CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
DECEMBER 31, 2011

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CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

BOWERS & COMPANY
CPAs PLLC
CERTIFIED PUBLIC ACCOUNTANTS ∘ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION
CARTHAGE, NEW YORK

We have audited the accompanying statement of financial position of

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

(a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of December 31, 2010, were audited by Sovie & Bowie CPAs, PC, who merged with Bowers & Company CPAs, PLLC as of January 1, 2012, and whose report dated March 23, 2011 expressed an unqualified opinion on those statements. The prior year information has been derived from the Organization's 2010 financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Carthage Industrial Development Corporation as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bowers & Company

March 23, 2012

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STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS

	December 31, 2011	December 31, 2010
Current Assets:		
Cash and cash equivalents	$ 700,710	$1,022,942
Other receivable - Buckley Realty, LLC	40,000	60,000
Grants receivable	193,757	6,000
Due from Northbrook Carthage, LLC	134,891	-
Due from West End Dam Associates	57,940	-
Loans receivable	40,000	18,000
Other receivables	338	332
Rents receivable	-	2,588
Total Current Assets	1,167,636	1,109,862
Fixed Assets:		
Land	224,029	206,885
West End Dam Hydroelectric Facility	4,774,378	4,651,000
Leasehold improvements	142,027	142,027
	5,140,434	4,999,912
Less, Accumulated Depreciation	1,231,219	1,134,344
Net Fixed Assets	3,909,215	3,865,568
Other Assets:		
Note receivable - Buckley Realty, LLC	80,000	120,000
Interest receivable - Buckley Realty, LLC	28,248	32,772
Lease acquisition costs - net	41,743	-
Capitalized costs - Cogeneration site property search	-	5,100
Organization costs - Braman Development, LLC - net	1,080	1,200
Investment in Carthage Coordinated Development Group, LLC	270,998	272,732
Investment in Carthage Development Group, L.P.	(51)	(30)
Investment in Carthage Development Group, L.P. - land donation	23,000	23,000
Interest receivable - Carthage Development Group, L.P.	295,090	241,571
Advances to Carthage Development Group, L.P.	1,930,118	1,920,160
Total Other Assets	2,670,226	2,616,505
Total Assets	$7,747,077	$7,591,935

LIABILITIES AND NET ASSETS

	December 31, 2011	December 31, 2010
Current Liabilities:		
Accounts payable	$ 47,280	$ 19,294
Current portion of long-term debt	12,083	12,083
Accrued interest expense	1,450	1,631
Deferred revenue	36,667	46,667
Tenants' security deposits	9,675	8,646
Due to West End Dam Associates	37,500	-
Due to Economic Development Corporation of Carthage	40,000	60,000
Total Current Liabilities	184,655	148,321
Long-term Debt:		
Loan payable - Economic Development Corporation of Carthage - net of current portion	84,584	96,667
Total Long-term Debt	84,584	96,667
Total Liabilities	269,239	244,988
Net Assets:		
Unrestricted net assets	7,477,838	7,346,947
Total Net Assets	7,477,838	7,346,947
Total Liabilities and Net Assets	$ 7,747,077	$ 7,591,935

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Unrestricted	Temporarily Restricted	Totals 2011	Totals 2010
Support and Revenue:				
Ground lease - rental income	$ 381,170	$ -	$ 381,170	$ 345,085
Grants	-	237,106	237,106	2,700
Building owners' matching funds	-	43,224	43,224	-
Income (loss) on investments	(2,755)	-	(2,755)	(3,701)
Rental income	84,113	-	84,113	66,822
Other income	9,126	-	9,126	8,477
Land donation from Village of Carthage	14,652	-	14,652	-
Reimbursements from West End Dam Associates	107,940	-	107,940	-
Interest income	68,313	-	68,313	73,123
	662,559	280,330	942,889	492,506
Net assets released from restrictions - Restrictions satisfied by payments	280,330	(280,330)	-	-
Total Support and Revenue	942,889	-	942,889	492,506
Expenses:				
Program services	729,707	-	729,707	252,713
Management and general	28,167	-	28,167	24,567
Total Expenses	757,874	-	757,874	277,280
Losses on loan and interest forgiveness	54,124	-	54,124	50,924
Total Expenses and Losses	811,998	-	811,998	328,204
Change in net assets	130,891	-	130,891	164,302
Net assets at beginning of year	7,346,947	-	7,346,947	7,182,645
Net assets at end of year	$ 7,477,838	$ -	$7,477,838	$ 7,346,947

The Accompanying Notes are an Integral Part of the Financial Statements.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH COMPARABLE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2010

	Program Services	Management and General	Totals 2011	Totals 2010
Shared expenses with Economic Development Corporation of Carthage	$ 64,251	$ 16,063	$ 80,314	$ 73,156
Legal fees	6,437	-	6,437	9,202
Real estate taxes	6,073	-	6,073	531
Master lease expense	63,010	-	63,010	63,599
Main Street Grant Program	340,566	-	340,566	-
Grants to others	40,000	-	40,000	2,700
Accounting fees	-	6,450	6,450	5,500
Insurance	1,777	1,777	3,554	3,482
Other professional fees	10,760	-	10,760	10,300
Office supplies	-	1,024	1,024	755
Dues	-	275	275	275
Interest	-	1,450	1,450	1,631
Repairs and maintenance	9,234	-	9,234	9,016
Hydro shaft reimbursement to West End Dam Associates	75,000	-	75,000	-
Utilities	288	-	288	121
Lost revenue reimbursements to Northbrook Carthage LLC	8,536	-	8,536	-
Filing fees	-	300	300	309
Uncollectible rents	6,900	-	6,900	-
Depreciation and amortization	96,875	828	97,703	96,703
Total	$ 729,707	$ 28,167	$ 757,874	$ 277,280

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Activities:		
Change in net assets	$ 130,891	$ 164,302
Reconciliation of change in net assets to net cash provided (used) by operating activities:		
Depreciation	97,703	96,703
Non-cash donations	(14,652)	-
Non-cash loan and interest forgiveness	54,124	50,924
Non-cash rental income	(10,000)	(10,000)
	258,066	301,929
(Increase) decrease in assets:		
Grants receivable	(193,757)	-
Due from Northbrook Carthage, LLC	(134,891)	-
Due from West End Dam Associates	(57,940)	-
Interest receivable	(63,119)	(66,320)
Rents receivable	2,588	(2,588)
Loans receivable	(22,000)	(18,000)
Other receivables	5,994	(6,009)
Increase (decrease) in liabilities:		
Accounts payable	27,986	16,479
Due to West End Dam Associates	37,500	-
Accrued interest	(181)	(181)
Security deposits	1,029	-
Net cash provided (used) by operating activities	(138,725)	225,310
Investing Activities:		
Purchase fixed assets	(125,870)	-
Capitalized costs - Cogeneration site property search	5,100	(5,100)
Lease acquisition costs	(42,451)	-
Organization costs - Braman Development, LLC	-	(1,200)
Investments in and advances to affiliated companies	(8,203)	(4,460)
Net cash used for investing activities	(171,424)	(10,760)
Financing Activities:		
Payment of long-term debt	(12,083)	(12,083)
Net cash used by financing activities	(12,083)	(12,083)
Increase (decrease) in cash	(322,232)	202,467
Cash and cash equivalents at beginning of year	1,022,942	820,475
Cash and cash equivalents at end of year	$ 700,710	$ 1,022,942

The Accompanying Notes are an Integral Part of the Financial Statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

A. Summary of Significant Accounting Policies:

Organization and Nature of Activities

The Carthage Industrial Development Corporation (CIDC) was incorporated under the not-for profit laws of the State of New York on August 26, 1998. The CIDC was formed to relieve and reduce unemployment, to promote and provide for additional and maximum employment, to better and to maintain job opportunities, to carry on scientific research for the purpose of aiding the communities of Carthage, West Carthage, the Town of Wilna and the Town of Champion by attracting industry or by encouraging the development of, or retention of, an industry to lessen the burdens of government and to act in the public interest.

The CIDC's initial activity was accepting title to the 66 acre former Fort James Paper Mill. Today the CIDC manages the remaining properties including the West End Dam Hydroelectric Facility. The CIDC also is engaged in community development activities including the redevelopment of both downtowns and the development of industrial properties.

Initially, the CIDC's only source of operating revenue was the ground lease payments received from West End Dam Associates relating to the West End Dam Hydroelectric Facility. Currently, CIDC receives governmental grants in addition to the ground lease payments. Also, CIDC receives monthly rentals from four commercial store fronts.

Basis of Accounting

The financial statements of Carthage Industrial Development Corporation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

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 Organization 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 financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2011

A. Summary of Significant Accounting Policies - contd.:

Cash and Cash Equivalents

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

Current Vulnerability Due to Certain Concentrations:

Carthage Industrial Development Corporation's primary asset is the West End Dam Hydroelectric Facility. The revenue generated by the ground lease typically represents approximately 70% of total revenue.

The Organization operates in the Northern New York area and such operations may be affected by local economic conditions.

Income Tax Status

The Organization 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 Organization has adopted the provisions of Financial Accounting Standards Board Codification, "Income Taxes". In determining the recognition of uncertain tax positions, the Organization 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 Organization 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 Organization analyzed its tax positions taken on their Federal and State tax returns for the open tax years 2008, 2009, and 2010. Based on our analysis, the Organization determined that there were no uncertain tax positions and that the Organization should prevail upon examination by the taxing authorities.

Donated Services

Donated services are recognized as contributions in accordance with FASB Accounting Standards Codification (ASC) 958, *Not for Profit Organizations.* Under ASC 958-605-25-16, contributions are recognized if the donated services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, and various fundraising efforts. These services are not recognized as contributions in the financial statements since the criteria for ASC 958-605-25-16 are not met.

A. **Summary of Significant Accounting Policies - contd.:**

Advertising

The Organization expenses advertising and marketing costs as incurred.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Lease Acquisition Costs

Lease acquisition costs are written off on a straight-line basis over the thirty year term of the West End Dam Hydroelectric Facility lease.

Organization Costs – Braman Development, LLC

Organization costs related to Braman Development, LLC are written off over a period of five years.

Comparative Financial Information

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2010 from which the summarized information was derived.

B. **Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits:**

Carthage Industrial Development Corporation maintains its cash balances in one local bank. The balances are partially insured by the Federal Deposit Insurance Corporation (FDIC). In addition, the bank pledges securities as collateral.

From December 31,2010 through December 31, 2012, all non interest bearing transaction accounts are fully insured, regardless of account balance and the ownership capacity of the funds. Interest bearing accounts are insured up to $250,000 per depositor per bank.

Balances at December 31, 2011 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	$ 147,008	$ 147,008	$ ---
Money Market and Certificates of Deposit	$ 553,702	$ 250,000	$1,300,000

As of December 31, 2011, CIDC's bank balances are adequately protected by the FDIC limits and collateralization by the bank.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2011

C. Investment in Carthage Coordinated Development Group, LLC (CCDG):

	December 31, 2011	December 31, 2010
Percentage of ownership	33.33%	33.33%

During 2004, CIDC entered into a joint venture with Carthage Area Hospital and the Economic Development Corporation of Carthage, New York to acquire certain real estate in the Village of Carthage, New York for purposes of development. Each of the partners has contributed $284,913 to CCDG as of December 31, 2011.

CIDC'S proportionate share of income/ (loss) for the years ended December 31, 2011 and 2010 are $(2,734) and $(3,681), respectively.

CIDC's investment in CCDG is as follows:

	December 31, 2011	December 31, 2010
Capital contributions	$284,913	$283,913
CIDC's accumulated share of income/ (losses)	(13,915)	(11,181)
Total	$270,998	$272,732

The investment is reported at its tax basis.

D. Investment in Braman Development, LLC:

In November 2010, Carthage Industrial Development Corporation created a new entity known as Braman Development, LLC. The Company was created in anticipation of receiving title to certain real estate parcels in Carthage, New York. Carthage Industrial Development Corporation incurred $1,200 in organization costs to establish the new Company. Title to the real estate passed to Carthage Industrial Development Corporation during the year ended December 31, 2011. The Village of Carthage donated the land to CIDC.

The property which consists of two parcels was recorded at its estimated fair market value based on the Village of Carthage Assessor's determination as presented on the real estate tax bills in 2011. That amount is $14,652. Costs associated with acquiring the property, including delinquent real estate taxes and recording costs, were capitalized as part of the cost of the Braman property.

Braman Development, LLC is a single member limited liability company with Carthage Industrial Development Corporation as the sole member.

E. Investment in Carthage Development Group, L.P. (CDG):

	December 31, 2011	December 31, 2010
Percentage of ownership	.01%	.01%

Prior to 2004, CIDC was the sole owner of CDG. During 2004, NDC Corporate Equity Fund VI, L.P. acquired a 99.99% interest in CDG in order to obtain lucrative tax credits associated with CDG's project in Carthage, New York. CIDC remains a .01% owner through its ownership of 256 West Main Street, LLC, a single member LLC. 256 West Main Street, LLC is the general partner in CDG. CIDC's proportionate share of income/ (loss) for the years ended December 31, 2011 and 2010 are $(21) and $(20), respectively.

CIDC's investment in CDG is as follows:

	December 31, 2011	December 31, 2010
Capital contributions	$ 100	$ 100
CIDC's accumulated share of losses	(151)	(130)
Total	$ (51)	$ (30)

The investment is reported at its tax basis.

F. Advances to Carthage Development Group, L.P. (CDG):

Advances to Carthage Development Group, L.P. consist of the following as of December 31, 2011 and 2010:

		December 31, 2011	December 31, 2010
1.	Sponsor note receivable in the original amount of $579,425. The nonrecourse loan is subordinate to any indebtedness to Key Bank National Association. The note accrues interest at 4% per annum and will be charged on the outstanding principal balance. During 2006, additional borrowings of $885,000 were made on the sponsor note. Repayments of $206,456 were received on the outstanding principal balance. The outstanding principal and accrued interest are due December 31, 2021. Interest of $222,371 and $172,052 are included in accrued interest receivable at December 31, 2011 and 2010, respectively.	$ 1,257,969	$ 1,257,969

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2011

F. Advances to Carthage Development Group, L.P. (CDG) - contd:

		December 31, 2011	December 31, 2010
2.	A 32-year nonrecourse note receivable in the original amount of $320,000. The note is unsecured and bears interest at 1% of the outstanding principal balance. The outstanding principal and interest balance are due December 31, 2036 and is subordinate to any indebtedness due to Key Bank National Association. Interest of $19,200 and $16,000 are included in accrued interest receivable at December 31, 2011 and 2010, respectively.	320,000	320,000
3.	Other unsecured, non-interest bearing advances to Carthage Development Group, L.P.	352,149	342,191
	Total	$1,930,118	$1,920,160

As of December 31, 2011 and 2010, there is a discrepancy between CIDC and CDG's records in the amount of other unsecured, non-interest bearing advances to CDG. CDG's records reflect $241,695 and $231,737, as of December 31, 2011 and 2010, respectively. The difference is $110,454 for each year.

The two companies do not wish to research the cause of the differences in amounts. As more fully described in Note S, the intercompany loans may eventually be eliminated if CIDC exercises its right to purchase CDG's project at the end of the tax credit compliance period.

G. Investment in Carthage Development Group, L.P. – Land Donation:

In January 2004, CIDC acquired a certain real estate parcel in Carthage, New York. CIDC paid approximately $43,000 for the site and the seller made a gift of $23,000 for the balance of the site's fair market value. CIDC sold the parcel to Carthage Development Group, L.P. at no gain or loss. The $23,000 value of the gifted real estate is included in CIDC's investment in CDG.

December 31, 2011	December 31, 2010
$23,000	$23,000

The investment is reported at its tax basis.

H. Capitalized Costs – Cogeneration Site Property Search:

During the year ended December 31, 2010, Carthage Industrial Development Corporation incurred costs of $5,100 to obtain a property abstract and maps for real estate at the Cogeneration site in Carthage, New York.

There was uncertainty as to the ownership of the land at the site. During 2011, CIDC's legal counsel examined the documents and determined it was unlikely that CIDC owned any interest in the property. Pursuant to that determination, the capitalized costs incurred in 2010, were written off in 2011.

I. Fixed Assets:

Fixed assets consist of the following at December 31:

	2011	2010
Land	$ 224,029	$ 206,885
West End Dam Hydroelectric Facility	4,774,378	4,651,000
Leasehold improvements	142,027	142,027
	5,140,434	4,999,912
Less, accumulated depreciation:		
West End Dam Hydroelectric Facility	1,209,432	1,116,240
Leasehold improvements	21,787	18,104
	1,231,219	1,134,344
Net fixed assets	$3,909,215	$3,865,568

Purchased fixed assets are carried at cost. Expenditures for major renewals and betterments that extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Donated fixed assets are carried at fair market value at time of donation, if that value is readily determinable.

The West End Dam Hydroelectric Facility is recorded based on the value established by the New York State Office of Real Property Services Utility Valuation Unit using the income approach to value.

Depreciation is computed on a straight-line basis over a period of fifteen to fifty years.

The Organization has adopted a policy to capitalize fixed asset acquisitions of $1,000 or more.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2011

J. Loans Receivable:

1. In October 2010, Carthage Industrial Development Corporation loaned $18,000 to the Carthage Chamber of Commerce to assist short-term funding for a Chamber project. The noninterest bearing loan was repaid to Carthage Industrial Development Corporation in January 2011.

2. In March 2011, CIDC approved the advance of $80,000 to the Village of Carthage to assist with the development of a public park known as the Guyot Island Project in the Village of Carthage. According to the terms of the agreement, $40,000 of the advance is to be considered a grant and is not required to be repaid to CIDC.

   The remaining $40,000 is to be treated as a loan to the Village. Terms of the written note dated March 7, 2011, require repayment in full within one year. No interest will be charged on the loan. As of December 31, 2011, no payments have been made on the loan.

K. Deferred Revenue:

Deferred revenue consists of the following as of December 31, 2011 and 2010:

	2011	2010
In order for Carthage Coordinated Development Group, LLC (CCDG) to acquire a certain real estate parcel, CIDC made an agreement with the property owner to provide commercial rental property to his business at a reduced rent for a period of ten years. That business signed the first lease as more fully described at Note Q. The economic value of the reduced rent was agreed to be $100,000. In exchange for the reduced rent, the property owner agreed to a $100,000 reduction in the price of the real estate purchased by CCDG. CIDC recorded the transaction as a $100,000 capital contribution to CCDG and deferred rental income of $100,000. Deferred rent is being recognized on a straight-line basis over a period of ten years.	$36,667	$46,667

L. Long-term Debt:

Long-term debt consists of the following as of December 31,

	2011	2010
A promissory note in the amount of $145,000 dated December 23, 2004 is payable to the Economic Development Corporation of Carthage (EDCC). The note was amended in 2007. Under the amended terms, the note accrues interest at the higher of 1.5% per annum or the one year certificate of deposit rate at Carthage Federal Savings and Loan. The interest rate was 1.5% per annum for the years ended December 31, 2011 and 2010. Interest of $1,450 and $1,631 are included in accrued interest expense at December 31, 2011 and 2010, respectively. The loan is to be repaid in twelve annual installments of $12,083.33, plus interest. The first payment was made in 2008. The maturity date is January 1, 2019.	$ 96,667	$ 108,750
Less estimated current portion	12,083	12,083
Long-term debt	$ 84,584	$ 96,667

Estimated maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2012	$ 12,083
2013	12,083
2014	12,083
2015	12,083
2016	12,083
Thereafter	36,252
Total	$ 96,667

M. Due from Buckley Realty, LLC:

Note Receivable – Buckley Realty, LLC:

In August 2007, CIDC loaned $200,000 to Buckley Realty, LLC to support the restoration of the Buckley Building in Carthage, New York. Interest is computed at a fixed rate of 8% per annum on the unpaid principal. As of December 31, 2011 and 2010, accrued interest totals $28,248 and $32,772, respectively.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2011

M. Due from Buckley Realty, LLC - contd:

Payment terms state the borrower shall make no payments under the note unless and until there is an event of default as described in the loan documents. The loan shall be forgiven over a five year period, commencing on the issuance of a certificate of occupancy providing the borrower remains in good standing with all payments of taxes, utilities, tenant charges and all other carrying charges related to the property.

In the event of default by the borrower of any terms of the agreement, the entire unpaid principal, together with all accrued and unpaid interest thereon, become immediately due and payable, at the option of CIDC.

Buckley Realty, LLC received its certificate of occupancy on September 3, 2009. If Buckley Realty, LLC complies with the terms of the loan, CIDC will forgive a portion of the principal plus accrued interest over a period of five years on the anniversary date of having received the certificate of occupancy.

Pursuant to this agreement, based on Buckley Realty, LLC's compliance with the terms of the loan, CIDC forgave principal of $40,000 and accrued interest of $14,124 during 2011.

Other Receivable – Buckley Realty, LLC:

As further described in Note N, in 2008, the Economic Development Corporation of Carthage (EDCC) provided a loan of $100,000 to Buckley Realty, LLC with repayment/forgiveness terms as previously described for CIDC's note receivable from Buckley Realty, LLC. Other receivable – Buckley Realty, LLC is the offset to the due to Economic Development Corporation of Carthage liability of $100,000. Pursuant to the repayment/forgiveness terms, the receivable was reduced by one-fifth or $20,000 during 2011 and 2010.

The amounts due from Buckley Realty, LLC are subordinate to loans that Buckley Realty, LLC owes to Carthage Federal Savings and Loan.

N. Due to Economic Development Corporation of Carthage:

In order to assist in funding for the Buckley Building, the Economic Development Corporation of Carthage (EDCC) provided a $100,000 loan to Buckley Realty, LLC. The repayment/forgiveness terms are the same as CIDC's other receivable described in Note M.

Pursuant to the repayment/forgiveness terms, the liability was reduced by one-fifth or $20,000 during 2011 and 2010.

For administration purposes, EDCC's loans were deposited in the Buckley Building checking account maintained by CIDC. For reporting purposes, the loan balances are reported as the liability due to Economic Development Corporation of Carthage on the accompanying Statements of Financial Position.

O. Ground Lease - Rental Income:

The Carthage Industrial Development Corporation had a long-term ground lease agreement with West End Dam Associates relating to the West End Dam Hydroelectric Facility. The original lease began January 1, 1986 and was due to expire on December 31, 2016.

At the request of West End Dam Associates, the parties signed a lease termination agreement in December 2010. The lease terminated June 30, 2011. Under the terms of the lease termination, West End Dam Associates made two scheduled quarterly lease payments of $90,584.81 each or a total of $181,169.62 in 2011.

Carthage Industrial Development Corporation researched its options for the operation of the hydroelectric facility and was in contact with several energy companies.

A net lease with Northbrook Carthage, LLC became effective July 1, 2011. Under the terms of the thirty year lease which expires June 30, 2041, base rent is payable in quarterly installments beginning October 1, 2011 and the first day of every third month thereafter. For the first year, quarterly payments are $100,000 and will total $400,000 for the year ended June 30, 2012. Thereafter, base rent is 42.20% of gross energy sales, but not less than $370,000 per annum.

There is also a provision for additional rent based on certain percentages of power sales and revenues. Such amounts are payable by March 15 each year and Northbrook must submit a written statement showing the calculation of the additional rent.

Future minimum ground lease payments are as follows:

Year Ending December 31,	Amount
2012	$ 385,000
2013	370,000
2014	370,000
2015	370,000
2016	370,000
Thereafter	9,065,000
Total	$10,930,000

P. Master Lease:

In March 2004, CIDC entered into a Master Lease with Carthage Development Group, L.P. (CDG) for commercial space at 256-260, 262-264 State Street, Carthage, New York. The master lease was established to assist in securing limited partners for CDG's project. CIDC is leasing the commercial space from CDG for a base rent of $62,220 per year for fifteen years beginning April 1, 2005. In addition, CIDC may be charged its proportionate share of increases in property taxes, insurance and utilities. The lease expires in March 2020. CIDC is authorized to sublet the property for retail, office or other legal and non-hazardous rental use.

NOTES TO FINANCIAL STATEMENTS - CONTD.
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P. Master Lease - cont'd:

Rental expense relating to the lease totaled $63,010 and $63,599 for the years ended December 31, 2011 and 2010, respectively.

Future minimum rentals are as follows:

Year Ending December 31,	Amount
2012	$ 62,220
2013	62,220
2014	62,220
2015	62,220
2016	62,220
Thereafter	202,215
Total	$ 513,315

As of December 31, 2011, three leases for subletting the property have been signed. Those leases are further described in Note Q. One storefront is not occupied as of December 31, 2011.

Q. Leases:

As more fully described in Note P, CIDC entered into a master lease with Carthage Development Group, LP. CIDC is authorized to sublet the property. As of December 31, 2011, there are three leases for subletting the property. All are written leases. One storefront is vacant.

Sublet 1. The first lease with a commencement date of approximately September 1, 2005 was for a term of five years with renewal rights for three, five-year additional periods. For the first year monthly rental was $1,000. Increases of approximately 2% each year are scheduled for subsequent years. The lease was renewed for five years effective September 1, 2010 with monthly rent of $1,104. Effective September 1, 2011, monthly rental is $1,126.

In addition, the tenant will pay $100 plus a 3% annual escalator on $100 toward operating costs each year.

Sublet 2. The second lease with a commencement date of approximately November 1, 2005 was for a term of five years. Upon its expiration, a new five year lease was signed effective November 1, 2010. Under the terms of the new lease, the monthly rent was $1,338 for 60 months. There were renewal provisions available upon the expiration of the lease.

Q. Leases - contd:

In September 2011, the tenant negotiated a lease termination agreement with CIDC. The tenant had sold his business and wished to terminate the lease. Under the agreement, the tenant paid CIDC $23,729 and forfeited his security deposit of $1,271 for a total of $25,000. The lease was terminated as of September 30, 2011.

A new tenant signed a lease with a commencement date of December 1, 2011. The lease is for a term of five years with an option to extend the lease for two additional years. The monthly rent is $1,150 for sixty months.

If the tenant terminates the lease for any reason other than insolvency, he is required to pay the equivalent of twelve months rent.

In addition, the tenant may be required to pay a proportionate share of real estate taxes, special assessments and operating costs.

Sublet 3. The third lease with a commencement date of approximately June 1, 2006 was for a term of five years with renewal rights for an additional five-year period. Monthly rental was $1,090. CIDC was notified by the tenant that the lease would not be renewed at the expiration date of May 31, 2011.

A new tenant signed a one year lease with a commencement date of September 1, 2011 with an option to extend the lease for two additional years. The monthly rent is $1,090 for twelve months.

In addition, the tenant may be required to pay a proportionate share of real estate taxes, special assessments and operating costs.

Sublet 4. The fourth lease with a commencement date of August 1, 2007 was for a term of five years with renewal rights for an additional five year period. Monthly rental was $1,250.

The tenant developed financial difficulties and as of December 31, 2010 was two months in arrears on its rent. The tenant made payments in 2011, but was unable to fulfill its obligations under the lease. The business closed in 2011. At that time, the business owed $6,900 in past due rent. CIDC determined the past due rent was uncollectible.

As of December 31, 2011, this location was not under lease.

NOTES TO FINANCIAL STATEMENTS - CONTD.
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Q. Leases - cont'd:

Minimum future rentals for the following five years are as follows:

Year Ended December 31,	Sublet 1	Sublet 2	Sublet 3	Sublet 4	Total
2012	$ 13,600	$ 13,800	$ 8,720	$ ---	$ 36,120
2013	13,868	13,800	---	---	27,668
2014	14,148	13,800	---	---	27,948
2015	9,560	13,800	---	---	23,360
2016	---	12,650	---	---	12,650
Thereafter	---	---	---	---	---
Total	$ 51,176	$ 67,850	$ 8,720	$ ---	$127,746

Late payments may be assessed a late payment penalty.

R. Non Cash Investing and Financing Activities:

Non cash rental income	$ 10,000
Non cash land donation from the Village of Carthage	$ 14,652
Loan principal and accrued interest forgiven:	
Note receivable – Buckley Realty, LLC	$ 40,000
Other receivable – Buckley Realty, LLC	$ 20,000
Interest receivable – Buckley Realty, LLC	$ 14,124
Due to Economic Development Corporation of Carthage	$ 20,000

S. Commitments and Contingencies:

Litigation

A possible claim exists against Carthage Industrial Development Corporation by the Jefferson County Industrial Development Agency (JCIDA) for electrical energy allegedly consumed at the former Fort James paper mill after the CIDC acquired title to the mill. Niagara Mohawk Power Company has sued Fort James Corporation for $238,253 plus interest at 8% from March 1, 2000. Fort James Corporation has threatened a claim with the JCIDA to reimburse Fort James Corporation for amounts it was required to pay Niagara Mohawk Power Company. The CIDC may be ultimately responsible as the Fort James mill property was conveyed to the JCIDA who in turn conveyed the property to the CIDC on the same day.

S. Commitments and Contingencies - contd:

Debt Guarantor

CIDC is a guarantor on a $125,000 note owed to the Village of Carthage by Carthage Development Group, L.P. (CDG). In loan documents amended July 13, 2005, CIDC agrees to assign its rental and lease income as collateral on the note. In October 2010, CIDC, on CDG's behalf, made a principal payment of $8,333.33 and accrued interest of $1,625 to the Village of Carthage. In 2011, CIDC, on CDG's behalf, made a principal payment of $8,333.33 and accrued interest of $1,625 to the Village of Carthage. These amounts are included in Advances to Carthage Development Group, L.P. on the Statements of Financial Position. Such amounts have been applied to the Operating Deficit Guarantee Agreement described in the following paragraph.

Operating Deficit Guarantee Agreement

CIDC and 256 West Main Street, LLC entered into an Unconditional Guaranty Agreement with NDC Corporation Equity Fund VI, L.P., the 99.99% owner of Carthage Development Group, L.P. (CDG). Under the agreement, in the event an operating deficit arises, Carthage Industrial Development Corporation has agreed to advance funds to cover such shortfall (not to exceed three months operating expenses). Advances made under these conditions shall be non-interest bearing loans repayable in accordance with the Limited Partnership Agreement. This guarantee shall expire when the Project has achieved and maintained a ratio of net operating income to debt service of 1.5 annually for three calendar years (they need not be consecutive provided a debt coverage ratio of greater than 1.0 is achieved in the intervening years) and will be limited to $100,000. Payments by CIDC amounted to $9,958 for each of the years ended December 31, 2011 and 2010. Management has created a $100,000 reserve fund in a certificate of deposit to ensure funds will be available to meet obligations under this agreement.

Right of First Refusal

At the end of the tax credit compliance period, CIDC will have the right of first refusal to buy CDG's Project for the sum of the outstanding debt and sufficient cash to pay all federal and state tax liabilities on behalf of the limited partner. If CIDC elects not to purchase the Project, the limited partner (NDC Corporate Equity Fund) will have the right to purchase it.

Lien on Assisted Properties

CIDC has received grants through the New York State Housing Trust Fund Corporation.

According to the terms of the grants, for a period of seven years from final disbursement of the grant funds, CIDC must take all necessary steps to ensure owners of the assisted properties maintain the properties and facades in good condition and ensure that the streetscape enhancements are maintained in good condition. In the event of noncompliance or resale, the amount of grant funds may be subject to repayment.

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S. Commitments and Contingencies –contd.:

Carthage Coordinated Development Group, LLC

When created, the members of Carthage Coordinated Development Group, LLC (CCDG) agreed that in the event the real estate owned by Carthage Coordinated Development Group, LLC is not developed as anticipated, one of its members, Carthage Area Hospital, is entitled to withdraw from the Company. If this occurs, the two remaining members (one of which is CIDC) would purchase the other member's interest.

In February 2009, a substantial portion of CCDG's real property was transferred to one of its members, Carthage Area Hospital. Consideration for the transfer was an amount approximating that member's capital contributions to CCDG. As a result of the transfer, CIDC was relieved of its potential obligation to pay Carthage Area Hospital for its interest in CCDG.

256 West Main Street, LLC

256 West Main Street, LLC is the general partner in Carthage Development Group, L.P. CIDC is the sole member of 256 West Main Street, LLC.

NDC Corporate Equity Fund VI, L.P. is the limited partner and owns 99.99% of Carthage Development Group L.P.

As the general partner, 256 West Main Street, LLC has certain legal and financial obligations to the limited partners.

Carthage Free Library

1. In October 2009, at the request of Carthage Free Library and in support of the Library's renovation project, CIDC agreed to guarantee $175,000 of pledges made to the Library for its project. The Library required a certain level of matching funds in order to secure a New York State Library Construction Grant. Pledges are not considered matching funds. However, by guaranteeing the pledges, the Library has sufficient matching funds for the grant. CIDC believes the pledges it is guaranteeing are from very strong and reputable businesses in the Carthage area.

2. Effective January 25, 2012, Carthage Industrial Development Corporation signed a Guaranty of Payment with Carthage Federal Savings and Loan. Under the agreement, CIDC guarantees up to $300,000 of a $500,000 loan which the bank is making to Carthage Free Library. Under terms of the agreement, in the event of default, the bank is not required to commence any action against Carthage Free Library prior to making demand for payment upon CIDC.

National Grid Grant

CIDC received a $30,000 grant from National Grid for the Buckley Building restoration. The National Grid grant is dependent on CIDC's $200,000 commitment to the Buckley Building project as described in Note M. In the event CIDC does not forgive the $200,000 loan to the Buckley project and receives payments on the loan, National Grid could review its commitment of $30,000 to the project and authorize CIDC to use the funds on another eligible project or request repayment of the funds.

T. Related Party Transactions:

1. Investments and advances to related companies are more fully described in Notes C, D, E, F and G.

2. The master lease between CIDC and CDG is more fully described in Note P.

3. Under a Development Agreement between Carthage Development Group, L.P. (CDG) and CIDC, CDG was obligated to pay a development fee of $885,000 of which $835,000 was payable upon project completion and issuance of the Certificate of Occupancy and the $50,000 during the 18th month of the construction term loan. The fee was repaid in full during 2006. Upon payment of the development fee, CIDC loaned the full amount to CDG in conjunction with the sponsor note described in Note F.

4. Carthage Development Group, L.P. (CDG) is obligated to pay its general partner (256 West Main Street, LLC) a general partner management fee as defined in the General Partner Management Agreement ("the Agreement"). CDG may terminate this Agreement without further liability upon the removal of the general partner under the Partnership Agreement. Unless otherwise terminated sooner, this Agreement shall terminate at the end of the compliance period for the CDG's Project. The Agreement provides for an annual fee of $5,000 payable subject to available net cash flow at year end. The fee is subordinate to operating expenses (including debt service) and shall not accrue. No management fees were due for 2011 and 2010.

5. Carthage Development Group, L.P. (CDG) is obligated to pay the general partner (256 West Main Street, LLC) a fee ("the incentive management fee") equal to 10% of the gross income (not to exceed 80% of remaining available net cash flow as defined in the Partnership Agreement). These fees are due within 90 days of the calendar year end. No incentive management fees were due for 2011 and 2010.

6. CIDC contracts with Jefferson County Job Development Corporation (JCJDC) to provide maintenance services on a property owned by Carthage Development Group, L.P. (CDG). CIDC pays JCJDC for the services and is then reimbursed a like amount by CDG. Amounts for the years ended December 31, 2011 and 2010 are $9,126 and $8,477, respectively.

7. CIDC's Board of Directors also serves as the Board of Directors for Carthage Development Group, L.P.

8. CIDC and Carthage Coordinated Development Group, LLC share many of the same members on their respective Boards of Directors.

NOTES TO FINANCIAL STATEMENTS - CONTD.
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U. New York State Main Street Grant:

In February 2009, CIDC was awarded a $424,075 New York State Main Street Grant. The purpose of the grant is building rehabilitation in downtown Carthage, New York. Originally, CIDC was given two years to complete the projects. However, in January 2011, CIDC received approval of a one year extension of the grant. The period for expending grant funds was extended to February 27, 2012.

During the years ended December 31, 2011 and 2010, CIDC, together with certain building owners in downtown Carthage, partnered on the rehabilitation of approximately six sites plus the installation of new downtown lighting. CIDC expects to have all projects completed prior to the grant deadline of February 27, 2012. CIDC submitted two grant expenditure vouchers totaling $212,106.33 during the year ended December 31, 2011. Both were paid to CIDC by December 31, 2011. Grant revenue consists of the vouchered amounts collected as well as $25,000 due under the grant for the downtown lighting project completed in December 2011. The total is $237,106.33.

Rehabilitation expenses incurred but not vouchered under the grant are reported as Other Receivables on Exhibit A. The amounts as of December 31, 2011 and 2010 are $193,757 and $6,000, respectively.

V. West End Dam Associates and Northbrook Carthage, LLC

As part of the hydro facility lease negotiations between CIDC, West End Dam Associates and Northbrook Carthage, LLC, several other agreements between the companies also had to be settled. Such agreements included reimbursement of lost revenue while a shaft was replaced, the cost, and reimbursement for the cost of the shaft and its installation and allocation of the True-up Agreement.

As of December 31, 2011, the following is a summary or amounts owed between the companies:

Due from Northbrook Carthage, LLC	$134,891
Due from West End Dam Associates	$ 57,940
Due to West End Dam Associates	$ 37,500

CIDC expects to negotiate with West End Dam Associates to settle the due to and due from accounts. Settlement is expected in 2012.

W. Cash Paid for Interest and Income Taxes:

	2011	2010
Interest	$ 1,631	$ 1,812
Income taxes	$ ---	$ ---

X. Subsequent Events:

As part of a cost sharing arrangement with the Economic Development Corporation of Carthage (EDCC), CIDC reimburses the EDCC for various costs which include wages and benefits of an individual who is actually an employee of the Jefferson County Industrial Development Corporation. Benefits include New York State Retirement.

In a recent ruling by the New York State Comptroller, individuals employed by agencies like the JCIDA have been deemed to not qualify for New York State Retirement. Lawsuits are anticipated as workers seek to restore their retirement benefits. The final determination could affect amounts already paid to the EDCC under the cost sharing arrangement as well as future payments.

Subsequent events have been evaluated through March 23, 2012 which is the date the financial statements were available to be issued.

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To the Board of Directors of
Carthage Industrial Development Corporation
Carthage, New York

In planning and performing our audit of the financial statements of Carthage Industrial Development Corporation as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Carthage Industrial Development Corporation'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in Carthage Industrial Development Corporation's internal control to be significant deficiencies:

Preparation of Financial Statements

In accordance with new accounting standard SAS115, should management choose to allow the auditors to prepare the Organization's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the new standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with the knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

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Management Response

In accordance with Statement of Auditing Standards (SAS) No. 115, it is the responsibility of the Carthage Industrial Development Corporation (CIDC) to prepare the Organization's financial statements. The CIDC chose to allow the independent auditor to prepare the financial statements for the reporting period as has been standard practice for many small organizations. It is important to note that this practice is not precluded under the new guideline, but rather is now listed as a significant deficiency under the published standards.

The CIDC has the expertise, both on the Board of Directors which includes a bank president, executive directors of a state authority and county industrial development agency, numerous economic development specialists versed in reviewing financial statements, and in-house staff, to fully understand and determine the accuracy of the financial statements as prepared.

Carthage Industrial Development Corporation's response to the finding identified in our audit is described above. We did not audit Carthage Industrial Development Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Bowers & Company

March 23, 2012