CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
December 31, 2017

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CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

BOWERS & COMPANY CPAs PLLC
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

Report on the Financial Statements

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, 2017, 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.

Auditor's 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.

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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, 2017, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the December 31, 2016 net assets have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Carthage Industrial Development Corporation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material repsects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018 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.

Bowers & Company

Watertown, New York
March 8, 2018

STATEMENT OF FINANCIAL POSITION
December 31, 2017 with Comparative Totals for 2016

	2017	2016 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 901,768	$ 918,965
Rents Receivable	23,013	22,169
Grants Receivable	71,146	-
Total Current Assets	995,927	941,134
Property and Equipment, Net	3,299,457	3,398,226
OTHER ASSETS		
Note Receivable	152,577	178,785
Due From Carthage Development Group, L.P.	2,492,241	2,429,639
Lease Acquisition Costs, Net	33,253	34,668
Total Other Assets	2,678,071	2,643,092
TOTAL ASSETS	$ 6,973,455	$ 6,982,452
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	$ 58,000	$ -
Accrued Expenses	181	363
Tenants' Security Deposits	3,745	3,745
Current Portion of Long-Term Debt	12,084	12,083
Total Current Liabilities	74,010	16,191
Long-Term Debt, Net of Current Portion	-	12,084
Total Liabilities	74,010	28,275
NET ASSETS		
Unrestricted Net Assets	6,899,445	6,954,177
TOTAL LIABILITIES AND NET ASSETS	$ 6,973,455	$ 6,982,452

See notes to financial statements.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017 with Summarized Totals at 2016

	2017	2016 (Summarized) (Restated)
SUPPORT AND REVENUE		
Ground Lease - Rental Income	$ 82,443	$ 90,965
Grant Revenues	71,146	-
Rental Income	38,928	31,924
Interest Income	65,885	67,203
Other Income	-	1,085
Total Support and Revenue	258,402	191,177
EXPENSES		
Program Services	300,794	334,662
Management and General	12,340	11,117
Total Expenses	313,134	345,779
Change in Net Assets	(54,732)	(154,602)
Net Assets, Beginning of Year as Restated	6,954,177	7,108,779
Net Assets, End of Year	$ 6,899,445	$ 6,954,177

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017 with Summarized Totals at 2016

	Program Services	Management and General	Totals 2017	Totals 2016 (Summarized) (Restated)
Accounting Fees	$ 3,818	$ 3,817	$ 7,635	$ 7,475
Contract Services	6,000	6,000	12,000	12,125
Dues	-	305	305	405
Filing Fees	-	275	275	525
Grants to Others	50,000	-	50,000	145,841
Insurance	3,987	-	3,987	4,196
Interest	-	181	181	544
Legal Fees	4,628	-	4,628	10,680
Main Street Grant Program	71,146	-	71,146	-
Master Lease Expense	62,220	-	62,220	62,220
Office Supplies	-	333	333	493
Other Expenses	-	14	14	140
Professional Fees	-	-	-	600
Real Estate Taxes	226	-	226	231
Depreciation and Amortization	98,769	1,415	100,184	100,304
Total	$ 300,794	$ 12,340	$ 313,134	$ 345,779

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017 with Comparative Totals for 2016

	2017	2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (54,732)	$ (154,602)
Reconciliation of Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	100,184	100,304
(Increase) Decrease in Operating Assets:		
Due from Northbrook Carthage, LLC	-	123,982
Rents Receivable	(844)	13,961
Grants Receivable	(71,146)	-
Due From Carthage Development Group, L.P.	(62,602)	(62,727)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	58,000	-
Accrued Expenses	(182)	(181)
Tenants' Security Deposits	-	450
Net Cash Provided By (Used In) Operating Activities	(31,322)	21,187
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on Note Receivable	26,208	24,932
Net Cash Provided By Investing Activities	26,208	24,932
CASH FLOWS FROM FINANCING ACTIVTIES		
Payment of Long-Term Debt	(12,083)	(12,083)
Net Cash Used In Financing Activities	(12,083)	(12,083)
Net Increase (Decrease) in Cash	(17,197)	34,036
Cash and Cash Equivalents, Beginning of Year	918,965	884,929
Cash and Cash Equivalents, End of Year	$ 901,768	$ 918,965

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

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

The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation – Continued

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due.

Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as temporarily restricted net assets if the donor has restricted the use of the property or equipment to a particular program. If donors specify a length of time over which the property or equipment must be used, the restrictions expire evenly over the required period. Absent that type of restriction for use, the Organization considers the restriction met when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from temporarily restricted to unrestricted net assets.

Permanently restricted net assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

The Organization does not have any temporarily or permanently restricted net assets as of December 31, 2017 and 2016.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Cash and Cash Equivalents

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Rents Receivable and Grants Receivable

Rents receivable and grants receivable represent amounts that have been paid out or billed under contracts, grant agreements, or lease agreements as of the date of the financial statements. Receivables are stated at the gross amount and deemed to be fully collectible. Bad debts are directly expensed rather than using an allowance for estimated losses.

Note Receivable

Note receivable is stated at the amount the Organization expects to collect from the outstanding balance. As of December 31, 2017 and 2016, the Organization has determined, based on historical experience, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

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 of 15- 50 years. For each year ended December 31, 2017 and 2016, 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.

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, 2017 and 2016, amortization expense for the West End Dam Hydroelectric Facility lease was $1,415, respectively.

Organization Costs

Organization costs are being written off over a period of five years. For the years ended December 31, 2017 and 2016, amortization expense totaled $0 and $120, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments.

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 program and supporting services benefited.

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 32% and 48% of total revenue for the years ended December 31, 2017 and 2016, respectively.

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

Income Tax Status and Open Tax Years

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2015, and 2014 are subject to examination by the IRS, generally for 3 years after they were filed.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2016 from which the summarized information was derived.

Subsequent Events

Subsequent events have been evaluated through March 8, 2018 which is the date the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Land	$ 206,885	$ 206,885
West End Dam Hydroelectric Facility	4,774,378	4,774,378
Leasehold Improvements	142,027	142,027
Less: Accumulated Depreciation	(1,823,833)	(1,725,064)
Property and Equipment, Net	$ 3,299,457	$ 3,398,226

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 4 – NOTE RECEIVABLE

On July 24, 2012, CIDC approved a short-term demand note 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. The note receivable balance as of December 31, 2017 and 2016 was $152,577 and $178,785, respectively.

Future minimum receipts of the note receivable at December 31 are as follows:

2018	$	27,549
2019		28,958
2020		30,439
2021		31,997
2022		33,634
	$	152,577

NOTE 5 – DUE FROM CARTHAGE DEVELOPMENT GROUP, L.P.

The Organization made the following advances to Carthage Development Group, L.P. ("CDG"), a related party, in prior years.

Note 1 Sponsor note receivable in the amount of $1,464,425, due December 31, 2021. The note is unsecured and accrues interest at 4% on the principal balance.

Note 2 A 32-year nonrecourse note receivable in the amount of $320,000, due December 31, 2036. The note is unsecured and accrues interest at 1% on the principal balance

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 5 – DUE FROM CARTHAGE DEVELOPMENT GROUP, L.P. - Continued

The following summarizes the amount due from Carthage Development Group, L.P. as of December 31:

	2017	2016
Note 1:		
Principal	$ 1,257,969	$ 1,257,969
Interest	574,604	524,285
Note 2:		
Principal	320,000	320,000
Interest	41,600	38,400
Other unsecured, non-interest bearing advances	298,068	288,985
Total Due from Carthage Development Group, L.P.	$ 2,492,241	$ 2,429,639

NOTE 6 – LONG-TERM DEBT

The Organization has a note in the amount of $145,000, 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, 2017 and 2016. The loan is being repaid in twelve annual installments of $12,083, plus interest. The note matures on January 1, 2019.

	2017	2016
Total Long-Term Debt	$ 12,084	$ 24,167
Less: Current Portion	(12,084)	(12,083)
Total Long-Term Portion	$ -	$ 12,084

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 6 – LONG-TERM DEBT - Continued

Estimated maturities of long-term debt as of December 31, 2017 are as follows:

2018	$ 12,084

NOTE 7 – GROUND LEASE - RENTAL INCOME

The Organization has a thirty-year lease agreement with Northbrook Carthage, LLC ("the project") which expires June 30, 2041. The lease was amended on October 28, 2016 to provide a more stable financial structure to protect operations of the project. The rent is paid quarterly in arrears on the 10th day following tenant's receipt of payment for energy, capacity and renewable energy credits for the last month of each calendar quarter, an amount equal to a percentage of the gross energy sales. The percentage varies with the average realized dollar per project megawatt-hour for the relevant trailing four quarters, calculated by dividing total gross energy sales allocable to such trailing four quarter period by the total megawatt-hour sales from the project for such trailing four quarter period.

Ground lease rental income was $82,443 and $90,965 for the years ended December 31, 2017 and 2016, respectively.

Due to the nature and calculations required for future ground lease payments, we are not able to calculate such amounts to disclosure future minimum lease payments. As noted above, the lease is expected to continue through June 30, 2041.

NOTE 8 – GRANT REVENUES

During 2016, the Organization was approved a Rural Area Revitalization Project Grant from the Housing Trust Fund Corporation, a public benefit corporation created and existing as a subsidiary of the New York State Housing Finance Agency that has been extended through June 29, 2018. The grant is being classified as the Main Street Grant Program and has two participant agreements with property owners in the Village of Carthage for revitalization projects.

As of December 31, 2017, the Organization has recognized $71,146 of grant revenues and related main street grant program expenditures for the projects.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 9 – RENTAL INCOME

As described below in Note 10, the Organization entered into a master lease with CDG. The Organization is authorized to sublet the property. As of December 31, 2017, there are four written leases for subletting the property.

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 additional five-year periods. Effective September 1, 2017 and 2016 monthly rents were $1,345 and $1,295 and increase annually effective September 1.

Sublet 2. The second lease with a renewed commencement date of approximately May 1, 2017 was for a term of sixty months. Effective May 1, 2017 and April 1, 2016 monthly rents were $750 and $650 and increase annually effective May 1.

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. Effective September 1, 2015, a five-year renewal was executed. Effective September 1, 2017 and 2016 monthly rents were $850 and $825 and increase annually effective September 1.

Sublet 4. The fourth lease with a renewed commencement date of approximately November 1, 2017 was for a term of 13 months, with renewal rights for an additional two-year period. Effective November 1, 2017 and October 1, 2016 monthly rents were $450 and $400.

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

	Sublet 1	Sublet 2	Sublet 3	Sublet 4	Total
2018	$ 16,483	$ 8,800	$ 10,300	$ 5,500	$ 41,083
2019	17,087	9,400	10,600	6,100	43,187
2020	17,691	10,000	7,200	5,500	40,391
2021	18,296	10,600	-	-	28,896
2022	18,900	3,600	-	-	22,500
Thereafter	53,175	-	-	-	53,175
Total	$ 141,632	$ 42,400	$ 28,100	$ 17,100	$ 229,232

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 10 – 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, 2017 and 2016, respectively.

Future minimum rentals at December 31, 2017 are as follows:

2018	$	62,220
2019		62,220
2020		15,555
Total	$	139,995

NOTE 11 – GRANTS TO OTHERS

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 final disbursement of $50,000 was made during the year ended December 31, 2017.

NOTE 12 – CONTRACT SERVICES

During the years ended December 31, 2017 and 2016, 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. For the years ended December 31, 2017 and 2016, contract services paid to the Chamber totaled $12,000 and $12,125, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 13 – CONCENTRATION 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, 2017 and 2016, there were deposits in excess of FDIC coverage. The bank pledges securities as additional collateral.

Balances at December 31, 2017 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	$ 38,303	$ 38,303	$ -
Money Market and Certificates of Deposit	$ 864,146	$ 250,000	$ 614,146

Balances at December 31, 2016 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	$ 46,721	$ 46,721	$ -
Money Market and Certificates of Deposit	$ 872,244	$ 250,000	$ 622,244

NOTE 14 – STATEMENT OF CASH FLOWS

There were no noncash investing and financing activities during the years ended December 31, 2017 and 2016.

Cash paid for interest for the years ended December 31, 2017 and 2016 totaled $181 and $544, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 15 – COMMITMENTS AND CONTINGENCIES

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. 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 if necessary.

Guarantee of the Indebtedness of Another

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.

CIDC is a guarantor on a $125,000 note owed to the Village of Carthage by Carthage Development Group, L.P. CIDC agrees to assign its rental and lease income as collateral on the note. For the years ended December 31, 2017 and 2016, CIDC, on CDG's behalf, made annual principal payments of $8,333 and interest payments of $750 and $875, respectively, to the Village of Carthage. These amounts paid on behalf of CDG are included in Due from Carthage Development Group, L.P. on the Statement of Financial Position.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Organization's Board of Directors also serve as the Board of Directors for Carthage Development Group, L.P. See note 5 for detail of the receivable from Carthage Development Group, L.P.

The Organization holds all cash accounts at Carthage Federal Savings & Loan. These are related business transactions as the Bank President is also a board member of the Organization. As of December 31, 2017 and 2016, the accounts totaled over $901,000 and $918,000, respectively.

NOTES TO FINANCIAL STATEMENTS
December 31, 2017 with Comparative Totals for 2016

NOTE 17 – RESTATEMENTS

The December 31, 2016 financial statements have been restated to reflect two corrections. The first is an update to the presentation of the related party transactions with Carthage Development Group, L.P. to be in agreement with CDG audited financial statements. The effect on the December 31, 2016 financial statements was a decrease in other assets of $133,296 and increase in revenues of $22.

The second correction was made to reflect grants to others as expenditures in the year a contribution was made rather than writing off the amounts over a designated number of years. The effect on the December 31, 2016 financial statements was a decrease in notes receivable of $458,715 and a decrease in expenses of $25,673.

The effect of the above two corrections on the beginning unrestricted net assets as of January 1, 2016 was as follows:

	Unrestricted Net Assets
Balance, January 1, 2016 as previously stated	$ 7,675,139
Prior year adjustments for transactions with Carthage Development Group, L.P.	(133,318)
Record prior year grants to others as expenditure in the year contribution was made	(433,042)
Balance, January 1, 2016 as restated	$ 7,108,779

Therefore, the net effect of the restatements as of January 1, 2017 was a reduction in beginning net assets of $592,011.

BOWERS & COMPANY CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S 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*

TO THE 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, 2017, 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 8, 2018.

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.

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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 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 accompanying schedule of finding and response that we consider to be a significant deficiency, 2017-001.

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 Finding

Carthage Industrial Development Corporation's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response. 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 8, 2018

SCHEDULE OF FINDING AND RESPONSE
December 31, 2017

Significant Deficiency

2017-001 **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 may be beneficial going forward.

BOWERS & COMPANY
CPAs PLLC
CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

March 8, 2018

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, 2017, and have issued our report thereon dated March 8, 2018. 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 October 13, 2017. 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 2017. 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 on 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.

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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 8, 2018.

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.

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 JE # 1			
To record current year depreciation			
6060	Depreciation expense	98,769.00	
6061	Amortization	1,415.00	
1046	Accum. Depr. Dam/Hydro		95,086.00
1047	Accumulated depreciation		3,683.00
1053	Capital cost-Northbrook lease: Accum. Amortization		1,415.00
Total		**100,184.00**	**100,184.00**

Adjusting Journal Entries JE # 2			
To record prior period adjust to write off grants made in prior years that are being forgiven			
3900	3900 + Retained Earnings	458,715.00	
1007	2012 Main Street Grant:253-255 State Street		307,908.00
1017	Grant - Carthage Free Library - Receivable		144,000.00
1021.1	Main Street - 266 State St Note Receivable		5,512.00
1022.1	Main Street - Chang Note Receivable		1,295.00
Total		**458,715.00**	**458,715.00**

Adjusting Journal Entries JE # 4			
Prior period adjustment to correct reporting of activities with CDG			
1058	Investment in CDG	159.00	
3900	3900 + Retained Earnings	133,296.00	
1059	Investment in CCDG - land donation		23,000.00
1061	Receivable from CDG		110,455.00
Total		**133,455.00**	**133,455.00**

Adjusting Journal Entries JE # 16			
To record M&M invoice as payable & matching grant receivable			
1037	2016 Main Street Program: 111 Riverside Drive	58,000.00	
6018	Main street grant program	58,000.00	
2001	Account payable		58,000.00
5035	Grant Revenue		58,000.00
Total		**116,000.00**	**116,000.00**