

CARTHAGE INDUSTRIAL
DEVELOPMENT
CORPORATION

FINANCIAL STATEMENTS

December 31, 2015

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**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

**BOARD OF DIRECTORS
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION**

We have audited the accompanying financial statements of **Carthage Industrial 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carthage Industrial 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2016 on our consideration of the Carthage Industrial 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 the 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 Carthage Industrial Development Corporation's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Carthage Industrial Development Corporation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 20, 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 financial statements from which it has been derived.

Bowers & Company

Watertown, New York
March 7, 2016

AUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

December 31, 2015 with Comparative Totals for 2014

ASSETS

	2015	2014 Restated
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 884,929	\$ 982,861
Due from Northbrook Carthage, LLC	123,982	37,464
Rents Receivable	36,130	74,852
	<hr/>	<hr/>
Total Current Assets	1,045,041	1,095,177
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT - NET	3,496,995	3,595,764
	<hr/>	<hr/>
OTHER ASSETS		
Notes Receivable	636,759	510,834
Interest Receivable	509,166	455,647
Lease Acquisition Costs, Net	36,083	37,498
Organization Costs, Net	120	360
Investment in Carthage Development Group, L.P.	(137)	(115)
Investment in Carthage Development Group, L.P. - Land Donation	23,000	23,000
Advances to Carthage Development Group, L.P.	1,968,201	1,958,867
	<hr/>	<hr/>
Total Other Assets	3,173,192	2,986,091
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 7,715,228</u>	<u>\$ 7,677,032</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

LIABILITIES

	2015	2014 Restated
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 12,083	\$ 12,083
Accounts Payable	-	417
Accrued Expenses	544	906
Deferred Revenue	-	6,667
Tenants' Security Deposits	3,295	5,595
	<hr/>	<hr/>
Total Current Liabilities	15,922	25,668
	<hr/>	<hr/>
LONG-TERM DEBT		
Long-Term Debt, Net of Current Portion	24,167	48,335
	<hr/>	<hr/>
Total Long-Term Debt	24,167	48,335
	<hr/>	<hr/>
Total Liabilities	40,089	74,003
	<hr/>	<hr/>
NET ASSETS		
NET ASSETS		
Unrestricted Net Assets	7,675,139	7,603,029
	<hr/>	<hr/>
Total Net Assets	7,675,139	7,603,029
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,715,228</u>	<u>\$ 7,677,032</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2015 with Summarized Totals at 2014

	2015	2014 Summarized Restated
SUPPORT AND REVENUE		
Ground Lease - Rental Income	\$ 301,164	\$ 453,088
Loss on Investments	(22)	(21)
Rental Income	43,287	54,024
Other Income	346	604
Interest Income	<u>68,807</u>	<u>65,407</u>
Total Support and Revenue	<u>413,582</u>	<u>573,102</u>
EXPENSES		
Program Services	267,281	307,343
Management and General	<u>24,023</u>	<u>11,926</u>
Total Expenses	291,304	319,269
Losses on Loan and Interest Forgiveness	<u>50,168</u>	<u>2,168</u>
Total Expenses and Losses	<u>341,472</u>	<u>321,437</u>
Change in Net Assets	72,110	251,665
Net Assets at Beginning of Year, As Restated	<u>7,603,029</u>	<u>7,351,364</u>
Net Assets at End of Year	<u><u>\$ 7,675,139</u></u>	<u><u>\$ 7,603,029</u></u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015 with Summarized Totals at 2014

	Program Services	Management and General	Totals	
			2015	2014 Summarized Restated
Legal Fees	\$ 8,609	\$ -	\$ 8,609	\$ 5,100
Real Estate Taxes	236	-	236	654
Master Lease Expense	62,220	-	62,220	62,220
Grants to Others	70,000	-	70,000	85,000
Accounting Fees	-	7,725	7,725	6,925
Insurance	4,225	-	4,225	4,096
Other Professional Fees	11,000	-	11,000	7,376
Education	-	1,454	1,454	855
Other Expenses - Braman Property	-	8,959	8,959	-
Office Supplies	-	2,137	2,137	860
Contract Services	12,022	-	12,022	12,175
Dues	-	500	500	400
Interest	-	1,268	1,268	906
Filing Fees	-	325	325	325
Uncollectible Rent	200	-	200	-
Braman Property - Loss on Disposal	-	-	-	31,953
Depreciation and Amortization	98,769	1,655	100,424	100,424
Total	<u>\$ 267,281</u>	<u>\$ 24,023</u>	<u>\$ 291,304</u>	<u>\$ 319,269</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015 with Comparative Totals for 2014

	2015	2014 Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 72,110	\$ 251,665
Reconciliation of Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	100,424	100,424
Non-Cash Loan and Interest Forgiveness	50,168	2,168
Non-Cash Rental Income	(6,667)	(10,000)
Loss on Disposal of Braman Properties	-	31,953
Loss on Investments	22	21
(Increase) Decrease in Operating Assets:		
Due from Northbrook Carthage, LLC	(86,518)	78,885
Other Receivables	-	1,058
Rents Receivable	38,722	9,788
Interest Receivable	(53,519)	(48,267)
(Decrease) in Operating Liabilities:		
Accounts Payable	(417)	(15)
Accrued Expenses	(362)	(442)
Tenants' Security Deposits	(2,300)	-
Net Cash Provided By Operating Activities	<u>111,663</u>	<u>417,238</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Notes Receivable	(176,093)	(202,948)
Purchase of Fixed Assets	-	(12,077)
Investments In and Advances to Affiliated Companies	<u>(9,334)</u>	<u>(9,458)</u>
Net Cash Used In Investing Activities	<u>(185,427)</u>	<u>(224,483)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	<u>(24,168)</u>	<u>(12,083)</u>
Net Cash Used In Financing Activities	<u>(24,168)</u>	<u>(12,083)</u>
Increase (Decrease) in Cash	(97,932)	180,672
Cash and Cash Equivalents, Beginning of Year	<u>982,861</u>	<u>802,189</u>
Cash and Cash Equivalents, End of Year	<u>\$ 884,929</u>	<u>\$ 982,861</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 1 – NATURE OF OPERATIONS

The Carthage Industrial Development Corporation (“CIDC” or the “Organization”) 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. Occasionally, CIDC receives governmental grants in addition to the ground lease payments. Also, CIDC receives monthly rentals from four commercial store fronts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization's financial statements 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 Financial Accounting Standards Board (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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment 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. Depreciation is computed on a straight-line basis over their estimated useful lives. For each year ended December 31, 2015 and 2014, depreciation expense totaled \$98,769, respectively.

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.

Current Vulnerability Due to Certain Concentrations

The Organization's primary asset is the West End Dam Hydroelectric Facility. The revenue generated by the ground lease represented approximately 73% and 80% of total revenue for the years ended December 31, 2015 and 2014, respectively.

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

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2013, 2014, and 2015 are subject to examination by the IRS, generally for 3 years after they were filed.

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.

Advertising

The Organization expenses advertising and marketing costs as incurred.

Bad Debts

Bad debts are written off rather than using an allowance for estimated losses.

Functional Allocation of Expenses

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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Lease Acquisition Costs

Lease acquisition costs in the amount of \$42,451, are being written off on a straight-line basis over the thirty year term of the West End Dam Hydroelectric Facility lease. For each year ended December 31, 2015 and 2014, amortization expense for the West End Dam Hydroelectric Facility lease was \$1,415, respectively.

Organization Costs

Organization costs in the amount of \$1,200 related to Braman Development, LLC are being written off over a period of five years. For each year ended December 31, 2015 and 2014, amortization expense totaled \$240, respectively.

Contracted Services

During the years ended December 31, 2015 and 2014, the Carthage Chamber of Commerce was engaged to provide bookkeeping services for CIDC per the administrative services contract, in order to establish effective internal controls and proper segregation of duties.

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, 2014 from which the summarized information was derived.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2015	2014
Land	\$ 206,885	\$ 206,885
West End Dam Hydroelectric Facility	4,774,378	4,774,378
Leasehold Improvements	142,027	142,027
	<u>5,123,290</u>	<u>5,123,290</u>
Less: Accumulated Depreciation	<u>(1,626,295)</u>	<u>(1,527,526)</u>
Property and Equipment, Net	<u>\$ 3,496,995</u>	<u>\$ 3,595,764</u>

NOTE 4 – NOTES RECEIVABLE

Notes Receivable consisted of the following at December 31:

	2015	2014
Main Street Grant – Tracy Hoch	\$ 7,267	\$ 9,022
Main Street Grant - Chang Biak	1,708	2,121
Meadowbrook Terrace	203,717	227,436
TLC Real Estate: 253-255 Main Street	232,067	32,255
Carthage Free Library	192,000	240,000
	<u>636,759</u>	<u>510,834</u>
Total Notes Receivable	<u>\$ 636,759</u>	<u>\$ 510,834</u>

Future minimum receipts of notes receivable at December 31, are as follows:

2016	\$ 307,167
2017	76,376
2018	77,717
2019	79,126
2020	30,742
Thereafter	65,631
Total	<u>\$ 636,759</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 4 – NOTES RECEIVABLE - Continued

Main Street Grant

Per the terms of these agreements, the note receivables for Tracy Hoch and Chang Biak will be forgiven over a seven year period commencing in February 2013. For each year ended December 31, 2015 and 2014, the amounts of forgiveness totaled \$2,168, respectively.

Meadowbrook Terrace, Inc.

On July 24, 2012, CIDC approved a short term demand loan to Meadowbrook Terrace, Inc. in the amount of \$250,000. Meadowbrook Terrace, Inc. requested the funds on behalf of its owner, Carthage Area Hospital, to assist with cash flow, and increase working capital. This is part of a larger participation agreement with three other organizations which provides a total of \$1,000,000 working capital for Carthage Area Hospital. Per terms of the agreement, commencing on January 1, 2014, monthly installments of principal and interest of \$11,517 will be due, of which 25% will be disbursed to CIDC. The entire principal balance plus accrued, but unpaid interest is due on January 1, 2023.

TLC Real Estate: 253-255 Main Street

On November 4, 2014, CIDC approved a short term loan to TLC Real Estate, secured by its building located at 253-255 Main Street in the amount of \$300,000. As of December 31, 2015 and 2014, CIDC had advanced TLC Real Estate \$232,067 and \$32,255, respectively.

Carthage Free Library

On November 19, 2014, CIDC entered into a grant agreement with Carthage Free Library (the "Library"). Under this agreement, the CIDC granted the Library \$240,000. The grant will be forgiven by the CIDC at 20% of the original grant amount per year and fully forgiven after five years. For the years ended December 31 2015 and 2014, the amounts of forgiveness totaled \$48,000 and \$-0-, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 5 – CONCENTRATIONS OF CREDIT RISK

The Organization maintains cash deposits in one local federally insured bank. At times, the balances in these accounts may be in excess of federally insured limits. At December 31, 2015 and 2014, there were deposits in excess of FDIC coverage. The bank pledges securities as additional collateral.

Balances at December 31, 2015 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	\$ 185,281	\$ 185,281	\$ -
Money Market and Certificates of Deposit	\$ 705,922	\$ 250,000	\$ 455,922

Balances at December 31, 2014 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	\$ 41,527	\$ 41,527	\$ -
Money Market and Certificates of Deposit	\$ 941,331	\$ 250,000	\$ 691,331

NOTE 6 – INVESTMENT IN BRAMAN DEVELOPMENT, LLC

In November 2010, CIDC created a new entity known as Braman Development, LLC, (the “Company”). The Company was created in anticipation of receiving title to certain real estate parcels in Carthage, New York. CIDC incurred \$1,200 in organization costs to establish the new Company. Title to the real estate passed to CIDC 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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 6 – INVESTMENT IN BRAMAN DEVELOPMENT, LLC -

Continued

During the year ended December 31, 2014, the property was sold and was removed from the books of CIDC.

Braman Development, LLC is a single member limited liability company in which CIDC is the sole member. The LLC was dissolved as of December 31, 2015.

NOTE 7 – INVESTMENT IN CARTHAGE DEVELOPMENT GROUP, L.P. (CDG)

CDG was formed for the purpose of acquiring, rehabilitating and operating property consisting of two qualified low-income housing buildings (20 apartment units) and commercial space, located at 256-262 State Street, Carthage, New York. Prior to 2004, CDG was a wholly owned subsidiary of CIDC. In 2004, NDC Corporate Equity Fund VI, L.P. acquired 99.99% interest in CDG in order to obtain lucrative tax credits associated with CDG's projects 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) is recognized as investment in CDG on the Statement of Financial Position and Statement of Activities.

CIDC's investment in CDG is recorded as Other Assets in the Organization's Statement of Financial Position and is reported at its tax basis. At December 31, the investment in CDG is as follows:

	2015	2014
Capital Contributions	\$ 100	\$ 100
CIDC's Accumulated Share Losses	(237)	(215)
Total	<u>\$ (137)</u>	<u>\$ (115)</u>

Loss on Investment

Loss on investment in CDG for the years ending December 31, 2015 and 2014 were \$(22) and \$(21), respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 7 – ADVANCES TO CARTHAGE DEVELOPMENT GROUP, LP (CDG) - Continued

Land Donation

CIDC acquired a 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 CDG at no gain or loss. The value remains as an investment in CDG at December 31, 2015 and 2014 worth \$23,000, respectively.

Advances to CDG consist of the following as of December 31:

	2015	2014
Sponsor note receivable in the amount of \$1,464,425. The note accrues interest at 4% per annum and will be charged on the outstanding principal balance. Repayments of \$206,456 were received on the outstanding principal balance. Principal and accrued interest is due December 31, 2021. Interest of \$473,966 and \$423,647 are included in accrued interest receivable at December 31, 2015 and 2014, respectively.	\$ 1,257,969	\$ 1,257,969
A 32-year nonrecourse note receivable in the amount of \$320,000. The note is unsecured and bears interest at 1% of the outstanding principal balance. Principal and interest are due December 31, 2036. Interest of \$35,200 and \$32,000 are included in accrued interest receivable at December 31, 2015 and 2014, respectively.	320,000	320,000
Other unsecured, non-interest bearing advances to CDG	<u>390,232</u>	<u>380,898</u>
Total	<u>\$ 1,968,201</u>	<u>\$ 1,958,867</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 8 – DEFERRED REVENUE

Deferred revenue consists of the following as of December 31:

	2015	2014
In order for 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. 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.	<u>\$ -</u>	<u>\$ 6,667</u>

NOTE 9 – LONG-TERM DEBT

	2015	2014
A note in the amount of \$145,000 is payable to the Economic Development Corporation of Carthage (EDCC). 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, 2015 and 2014. Interest of \$544 and \$906 are included in accrued expense at December 31, 2015 and 2014, respectively. The loan is to be repaid in twelve annual installments of \$12,083, plus interest. The note matures on January 1, 2019.	\$ 36,250	\$ 60,418
Less: Estimated Current Portion	<u>(12,083)</u>	<u>(12,083)</u>
Total Long Term Portion	<u>\$ 24,167</u>	<u>\$ 48,335</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 9 – LONG-TERM DEBT - Continued

Estimated maturities of long-term debt as of December 31 are as follows:

2016	\$ 12,083
2017	12,083
2018	<u>12,084</u>
Total	<u>\$ 36,250</u>

NOTE 10 – GROUND LEASE - RENTAL INCOME

The Organization entered into a net lease agreement with Northbrook Carthage, LLC. 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 were \$100,000 and totaled \$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.

Future minimum ground lease payments as of December 31, are as follows:

2016	\$ 370,000
2017	370,000
2018	370,000
2019	370,000
2020	370,000
Thereafter	<u>7,585,000</u>
Total	<u>\$ 9,435,000</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 11 – MASTER LEASE

CIDC entered into a Master Lease with 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. The lease expires in March 2020. CIDC is authorized to sublet the property for retail, office or other legal and non-hazardous rental use. Rental expense relating to the lease totaled \$62,220 for the years ended December 31, 2015 and 2014, respectively.

Future minimum rentals at December 31 are as follows:

2016	\$	62,220
2017		62,220
2018		62,220
2019		62,220
2020		15,555
Total	\$	<u>264,435</u>

NOTE 12 – LEASES

As described in Note 11, CIDC entered into a master lease with CDG. CIDC is authorized to sublet the property. As of December 31, 2015, there are four leases for subletting the property. All are written leases. Sublet 2 was vacant as of December 31, 2015.

- Sublet 1. The first lease with a commencement date of approximately September 1, 2012 is for a term of five years with renewal right for an additional five years. Effective September 1, 2015 and 2014 monthly rents were \$1,245 and \$1,195.
- Sublet 2. The second lease with a commencement date of approximately February 1, 2013 was for a term of sixty (60) months with an option to extend the lease for five additional years. Monthly rental is \$1,150 per month for the sixty months. The lease agreement was terminated effective June 1, 2015.
- Sublet 3. The third lease with a commencement date of approximately March 1, 2013 was for a term of thirty (30) months with renewal rights for an additional two consecutive five year terms. Monthly rental is \$700 per month for the thirty months. Effective September 1, 2015, a five year renewal was executed, with monthly rent increasing to \$800 for 12 months.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 12 – LEASES - Continued

Sublet 4. The fourth lease with a commencement date of approximately November 1, 2012 is for a term of five years with renewal rights for an additional two year period. The monthly rent was \$600. The lease agreement was subsequently terminated effective January 31, 2016.

Minimum future rentals for the following five years as of December 31 are as follows:

	Sublet 1	Sublet 2	Sublet 3	Sublet 4	Total
2016	\$ 15,574	\$ -	\$ 9,700	\$ 600	\$ 25,874
2017	16,178	-	10,000	-	26,178
2018	16,783	-	10,300	-	27,083
2019	17,387	-	10,600	-	27,987
2020	<u>17,991</u>	<u>-</u>	<u>7,200</u>	<u>-</u>	<u>25,191</u>
Total	<u>\$ 83,913</u>	<u>\$ -</u>	<u>\$ 47,800</u>	<u>\$ 600</u>	<u>\$ 132,313</u>

NOTE 13 – STATEMENT OF CASH FLOWS

	2015	2014
Non-Cash Rental Income	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Loan Principal and Accrued Interest Forgiven:		
Note Receivable- Carthage Free Library	<u>\$ 48,000</u>	<u>\$ -</u>
Note Receivable – Chang	<u>\$ 413</u>	<u>\$ 413</u>
Note Receivable – Hoch	<u>\$ 1,755</u>	<u>\$ 1,755</u>
Cash Paid for Interest	<u>\$ 1,268</u>	<u>\$ 906</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Debt Guarantor

CIDC is a guarantor on a \$125,000 note owed to the Village of Carthage by CDG. CIDC agrees to assign its rental and lease income as collateral on the note. For the years ended December 31, 2015 and 2014, CIDC, on CDG's behalf, made annual principal payments of \$8,333 and accrued interest of \$1,000 and \$1,250, respectively to the Village of Carthage. These amounts are included in Advances to Carthage Development Group, L.P. on the Statement of Financial Position.

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 CDG. Advances made, shall be non-interest bearing loans repayable in accordance with the Limited Partnership Agreement. Payments by CIDC amounted to \$9,334 and \$9,458 for each of the years ended December 31, 2015 and 2014, respectively. 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.

Carthage Free Library

Effective January 25, 2012, CIDC 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.

Village of Carthage

During the year ended December 31, 2014, CIDC signed a Guarantee of Payment with the Village of Carthage guaranteeing up to \$50,000 of a \$100,000 loan which the village made to Carthage Specialty Paperboard.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 15 – RELATED PARTY TRANSACTIONS

CIDC provides maintenance services on a property owned by CDG. CIDC is then reimbursed a like amount by CDG. Amounts for the years ended December 31, 2015 and 2014 were \$-0- and \$4,650, respectively. These services were no longer in effect at December 31, 2014.

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

CIDC holds all cash accounts at Carthage Federal Savings & Loan. These are related business transactions as the Bank President is also a board member of CIDC. As of December 31, 2015 and 2014, the accounts totaled over \$884,000 and \$982,000.

NOTE 16 – VILLAGE OF CARTHAGE GRANT

On April 16, 2015, CIDC granted the Village of Carthage \$190,000 to support the coordinated economic development efforts of the Village of Carthage, West Carthage, and the Towns of Champion and Wilna. Per terms of the grant agreement, the grant shall be disbursed over a 24 month period, in a mutually agreed upon disbursement schedule. The first payment of \$70,000 was disbursed on June 8, 2015.

On February 13, 2012, CIDC granted the Village of Carthage \$300,000 to lessen the burden of government and to enhance the Village's community and economic development capabilities. The Village wished to re-establish its community development programs and fill its Community Development Director position, without burdening the Village taxpayers. Per terms of the grant agreement, the grant shall be disbursed in three lump sums. The first payment of \$100,000 was disbursed on July 24, 2012, the second payment of \$115,000 was disbursed on July 15, 2013, and the final payment of \$85,000 was disbursed during fiscal year 2014.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 with Comparative Totals for 2014

NOTE 17 – NORTHBROOK CARTHAGE, LLC

As part of the hydro facility lease negotiations between CIDC Northbrook Carthage, LLC, several agreements between the companies had to be settled. Such agreements included reimbursement of lost revenue while a shaft was replaced, and allocation of the True-up Agreement between CIDC and Northbrook Carthage, LLC.

As of December 31, the following is the amount owed between the companies:

	2015	2014
Due from Northbrook Carthage, LLC	\$ 123,982	\$ 37,464

NOTE 18 – SUBSEQUENT EVENTS

The lease agreement for sublet 4 was terminated effective January 31, 2016.

Subsequent events have been evaluated through March 7, 2016 which is the date the financial statements were available to be issued.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

The financial statements as of December 31, 2014 have been restated to remove the Braman Property land sold during the year ended December 31, 2014 at their recorded value of \$31,953. The net effect was a \$31,953 reduction to unrestricted net assets.



**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
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION**

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 Carthage Industrial 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 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carthage Industrial Development Corporation's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Carthage Industrial Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Carthage Industrial 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the following paragraph that we consider to be a significant deficiency. Finding 2015-001 is considered a significant deficiency.

**Finding 2015-001 Significant Deficiency:
Preparation of Financial Statements**

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

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

Cause: While it is 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.

Effect: Management needs to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained.

Recommendation: 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.

Response: It is felt that contracting with another accounting firm to prepare the yearend adjustments and financial statements for the CIDC would be beneficial going forward.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carthage Industrial Development Corporation's 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*.

Response to Findings

Carthage Industrial Development Corporation's response to the findings identified in our audit is described above. Carthage Industrial 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 entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bowers & Company

Watertown, New York
March 7, 2016



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

March 7, 2016

To the Board of Directors of
Carthage Industrial Development Corporation

We have audited the financial statements of Carthage Industrial Development Corporation for the year ended December 31, 2015, and have issued our report thereon dated March 7, 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 November 30, 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 Carthage Industrial 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 affecting the financial statements was:

- Management's estimate of depreciation of property and equipment is based on the estimated useful life of the respective assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

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. Management has corrected all such misstatements. The attached 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 consolidated 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 7, 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.

The Board of Directors
Carthage Industrial Development Corporation
March 7, 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 Carthage Industrial 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

Attached Material Misstatements:

Adjusting Journal Entries			
To reverse 2014 rent receivable amount			
5001	Lease revenue	69,152.00	
5017	256 state commercial lease: Ablans Business Center	600.00	
5018	256 state commercial lease: NNY Gals & Guys	5,100.00	
1014	Rent receivable		74,852.00
Total		74,852.00	74,852.00

Adjusting Journal Entries			
To record current year Northbrook receivables			
1014	Rent receivable	30,480.00	
1030	Due from Northbrook Carthage LL	123,982.00	
5001	Lease revenue		154,462.00
Total		154,462.00	154,462.00

Adjusting Journal Entries			
To record 2015 depreciation & amortization			
6060	Depreciation expense	98,769.00	
6061	Amortization	1,655.00	
1046	Accum. Depr. Dam/Hydro		95,086.00
1047	Accumulated depreciation		3,683.00
1053	Capital cost-Northbrook lease: Accum, Amortization		1,415.00
1056	Organization Expense - Braman: Accum. Amortization		240.00
Total		100,424.00	100,424.00