York
March 18, 2016



BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

March 18, 2016

Board of Directors and Management
Lewis County Development Corporation

We have audited the financial statements of Lewis County Development Corporation for the year ended December 31, 2015, and have issued our report thereon dated March 18, 2016. 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 December 1, 2015. 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 2015. 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(s) affecting the financial statements was (were):

Management's estimate of the Empire State Development Fund 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(s) affecting the financial statements was (were):

The disclosure of contingency in Note 11 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 March 18, 2016.

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.

Board of Directors and Management
Lewis County Development Corporation
March 18, 2016
Page 3

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,

Bowers & Company

Client: 4000975-1000 - Lewis County Development Corporation
Engagement: 2015 - Lewis County Development Corporation
Period Ending: 12/31/2015
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 Net Assets to rollforward			
1000-2	UNNAMED	15.00	
1001-1	Key Bank Defed 322043002003	55.00	
1003-1	CDBG Savings-KEY (#0301)	7.00	
1050-1	Investment in Black Moose LLC	6,404.00	
1202-1	Grant Receivable	1,094,733.00	
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	529,627.00	
1104-1	TMT BioFuels LLC		126.00
1105-1	Boondocks Loan		367.00
1202	Grant Receivable 1		25,319.00
20000	Accounts Payable		1,586.00
3001-1	Unrestricted Fund Balance		1,493,087.00
3003-1	Restricted Fund Balance		8,047.00
3004-1	Unrestricted Fund Balance		250,465.00
Total		1,778,997.00	1,778,997.00

Adjusting Journal Entries JE # 2			
To reverse prior year A/P entry.			
20000	Accounts Payable	134,828.00	
5003-1-M	Legal Fees		513.00
5007-1-M	Postage & Shipping		11.00
5010-1-M	Accounting Fees		1,305.00
5012-1-L	Environmental Assessment Fees		10,214.00
5017-1-L	Application and Filing Fees		3,879.00
5021-1-L	Engineering Fees		10,660.00
5301-L	Village Of LF Project Mgmt		2,638.00
5302-L	Demolition - Phase 1		105,608.00
Total		134,828.00	134,828.00

Adjusting Journal Entries JE # 3			
To reclass amount received from Empire State Dev. from notes payable to A/R			
2009-3	DANC - Loan 500,000	500,000.00	
1202-1	Grant Receivable		500,000.00
Total		500,000.00	500,000.00

Adjusting Journal Entries JE # 4			
To adjust Notes Payable to actual per Audit			
2009-1	DANC Short Term 330,000	233,600.00	
2009-2	DANC Financing - Phase 2	515,299.00	
5025-1-L	Interest	7,974.00	
2009-3	DANC - Loan 500,000		50,000.00
2009-5	DANC - Loan 250,000		200,000.00
5006-1-L	DANC Fees		506,873.00
Total		756,873.00	756,873.00

Adjusting Journal Entries JE # 9			
To reclass amount received from Black Moose from revenue account to liability account.			
4010-1	Income From Black Moose	20,000.00	
1106-1	Due to Black Moose		20,000.00
Total		20,000.00	20,000.00

Adjusting Journal Entries JE # 10

To adjust retainage payable to actual per audit

20001	Retainage Payable	15,811.00	
5302-L	Demolition - Phase 1		15,811.00
Total		<u>15,811.00</u>	<u>15,811.00</u>

Adjusting Journal Entries JE # 11

To adjust accounts payable to actual per Audit

5012-1-L	Environmental Assessment Fees	9,437.00	
5302-L	Demolition - Phase 1	18,829.00	
20000	Accounts Payable		28,266.00
Total		<u>28,266.00</u>	<u>28,266.00</u>

Adjusting Journal Entries JE # 12

To record Grant Revenues and related receivables

1202-1	Grant Receivable	556,455.00	
4000-2	Contributions - Kruger		45,508.00
4009-1	Grants & Contracts Earned		510,947.00
Total		<u>556,455.00</u>	<u>556,455.00</u>

Adjusting Journal Entries JE # 13

To adjust investment in BlackMoose

3004-1	Unrestricted Fund Balance	1,143,992.00	
6005-1-M	Loss from Investments	57,982.00	
1050-1	Investment in Black Moose LLC		57,982.00
1050-1	Investment in Black Moose LLC		1,143,992.00
Total		<u>1,201,974.00</u>	<u>1,201,974.00</u>

Client: 4000975-1000 - Lewis County Development Corporation
 Engagement: 2015 - Lewis County Development Corporation
 Period Ending: 12/31/2015
 Trial Balance: 02-02.01 - Black Moose TB Database
 Workpaper: 02-03.01 - Black Moose Adjusting Journal Entries Report

Account	Description	Debit	Credit
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Adjusting Journal Entries JE # 2

To adjust Fixed Assets to actual per audit

6030-2	Loss on Disposal of Property and Equipment	64,855.00	
1040-2	Building		64,855.00
Total		<u>64,855.00</u>	<u>64,855.00</u>

Adjusting Journal Entries JE # 3

PPA to adjust buildings to actual

3002-2	Members Equity	1,143,992.00	
1050-2	Land Improvements		1,143,992.00
Total		<u>1,143,992.00</u>	<u>1,143,992.00</u>

Client: 400975-1000 - Lewis County Development Corporation
 Engagement: 2015 - Lewis County Development Corporation
 Period Ending: 12/31/2015
 Trial Balance: RP 02.01 - Cons TB Database
 Workpaper: RP 05.01 - Eliminating Journal Entries Report

Account	Description	Debit	Credit
Eliminating Journal Entries JE # 1			
To eliminate intercompany balances			
W-W01	Unrestricted Net Asstes	230,389.00	
B-B01	Investments		172,407.00
Y02-Y280	Investments		57,982.00
Total		<u>230,389.00</u>	<u>230,389.00</u>