

COUNTY OF LEWIS INDUSTRIAL
DEVELOPMENT AGENCY

FINANCIAL STATEMENTS
May 31, 2012

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BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

We have audited the accompanying basic financial statements of the **COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY** (a State of New York corporate governmental agency), as of and for the years ended May 31, 2012 and 2011 as listed in the table of contents. These financial statements are the responsibility of the County of Lewis Industrial Development Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements as of May 31, 2011, were audited by Sovie & Bowie CPAs, PC, who merged with Bowers & Company CPAs, PLLC, as of January 1, 2012, and whose report dated August 10, 2011, expressed an unqualified opinion on those statements.

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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County of Lewis Industrial Development Agency as of May 31, 2012 and 2011 and the results of its operations and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2012 on our consideration of the County of Lewis Industrial Development Agency'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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bowers & Company

Watertown, New York
August 1, 2012

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS May 31, 2012 and 2011

INTRODUCTION

The following is the County of Lewis Industrial Development Agency's (LCIDA) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal year end May 31, 2012. Information contained in the MD&A has been prepared by the LCIDA management and should be considered in conjunction with the financial statement and the notes of the independent auditors' report conducted by Bowers & Company, CPAs, PLLC.

The notes are essential to a full understanding of the data contained in the financial statements. The goal is to provide readers an objective and easily understood overview of the LCIDA's financial performance.

OPERATION HIGHLIGHTS

The LCIDA is a self-funded public benefit corporation created to attract and enhance industrial development, help create jobs and maintain economic stability within Lewis County. Our secondary function is to assist other agencies with tourism, natural resources, retail, wholesale, professional and community enhancements.

The LCIDA has ongoing Projects with Lyonsdale Biogas (RE Energy), MA&N Railroad, Harrisville Dry Kiln, V.S. Virkler & Son, Otis Technology, WPS Beaver Falls Generation. The LCIDA has provided a means of financial benefits for approximately 35 large Projects in the amount of over 284 million dollars.

During this past year the LCIDA continued to support the small family business, which may grow into larger manufacturing companies. This past year we provided in cooperation with our economic partner, New York State Business Development Corporation, over 100 hours of business counseling to approximately 25 local citizens. At least two new retail businesses resulted.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS May 31, 2012 and 2011

OPERATION HIGHLIGHTS - Continued

The LCIDA feels it is important to learn more precisely the issues and concerns of our industries and help address these issues. We have accomplished this by:

- Over 35 on site visitations
- Sponsor grants for Lewis County Businesses
- Marketing
 - Web Site product marketing – The creation and maintenance of approximately 600 business Web Pages.
- Organization Participation – Allows the LCIDA to interact with industry on a regular basis to learn more about their issues and to find solutions. Some of the major organizations are:
 - Lewis County Comprehensive Plan Implementation Committee
 - Lewis County Legislator Economic Sub-Committee
 - Comprehensive Economic Development Strategy Committee (CEDS)
 - Community Digester Initiative
 - North Country Alliance (NCA)
 - Central Upstate Regional Alliance
 - Town and Village Supervisor Meetings

The LCIDA is a small quiet agency with a progressive, even aggressive posture working with their many partners to create “A Positive Economic Attitude in Lewis County.”

FINANCIAL HIGHLIGHTS

- The assets of the LCIDA exceeded its liabilities at the most recent fiscal year by \$1,450,813 (net assets). Net Assets decreased from the prior year by \$94,657 or 6.1%. A decrease is not unusual for an IDA in a small County with limited manufacturing activity. Project fees generating operating revenue for the Agency occur infrequently.
- During the most recent fiscal year expenses exceed revenues by \$94,657. This compares to last year of revenues exceeding expenses by \$37,237.
- Project Agency Fees decreased and Interest Revenue increased. Agency's Fees in 2012 were \$0.00 and in 2011 were \$15,750. Interest Revenue for 2012 was 7,364, in 2011 were 6,909.
- Expenses other than PILOT, NYS Fee Expense and Deprecation to operate the Agency were increased by \$19,988 or 24.5%. The major contributor's to this change was an increase in Wages of some \$7,000 and a substantial investment in Professional Fee's to upgrade Policy and Procedures in the amount of \$12,000.

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2012 and 2011

OVERVIEW OF FINANCIAL STATEMENTS

Net Assets serve as an indicator of the LCIDA's financial position. Increases or decreases in net assets may indicate over a period of time, if the financial position of the LCIDA is improving or deteriorating.

Condensed Comparative Financial Statements

The following provides an overview of the LCIDA assets, liabilities, and net assets at the close of fiscal years 2012, 2011, and 2010.

	2012	2011	2010
ASSETS			
Current & Other Assets	\$ 1,725,351	\$ 1,918,532	\$ 1,652,239
Capital Assets	<u>617</u>	<u>1,194</u>	<u>14,504</u>
Total Assets	1,725,968	1,919,726	1,666,743
LIABILITIES			
Current Liabilities	165,409	295,589	31,212
Long-Term Liabilities	<u>109,746</u>	<u>78,667</u>	<u>0</u>
Total Liabilities	275,155	374,256	31,212
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	92,396	92,973	104,439
Unrestricted	<u>1,358,417</u>	<u>1,452,497</u>	<u>1,531,092</u>
Total Net Assets	<u>\$ 1,450,813</u>	<u>\$ 1,545,470</u>	<u>\$ 1,635,531</u>

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2012 and 2011

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Analysis of Financial Position and Results of Operations

The statement of revenues, expenses, and changes in net assets show how the LCIDA net assets changed during the most recent year. Business type activities decreased the LCIDA's net assets by \$94,657. Key elements of this decrease are as follows:

CHANGES IN NET ASSETS

	As Stated		Without PILOT, Grant Expense & NYS Fee	
	2012	2011	2012	2011
OPERATING REVENUES				
Agency Fees	\$ 0	\$ 15,750	\$ 0	\$ 15,750
Payment in Lieu of Taxes	774,185	809,780	---	---
Grant Revenue	---	---	---	---
Rental Income	0	0	0	0
Miscellaneous	500	1,975	500	1,975
Total Revenues	<u>774,685</u>	<u>827,505</u>	<u>500</u>	<u>17,725</u>
OPERATING EXPENSES				
Payment in Lieu of Taxes	774,185	809,780	---	---
Grants	---	---	---	---
General Operations	81,935	74,858	81,935	74,858
Professional Fees	18,852	5,949	18,852	5,949
Depreciation	577	255	577	255
Miscellaneous	897	889	897	889
Total Operating Expenses	<u>876,446</u>	<u>891,731</u>	<u>102,261</u>	<u>81,951</u>
Operating Income Loss	(101,761)	(64,226)	(101,761)	(64,226)
NON-OPERATING REVENUES				
Gain on Sale of Building	0	20,080	---	20,080
Interest (Net)	7,104	6,909	7,104	6,909
Net Income (Loss)	<u>(94,657)</u>	<u>(37,237)</u>	<u>(94,657)</u>	<u>(37,237)</u>
Net Assets at Beginning of Year	<u>1,545,470</u>	<u>1,582,707</u>	<u>1,545,470</u>	<u>1,582,707</u>
Net Assets at End of Year	<u>\$ 1,450,813</u>	<u>\$ 1,545,470</u>	<u>\$ 1,450,813</u>	<u>\$ 1,545,470</u>

PILOTs and Grant Activities were separated out to show the true cost of operations. Those two items cancel each other out in revenues and expenses.

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2012 and 2011

OVERVIEW OF FINANCIAL STATEMENTS - Continued

Analysis of Transaction of Individual Funds

The PILOTS are the monies received from the companies in lieu of normal taxes and are disbursed to the various taxing jurisdictions.

Operating expenses before PILOTs, NYS Fee and Grant Expense increased by \$19,988 or 24.5%. This change was largely due to increases in Salary, Benefits and Professional Fee's expense.

The Agency does not depend on any taxpayer's dollars to fund operations of the Agency.

CAPITAL ASSETS & LONG TERM DEBT ACTIVITY

Capital Assets

The LCIDA investment in capital assets for its business activities as of May 31, 2012, amounted to \$617 (net of depreciation). The LCIDA's investment in capital assets includes Leasehold Improvements, Furniture & Fixtures, and Equipment.

- Land – There presently is no land in inventory.
- Leasehold Improvements - improvements made to the office LCIDA is renting at 7642 State St.
- Furniture & Fixtures, and Equipment - assets used for the LCIDA general operations.

A summary of Capital Assets:

	2012	2011	2010
Land	\$ 0	\$ 0	\$ 16,210
Leasehold Improvements	5,264	5,264	5,264
Furniture & Expenses	1,236	1,236	1,236
Equipment	2,594	2,594	2,594
	<u>9,094</u>	<u>9,094</u>	<u>25,304</u>
Accumulated Depreciation	<u>(8,477)</u>	<u>(7,900)</u>	<u>(10,800)</u>
Net Capital Assets	<u>\$ 617</u>	<u>\$ 1,194</u>	<u>\$ 14,504</u>

The Beaverite Property is being sold on contract and is scheduled to be paid in full in December 2012.

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS May 31, 2012 and 2011

ECONOMIC OUTLOOK AND THE LCIDA

During the 2011-2012 year, several projects have been started which will enhance the economy for 2012-2013. They are:

- Kraft Foods - This Company has applied for IDA benefits that will allow them to increase the refrigerated warehouse capacity and to add a new product line. This is stabilizing the future of the cream cheese plant and the retention of 300 jobs.
- Roaring Brook - There are plans for 39 windmills in 2012 or 2013 in the Town of Martinsburg.
- Own Energy- There are plans for an 80MW wind farm in the Town of Denmark. This is a 2014 project.
- Kruger Energy- This company is planning to increase the MW capacity from 5MW to 10MW. This process is underway at this time.
- Brandt's Slaughter House is planning and expansion and upgrade to plant resulting in 4-6 new jobs.
- A company is in the R&D stage in establishing an ethanol plant. R&D may take another 2 to 3 years. This is converting willow trees to ethanol.
- Lyonsdale Biogas received a \$500,000 Department of Energy grant that allowed them to complete energy efficiency improvements.
- The IDA began discussions with the County Of Lewis and USDA Rural Development to administer Revolving Loan Funds in 2012.

CONTACT THE LCIDA FINANCIAL MANAGEMENT

This financial report is designed to provide the public with a general overview of the LCIDA finances and to show the LCIDA accountability for the money it manages. If you have any questions concerning any information provided in this report or need additional financial information contact:

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Prepared by:

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County of Lewis Industrial Development
Agency

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS
 May 31, 2012 and 2011

ASSETS

	2012	Restated 2011
CURRENT ASSETS		
Cash	\$ 1,525,241	\$ 1,686,233
Prepaid Expense	5,331	2,228
Other Receivable	3,000	38,292
Total Current Assets	<u>1,533,572</u>	<u>1,726,753</u>
CAPITAL ASSETS		
Leasehold Improvements	5,264	5,264
Furniture and Fixtures	1,236	1,236
Equipment	2,594	2,594
	<u>9,094</u>	<u>9,094</u>
Less: Accumulated Depreciation	<u>(8,477)</u>	<u>(7,900)</u>
Total Capital Assets, Net	<u>617</u>	<u>1,194</u>
OTHER ASSETS		
Note Receivable	100,000	100,000
Property Held for Sale	91,779	91,779
Total Other Assets	<u>191,779</u>	<u>191,779</u>
TOTAL ASSETS	<u>\$ 1,725,968</u>	<u>\$ 1,919,726</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accrued Payroll and Payroll Taxes	\$ 532	\$ 1,086
Accounts Payable	1,995	13,323
PILOTS Payable	161,015	281,180
Current Portion of Long Term Debt	1,867	0
Total Current Liabilities	<u>165,409</u>	<u>295,589</u>
LONG TERM LIABILITIES		
Long Term Debt	7,079	0
Deposit on Property Held for Sale	102,667	78,667
Total Long Term Liabilities	<u>109,746</u>	<u>78,667</u>
Total Liabilities	<u>275,155</u>	<u>374,256</u>
NET ASSETS		
Invested in Capital Assets	92,396	92,973
Unrestricted	1,358,417	1,452,497
Total Net Assets	<u>1,450,813</u>	<u>1,545,470</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,725,968</u>	<u>\$ 1,919,726</u>

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
 Years Ended May 31, 2012 and 2011

	2012	Restated 2011
OPERATING REVENUES		
Agency Fees	\$ 0	\$ 15,750
Payment in Lieu of Taxes	774,185	809,780
Rental Revenue	0	0
Late Fee	0	1,475
Application Fee Revenue	500	500
	<u>774,685</u>	<u>827,505</u>
Total Operating Revenue		
OPERATING EXPENSES		
Payment in Lieu of Taxes	774,185	809,780
Salaries and Wages	57,996	50,926
Payroll Taxes and Employee Benefits	6,223	5,791
Insurance	2,438	2,184
Office Supplies and Expenses	586	683
Professional Fees	18,852	5,949
Rent	6,300	6,300
Utilities	2,705	3,243
Travel, Meals and Cell Phone	1,884	2,031
Depreciation	577	255
Maintenance and Repairs	414	189
Dues and Subscriptions	241	370
Printing	586	523
Beaverite Building Expenses	2,562	2,516
Penalties	0	102
Miscellaneous	897	889
	<u>876,446</u>	<u>891,731</u>
Total Operating Expenses		
	(101,761)	(64,226)
OPERATING LOSS		
NONOPERATING REVENUE		
Gain on Sale of Property	0	20,080
Interest Expense	(260)	0
Interest Revenue	7,364	6,909
	<u>7,104</u>	<u>26,989</u>
Total Nonoperating Revenue		
	(94,657)	(37,237)
Change in Net Assets	1,545,470	1,582,707
Net Assets, Beginning of Year		
	<u>\$ 1,450,813</u>	<u>\$ 1,545,470</u>
Net Assets, End of Year		

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF CASH FLOWS
Years Ended May 31, 2012 and 2011

	2012	Restated 2011
OPERATING ACTIVITIES		
Receipts from Customers	\$ 809,977	\$ 818,433
Payments to Suppliers	(946,246)	(569,224)
Payments to Employees	(64,773)	(55,697)
Net Cash Provided (Used) for Operating Activities	<u>(201,042)</u>	<u>193,512</u>
CAPITAL AND FINANCING ACTIVITIES		
Proceeds from Long Term Debt	10,000	0
Principal and Interest Payments on Long Term Debt	(1,314)	0
Deposit on Property Held for Sale	24,000	24,000
Proceeds from Sale of Building	0	33,134
Net Cash Provided by Capital and Financing Activities	<u>32,686</u>	<u>57,134</u>
INVESTING ACTIVITIES		
Note Receivable	0	(100,000)
Interest Earned	7,364	6,909
Net Cash Provided (Used) For Investing Activities	<u>7,364</u>	<u>(93,091)</u>
Increase (Decrease) in Cash	(160,992)	157,555
Cash at Beginning of Year	1,686,233	1,528,678
Cash at End of Year	<u>\$ 1,525,241</u>	<u>\$ 1,686,233</u>
Reconciliation of Operating Loss to Net Cash Provided (Used)		
for Operating Activities:		
Operating Loss	\$ (101,761)	\$ (64,226)
Depreciation	577	255
(Increase) Decrease in Assets:		
Prepaid Expenses	(3,103)	2,178
Other Receivable	35,292	(37,845)
New York State Section 2975 Fee Receivable	0	28,773
Increase (Decrease) in Liabilities:		
Accrued Payroll and Payroll Taxes	(554)	1,021
Accounts Payable	(11,328)	(17,824)
Pilot Payable	(120,165)	281,180
Net Cash Provided (Used) for Operating Activities	<u>\$ (201,042)</u>	<u>\$ 193,512</u>

See accompanying notes to financial statements.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

May 31, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The County of Lewis Industrial Development Agency (the “Agency”) was established under Title 1 of Article 18-A of the General Municipal Law of the State of New York for the purpose of promoting employment, attracting industry and businesses to the community or area and to lessen the burdens of government and act in the public interest.

The governing body of the County of Lewis Industrial Development Agency is substantially the same as the governing body of the Lewis IDA Community Development Corporation (the “Corporation”); therefore, the financial information of the Corporation would be reported with the financial information of the Agency if there were activity in the Corporation. However, the corporation has been dormant for several years and there are no assets or liabilities. The Corporation is a nonprofit organization and is exempt from federal tax under Section 501(c)(3) of the Internal Revenue Code.

Basis of Accounting

The Agency's operations consist of a single fund, which is a proprietary type fund. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into investment in capital assets and unrestricted components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating Revenue and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services.

Industrial Development Revenue Bonds

The Agency may issue Industrial Development Revenue Bonds. The bonds are special obligations of the Agency payable solely from revenue derived from the leasing, sale or other disposition of a project. There is no liability to the Agency; therefore, the obligations are not accounted for in the accounts of the Agency.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS May 31, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Capital Assets

Capital assets are recorded at cost if purchased; or at fair market value on the date of gift, if donated. The Agency adopted a formal capitalization policy. Expenditures for major renewals and betterments that exceed \$1,000 and extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Allowance for Doubtful Accounts

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

Use of FASB Pronouncements

The County of Lewis Industrial Development Agency has elected to apply all FASB pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements and that are developed for business enterprises.

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.

Restatement of the Financial Statements

In connection with the audit of the Agency's financial statement for the year ended May 31, 2012, the Agency determined that the former Beaverite building should be recognized as property held for sale instead of property held for lease. A prior period adjustment was made to increase the property held for sale by \$3,687 and record a deposit liability of \$78,667. Also an agency fee receivable and revenue of \$750 was recognized in a separate matter. The net effect is to decrease unrestricted net assets by \$77,917 and increase invested in capital assets by \$3,687.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation

Depreciation is computed using the straight-line method. Equipment and furniture and fixtures are depreciated over their estimated useful lives ranging from five to seven years. Land improvements and leasehold improvements are depreciated over the estimated useful life of fifteen years.

Accumulated depreciation at May 31 consists of the following:

	2012	2011
Furniture and Fixtures	\$ 1,236	\$ 1,236
Equipment	2,594	2,594
Leasehold Improvements	<u>4,647</u>	<u>4,070</u>
Total	<u>\$ 8,477</u>	<u>\$ 7,900</u>

NOTE 2 – CASH

The Agency's investment policies are governed by state statutes. The Agency's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Agency is authorized to use demand and time accounts and certificates of deposit. Permissible instruments include U. S. Treasury bills.

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

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 2 – CASH - Continued

Deposits are valued at cost or cost plus interest and are categorized as either:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at May 31, 2012 per the banks were \$1,528,402. These deposits are categorized as follows:

(1)	(2)	(3)
\$ 250,000	\$ 1,278,402	\$ 0

NOTE 3 – RENT AGREEMENT

The Agency pays monthly rent to Jim Arvanites for occupied office space. The monthly rent is \$525 per the terms of an agreement between the Agency and Mr. Arvanites. Either party shall give 60 days written notice to terminate the agreement.

NOTE 4 – WOODPRODUCTS INDUSTRIAL PARK

The Agency entered into a lease agreement with Harrisville Dry Kiln, Inc., a subsidiary of Bestway Enterprises, (the "Company") on August 9, 1999 to lease the Woodproducts Industrial Park Facility located in the Town of Diana, Lewis County, New York. The lease was paid in full in November 2004.

The Agency will retain title to the project facility and the PILOT will remain in full force and effect.

The Agency was a recipient of a federal grant from the U. S. Department of Commerce - Economic Development Administration for an amount of \$600,000. The grant was utilized to construct a Woodproducts Industrial Park in the Village of Harrisville, New York. In accordance with the terms of the grant agreement, a mortgage on the property in the amount of \$285,000 has been filed. The mortgage shall terminate on August 18, 2022.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

May 31, 2012 and 2011

NOTE 5 – DEPOSIT ON PROPERTY HELD FOR SALE

The Agency has signed a purchase offer for the former Beaverite building to Omniafiltra, LLC dated August 28, 2009. The price is \$105,000 payable to the Agency in monthly payments of \$2,000 including principal and interest. The variable interest rate is prime plus 1/8th % or 3.375%. Payments are recorded as a deposit liability. The sale will be completed when all payments are received by the Agency. Deposits of \$24,000 were received for the years ending May 31, 2012 and 2011, respectively.

NOTE 6 – PROPERTY HELD FOR SALE

Property held for sale at May 31 is as follows:

	2012	2011
Building and Land	\$ 91,779	\$ 91,779
Total	<u>\$ 91,779</u>	<u>\$ 91,779</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

A Board member is also the President and owner of a local business that signed a PILOT (payment in lieu of tax) agreement with the Agency several years ago. During a prior year, a new PILOT agreement was signed to update the terms of the original agreement. The board member does not participate in board discussions and voting of matters related to her company and has recently resigned from the board of directors.

NOTE 8 – NOTE RECEIVABLE

The Agency entered into a note and mortgage agreement with Black Moose Development, LLC on May 10, 2011 in the amount of \$100,000. The mortgage was originally executed between Black Moose Development, LLC and Michael R. Johnson. On May 5, 2011 Mr. Johnson assigned the mortgage to the County of Lewis Industrial Development Agency. The mortgage created a lien on real estate located in the Village of Lyons Falls, Lewis County, New York. The interest rate is 3.00% per year. The Agency shall receive annual payments of interest only beginning May 10, 2012 through April 10, 2016. Beginning on May 10, 2016, the Agency shall receive equal monthly installments of principal and interest each month of approximately \$966 through the maturity date of April 10, 2026.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS
May 31, 2012 and 2011

NOTE 9 – LONG TERM DEBT

The Agency signed a commercial promissory note with Community Bank N.A. on October 21, 2011 to borrow \$10,000 for a term of 60 months. The loan will be repaid in monthly payments of \$187.72 including principal and interest starting November 15, 2011. The interest rate is a fixed rate of 4.75% and the maturity date is October 15, 2016. The outstanding loan balance was \$8,946 and \$0 as of May 31, 2012 and 2011, respectively. The loan is unsecured and the proceeds were used for the exercise of a purchase option of \$10,000 to purchase real estate from Black River Moose Development LLC in Lyons Falls, New York on June 15, 2012.

Annual principle future maturities of long term debt as of May 31, 2012 are as follows:

2013	\$	1,867
2014		1,958
2015		2,053
2016		2,153
2017		<u>915</u>
Total	\$	<u>8,946</u>

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were evaluated through August 1, 2012 which is the date that the financial statements were available to be issued.

NOTE 11 – LYONSDALE BIOMASS (REENRGEY) TURBINE GENERATOR PROJECT

In a prior year, County of Lewis Industrial Development Agency applied for federal assistance on behalf of Lyonsdale Biomass (ReEnergy) with the Department of Energy in the amount of \$500,000. The project is being managed by Mosaic Federal Affairs LLC. The actual expenses of the project are recorded on Lyonsdale Biomass (ReEnergy) books and Catalyst Renewables LLC will receive the grant funds from the Department of Energy and disburse to Lyonsdale Biomass (ReEnergy) when the grant funds are released. The grant was completed by December 31, 2011.

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

May 31, 2012 and 2011

NOTE 12 – INDUSTRIAL DEVELOPMENT REVENUE BONDS

The bonds are not obligations of the Agency or the State. The Agency does not record the assets or liabilities resulting from completed bond issues in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond holders, and funds arising from issues are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds. At May 31, 2012 and 2011 the outstanding bond balance was \$0 and \$ 1,295,000, respectively.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**BOARD OF DIRECTORS
COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY**

We have audited the basic financial statements of **COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY** as of and for the years ended May 31, 2012 and 2011, and have issued our report thereon dated August 1, 2012. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered County of Lewis Industrial Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Lewis Industrial Development Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Lewis Industrial Development Agency's internal control over financial reporting.

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.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2012-1 is considered a significant deficiency. 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.

FINDING 2012-1 PREPARATION OF FINANCIAL STATEMENTS

In accordance with Statement on Auditing Standards (SAS) No. 115, the auditor's preparation of an organization's financial statements, including full footnote disclosure, may be considered an internal control deficiency. It has been a common practice for the auditor to assist clients with the preparation of their financial statements and the standard does not preclude the auditor from continuing such practice. Instead, we are required to communicate to those charged with governance that the Organization will need to demonstrate their capability to prepare and understand financial statements and the related disclosures in accordance with generally accepted accounting principles. The Board must determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained.

Management Response

It is felt that the cost of contracting with another accounting firm to prepare the statement for the LCIDA is not cost beneficial or cost effective. Internal statements are prepared on a regular basis and reviewed by the Board of Directors. The operating expense before PILOTS is only \$100,000 and the bottom line is in the negative. The average numbers of checks written per month is only 19 and are reviewed by the Directors. For small agencies with modest budgets, such as LCIDA, the expense of another accounting firm is cost prohibitive.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether County of Lewis Industrial Development Agency's basic financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

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

This report is intended for the information of the Board of Directors, the audit committee, management and the State of New York Office of the State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Bowers & Company

Watertown, New York
August 1, 2012