

CARTHAGE INDUSTRIAL
DEVELOPMENT
CORPORATION

FINANCIAL STATEMENTS

December 31, 2016

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CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

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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, 2016, 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

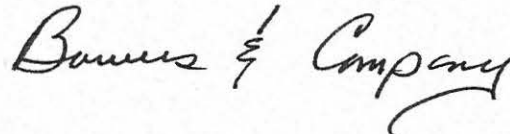
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carthage Industrial Development Corporation as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting 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 17, 2017 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Watertown, New York
March 17, 2017

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION**AUDITED FINANCIAL STATEMENTS****STATEMENT OF FINANCIAL POSITION**

December 31, 2016 with Comparative Totals for 2015

| | 2016 | 2015 |
|--|----------------------------|----------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 918,965 | \$ 884,929 |
| Due from Northbrook Carthage, LLC | - | 123,982 |
| Rents Receivable | 22,169 | 36,130 |
| Total Current Assets | <u>941,134</u> | <u>1,045,041</u> |
| Property and Equipment - Net | <u>3,398,226</u> | <u>3,496,995</u> |
| OTHER ASSETS | | |
| Notes Receivable | 637,500 | 636,759 |
| Interest Receivable | 562,685 | 509,166 |
| Lease Acquisition Costs, Net | 34,668 | 36,083 |
| Organization Costs, Net | - | 120 |
| Investment in Carthage Development Group, L.P. | (159) | (137) |
| Investment in Carthage Development Group, L.P. - Land Donation | 23,000 | 23,000 |
| Advances to Carthage Development Group, L.P. | 1,977,409 | 1,968,201 |
| Total Other Assets | <u>3,235,103</u> | <u>3,173,192</u> |
| TOTAL ASSETS | <u><u>\$ 7,574,463</u></u> | <u><u>\$ 7,715,228</u></u> |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Current Portion of Long-Term Debt | \$ 12,083 | \$ 12,083 |
| Accrued Expenses | 363 | 544 |
| Tenants' Security Deposits | 3,745 | 3,295 |
| Total Current Liabilities | <u>16,191</u> | <u>15,922</u> |
| Long-Term Debt, Net of Current Portion | <u>12,084</u> | <u>24,167</u> |
| Total Liabilities | <u>28,275</u> | <u>40,089</u> |
| NET ASSETS | | |
| Unrestricted Net Assets | <u>7,546,188</u> | <u>7,675,139</u> |
| Total Net Assets | <u>7,546,188</u> | <u>7,675,139</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 7,574,463</u></u> | <u><u>\$ 7,715,228</u></u> |

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016 with Summarized Totals at 2015

| | 2016 | Unrestricted 2015 Summarized |
|---|---------------------|---|
| SUPPORT AND REVENUE | | |
| Ground Lease - Rental Income | \$ 90,965 | \$ 301,164 |
| Loss on Investments | (22) | (22) |
| Rental Income | 31,924 | 43,287 |
| Other Income | 1,085 | 346 |
| Interest Income | 67,203 | 68,807 |
| Total Support and Revenue | <u>191,155</u> | <u>413,582</u> |
| EXPENSES | | |
| Program Services | 258,821 | 267,281 |
| Management and General | 11,117 | 24,023 |
| Total Expenses | <u>269,938</u> | <u>291,304</u> |
| Losses on Loan and Interest Forgiveness | <u>50,168</u> | <u>50,168</u> |
| Total Expenses and Losses | <u>320,106</u> | <u>341,472</u> |
| Change in Net Assets | (128,951) | 72,110 |
| Net Assets, Beginning of Year | <u>7,675,139</u> | <u>7,603,029</u> |
| Net Assets, End of Year | <u>\$ 7,546,188</u> | <u>\$ 7,675,139</u> |

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016 with Summarized Totals at 2015

| | Program Services | Management and General | Totals 2016 | 2015 Summarized |
|----------------------------------|-----------------------------|-----------------------------------|------------------------|----------------------------|
| Legal Fees | \$ 10,680 | \$ - | \$ 10,680 | \$ 8,609 |
| Real Estate Taxes | 231 | - | 231 | 236 |
| Master Lease Expense | 62,220 | - | 62,220 | 62,220 |
| Grants to Others | 70,000 | - | 70,000 | 70,000 |
| Accounting Fees | - | 7,475 | 7,475 | 7,725 |
| Insurance | 4,196 | - | 4,196 | 4,225 |
| Professional Fees | 600 | - | 600 | 11,000 |
| Education | - | - | - | 1,454 |
| Other Expenses - Braman Property | - | 140 | 140 | 8,959 |
| Office Supplies | - | 493 | 493 | 2,137 |
| Contract Services | 12,125 | - | 12,125 | 12,022 |
| Dues | - | 405 | 405 | 500 |
| Interest | - | 544 | 544 | 1,268 |
| Filing Fees | - | 525 | 525 | 325 |
| Uncollectible Rent | - | - | - | 200 |
| Depreciation and Amortization | 98,769 | 1,535 | 100,304 | 100,424 |
| Total | <u>\$ 258,821</u> | <u>\$ 11,117</u> | <u>\$ 269,938</u> | <u>\$ 291,304</u> |

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016 with Comparative Totals for 2015

| | 2016 | 2015 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in Net Assets | \$ (128,951) | \$ 72,110 |
| Reconciliation of Change in Net Assets to Net Cash Provided By Operating Activities: | | |
| Depreciation and Amortization | 100,304 | 100,424 |
| Non-Cash Loan Forgiveness | 50,168 | 50,168 |
| Non-Cash Rental Income | - | (6,667) |
| Loss on Investments | 22 | 22 |
| (Increase) Decrease in Operating Assets: | | |
| Due from Northbrook Carthage, LLC | 123,982 | (86,518) |
| Rents Receivable | 13,961 | 38,722 |
| Interest Receivable | (53,519) | (53,519) |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts Payable | - | (417) |
| Accrued Expenses | (181) | (362) |
| Tenants' Security Deposits | 450 | (2,300) |
| Net Cash Provided By Operating Activities | <u>106,236</u> | <u>111,663</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Notes Receivable | (50,909) | (176,093) |
| Investments In and Advances to Affiliated Companies | <u>(9,208)</u> | <u>(9,334)</u> |
| Net Cash Used In Investing Activities | <u>(60,117)</u> | <u>(185,427)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment of Long-Term Debt | <u>(12,083)</u> | <u>(24,168)</u> |
| Net Cash Used In Financing Activities | <u>(12,083)</u> | <u>(24,168)</u> |
| Increase (Decrease) in Cash | 34,036 | (97,932) |
| Cash and Cash Equivalents, Beginning of Year | <u>884,929</u> | <u>982,861</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 918,965</u> | <u>\$ 884,929</u> |

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

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, 2016 with Comparative Totals for 2015

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, 2016 and 2015, 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 48% and 73% of total revenue for the years ended December 31, 2016 and 2015, 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, 2016 with Comparative Totals for 2015

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 2013, 2014, 2015, and 2016 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, 2016 with Comparative Totals for 2015

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, 2016 and 2015, 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 the years ended December 31, 2016 and 2015, amortization expense totaled \$120 and \$240, respectively.

Contracted Services

During the years ended December 31, 2016 and 2015, 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, 2016 and 2015, contract services paid to the Chamber totaled \$12,125 and \$12,022, respectively.

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, 2015 from which the summarized information was derived.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2016 | 2015 |
|-------------------------------------|---------------------|---------------------|
| 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 | (1,725,064) | (1,626,295) |
| | <u>\$ 3,398,226</u> | <u>\$ 3,496,995</u> |

NOTE 4 – NOTES RECEIVABLE

Notes Receivable consisted of the following at December 31:

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------------|
| Main Street Grant – Tracy Hoch | \$ 5,512 | \$ 7,267 |
| Main Street Grant - Chang Biak | 1,295 | 1,708 |
| Meadowbrook Terrace | 178,785 | 203,717 |
| TLC Real Estate: 253-255 Main Street | 307,908 | 232,067 |
| Carthage Free Library | 144,000 | 192,000 |
| | <u>\$ 637,500</u> | <u>\$ 636,759</u> |

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

| | |
|------------|-------------------|
| 2017 | \$ 137,958 |
| 2018 | 139,299 |
| 2019 | 140,708 |
| 2020 | 92,324 |
| 2021 | 93,577 |
| Thereafter | <u>33,634</u> |
| Total | <u>\$ 637,500</u> |

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

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, 2016 and 2015, 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, 2016 and 2015, CIDC had advanced TLC Real Estate \$307,908 and \$232,067, respectively. Per the terms of an agreement signed during 2016, the short-term loan was converted to grant assistance which will be forgiven over a five-year regulatory period if all guidelines are followed by TLC Real Estate.

Carthage Free Library

On November 19, 2014, CIDC entered 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 both years ended December 31, 2016 and 2015, the amounts of forgiveness totaled \$48,000, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

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, 2016 and 2015, there were deposits in excess of FDIC coverage. The bank pledges securities as additional collateral.

Balances at December 31, 2016 are as follows:

| | Bank Balances | Insured by FDIC | Collateralized by Bank |
|---|--------------------------|----------------------------|-----------------------------------|
| Checking | <u>\$ 46,721</u> | <u>\$ 46,721</u> | <u>\$ -</u> |
| Money Market and Certificates of Deposit | <u>\$ 872,244</u> | <u>\$ 250,000</u> | <u>\$ 622,244</u> |

Balances at December 31, 2015 are as follows:

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

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 6 – 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:

| | 2016 | 2015 |
|---------------------------------|-----------------|-----------------|
| Capital Contributions | \$ 100 | \$ 100 |
| CIDC's Accumulated Share Losses | (259) | (237) |
| Total | <u>\$ (159)</u> | <u>\$ (137)</u> |

Loss on Investment

Loss on investment in CDG for both years ending December 31, 2016 and 2015 were \$(22), respectively.

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, 2016 and 2015 worth \$23,000, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 6 – ADVANCES TO CARTHAGE DEVELOPMENT GROUP, LP (CDG) - Continued

Land Donation

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

| | 2016 | 2015 |
|---|---------------------|---------------------|
| 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 \$524,285 and \$473,966 are included in accrued interest receivable at December 31, 2016 and 2015, 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 \$38,400 and \$35,200 are included in accrued interest receivable at December 31, 2016 and 2015, respectively. | 320,000 | 320,000 |
| Other unsecured, non-interest bearing advances to CDG | <u>399,440</u> | <u>390,232</u> |
| Total | <u>\$ 1,977,409</u> | <u>\$ 1,968,201</u> |

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 7 – LONG-TERM DEBT

| | 2016 | 2015 |
|--|------------------|------------------|
| 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, 2016 and 2015. Interest of \$363 and \$544 are included in accrued expense at December 31, 2016 and 2015, respectively. The loan is to be repaid in twelve annual installments of \$12,083, plus interest. The note matures on January 1, 2019. | \$ 24,167 | \$ 36,250 |
| Less: Estimated Current Portion | <u>(12,083)</u> | <u>(12,083)</u> |
| Total Long Term Portion | <u>\$ 12,084</u> | <u>\$ 24,167</u> |

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

| | |
|-------|------------------|
| 2017 | \$ 12,084 |
| Total | <u>\$ 12,084</u> |

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 8 – 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. The lease was amended on October 28, 2016 to provide a more stable financial structure to protect Project operations. Beginning for the calendar quarter commencing on October 1, 2016, the rent will be 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 will vary 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.

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 9 – 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, 2016 and 2015, respectively.

Future minimum rentals at December 31 are as follows:

| | | |
|-------|----|----------------|
| 2017 | \$ | 62,220 |
| 2018 | | 62,220 |
| 2019 | | 62,220 |
| 2020 | | <u>15,555</u> |
| Total | \$ | <u>202,215</u> |

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 10 – LEASES

As described in Note 9, CIDC entered into a master lease with CDG. CIDC is authorized to sublet the property. As of December 31, 2016, there are four leases for subletting the property. All are written leases.

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, 2016 and 2015 monthly rents were \$1,295 and \$1,245.

Sublet 2. The second lease with a commencement date of approximately April 1, 2016 was for a term of twelve months with an option to extend the lease for five additional years. The rent is \$650 per month.

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. The rent was \$700 per month for the first thirty months. Effective September 1, 2015, a five-year renewal was executed, with monthly rent increasing to \$800 for 12 months. As of September 1, 2016, the rent increased to \$825 for 12 months.

Sublet 4. The fourth lease with a commencement date of approximately October 1, 2016 was for a term of 13 months, with renewal rights for an additional five-year period. The rent is \$400 per month.

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

| | Sublet 1 | Sublet 2 | Sublet 3 | Sublet 4 | Total |
|-------|------------------|-----------------|------------------|-----------------|-------------------|
| 2017 | \$ 16,178 | \$ 1,950 | \$ 10,000 | \$ 4,000 | \$ 32,128 |
| 2018 | 16,783 | - | 10,300 | - | 27,083 |
| 2019 | 17,387 | - | 10,600 | - | 27,987 |
| 2020 | 17,991 | - | 7,200 | - | 25,191 |
| 2021 | 18,596 | - | - | - | 18,596 |
| Total | <u>\$ 86,935</u> | <u>\$ 1,950</u> | <u>\$ 38,100</u> | <u>\$ 4,000</u> | <u>\$ 130,985</u> |

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 11 – STATEMENT OF CASH FLOWS

The following noncash investing activities occurred during the years ended December 31:

| | 2016 | 2015 |
|---|-----------|-----------|
| Loan Principal and Accrued Interest Forgiven: | | |
| Note Receivable- Carthage Free Library | \$ 48,000 | \$ 48,000 |
| Note Receivable- Chang | \$ 413 | \$ 413 |
| Note Receivable- Hoch | \$ 1,755 | \$ 1,755 |
| Loss of Investment in CDG | \$ (22) | \$ (22) |

There were no noncash financing activities during the years ended December 31, 2016 and 2015.

Cash paid for interest for the years ended December 31, 2016 and 2015 totaled \$544 and \$1,268, respectively.

NOTE 12 – 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, 2016 and 2015, CIDC, on CDG's behalf, made annual principal payments of \$8,333 and accrued interest of \$875 and \$1,000, 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 \$-0- and \$9,334 for each of the years ended December 31, 2016 and 2015, 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 INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 12 – COMMITMENTS AND CONTINGENCIES - Continued

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.

NOTE 13 – RELATED PARTY TRANSACTIONS

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, 2016 and 2015, the accounts totaled over \$918,000 and \$884,000.

NOTE 14 - 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, with an additional \$70,000 being disbursed during 2016.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 15– 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:

| | 2016 | 2015 |
|-----------------------------------|--------|------------|
| Due from Northbrook Carthage, LLC | \$ -0- | \$ 123,982 |

During the year ended December 31, 2016, the lease was amended, terminating such reimbursements.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 17, 2017 which is the date the financial statements were available to be issued.



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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
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, 2016, 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 17, 2017.

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 2016-001 is considered a significant deficiency.

**Finding 2016-001 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 17, 2017

