CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION
CARTHAGE, NEW YORK

We have audited the accompanying statement of financial position of

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

(a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and in our report dated June 7, 2010 we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Carthage Industrial Development Corporation as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sovie & Bowie C.P.A., P.C.

March 23, 2011

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	December 31, 2010	2009
Current Assets:		
Cash and cash equivalents	$1,022,942	$ 820,475
Other receivable - Buckley Realty, LLC	60,000	80,000
Loan receivable - Carthage Chamber of Commerce	18,000	-
Other receivables	6,332	323
Rents receivable	2,588	-
Total Current Assets	1,109,862	900,798
Fixed Assets:		
Land	206,885	206,885
West End Hydroelectric Dam	4,651,000	4,651,000
Leasehold improvements	142,027	142,027
	4,999,912	4,999,912
Less, Accumulated Depreciation	1,134,344	1,037,641
Net Fixed Assets	3,865,568	3,962,271
Other Assets:		
Note receivable - Buckley Realty, LLC	120,000	160,000
Interest receivable - Buckley Realty, LLC	32,772	30,895
Capitalized costs - Cogeneration site property search	5,100	-
Investment in Braman Development, LLC	1,200	-
Investment in Carthage Coordinated Development Group, LLC	272,732	276,413
Investment in Carthage Development Group, L.P.	(30)	(10)
Investment in Carthage Development Group, L.P. - land donation	23,000	23,000
Interest receivable - Carthage Development Group, L.P.	241,571	188,052
Advances to Carthage Development Group, L.P.	1,920,160	1,911,999
Total Other Assets	2,616,505	2,590,349
Total Assets	$7,591,935	$7,453,418

LIABILITIES AND NET ASSETS

	December 31, 2010	December 31, 2009
Current Liabilities:		
Accounts payable	$ 19,294	$ 2,814
Current portion of long-term debt	12,083	12,083
Accrued interest expense	1,631	1,812
Deferred revenue	46,667	56,667
Tenants' security deposits	8,646	8,646
Due to Economic Development Corporation of Carthage	60,000	80,000
Total Current Liabilities	148,321	162,022
Long-term Debt:		
Loan payable - Economic Development Corporation of Carthage - net of current portion	96,667	108,751
Total Long-term Debt	96,667	108,751
Total Liabilities	244,988	270,773
Net Assets:		
Unrestricted net assets	7,346,947	7,182,645
Total Net Assets	7,346,947	7,182,645
Total Liabilities and Net Assets	$ 7,591,935	$ 7,453,418

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Totals 2010	Totals 2009
Support and Revenue:		
Ground lease - rental income	$ 345,085	$ 328,652
Grants	2,700	-
Income (loss) on investments	(3,701)	(6,841)
Rental income	66,822	67,452
Other income	8,477	9,822
Interest income	73,123	75,043
Total Support and Revenue	492,506	474,128
Expenses:		
Program services	252,713	237,224
Management and general	24,567	22,349
Total Expenses	277,280	259,573
Losses on loan and interest forgiveness	50,924	51,661
Total Expenses and Losses	328,204	311,234
Change in net assets	164,302	162,894
Net assets at beginning of year	7,182,645	7,019,751
Net assets at end of year	$7,346,947	$ 7,182,645

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
WITH COMPARABLE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2009

	Program Services	Management and General	Totals 2010	Totals 2009
Shared expenses with Economic Development Corporation of Carthage	$ 58,525	$ 14,631	$ 73,156	$ 65,830
Legal fees	9,202	-	9,202	5,000
Real estate taxes	531	-	531	348
Master lease expense	63,599	-	63,599	64,823
Accounting fees	-	5,500	5,500	5,280
Insurance	1,741	1,741	3,482	3,409
Other professional fees	10,300	-	10,300	5,957
Office supplies	-	755	755	86
Dues	275	-	275	270
Interest	-	1,631	1,631	1,812
Repairs and maintenance	9,016	-	9,016	8,755
Grants to others	2,700	-	2,700	1,000
Utilities	121	-	121	-
Filing fees	-	309	309	300
Depreciation	96,703	-	96,703	96,703
Total	$ 252,713	$ 24,567	$ 277,280	$ 259,573

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Operating Activities:		
Change in net assets	$ 164,302	$ 162,894
Reconciliation of change in net assets to net cash provided by operating activities:		
Depreciation	96,703	96,703
Non-cash loan and interest forgiveness	50,924	51,661
Non-cash rental income	(10,000)	(10,000)
	301,929	301,258
(Increase) decrease in assets:		
Grants receivable	-	30,000
Loan receivable - Buckley Realty, LLC	-	100,000
Other receivable - Buckley Realty, LLC	-	(1,357)
Interest receivable	(66,320)	(69,472)
Rents receivable	(2,588)	-
Loan receivable - Carthage Chamber of Commerce	(18,000)	-
Other receivables	(6,009)	2,584
Increase (decrease) in liabilities:		
Accounts payable	16,479	1,915
Accrued interest	(181)	(1,378)
Deferred revenue	-	(1,061)
Net cash provided by operating activities	225,310	362,489
Investing Activities:		
Purchase fixed assets	-	(26,585)
Capitalized costs - Cogeneration site property search	(5,100)	-
Investment in Braman Development, LLC	(1,200)	-
Investments in and advances to affiliated companies	(4,460)	(7,292)
Net cash used for investing activities	(10,760)	(33,877)
Financing Activities:		
Payment of long-term debt	(12,083)	(12,083)
Net cash used by financing activities	(12,083)	(12,083)
Increase in cash	202,467	316,529
Cash and cash equivalents at beginning of year	820,475	503,946
Cash and cash equivalents at end of year	$ 1,022,942	$ 820,475

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

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

A. Summary of Significant Accounting Policies:

Organization and Nature of Activities

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

The CIDC's initial activity was accepting title to the 66 acre former Fort James Paper Mill. Today the CIDC manages the remaining properties including the West End Hydroelectric Dam. 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 Hydroelectric Plant. Currently, CIDC receives governmental grants in addition to the ground lease payments. During 2005, CIDC began receiving rentals from two commercial properties it sublets under a master lease with Carthage Development Group, LP. During 2006, a third commercial property was added under the master lease and in 2007, a fourth commercial tenant was added.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, the Carthage Industrial Development Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

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 amounts of revenues and expenses. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

A. Summary of Significant Accounting Policies - contd.:

Cash and Cash Equivalents

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

Current Vulnerability Due to Certain Concentrations:

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

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

Income Tax Status

The Carthage Industrial Development Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the CIDC 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).

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the 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 CIDC. A portion of the Carthage Industrial Development Corporation's functions are conducted by unpaid officers and board members. These services are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

Advertising

The Organization expenses advertising and marketing costs as incurred.

Expense Allocation

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

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, 2009 from which the summarized information was derived.

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

Carthage Industrial Development Corporation maintains its cash balances in one local bank. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. In addition, the bank pledges securities as collateral.

Balances at December 31, 2010 are as follows:

Bank Balances	Insured by FDIC	Collateralized by Bank
$1,022,942	$250,000	$1,300,000

As of December 31, 2010, CIDC's bank balances are adequately protected by the FDIC limits and collateralization by the bank.

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

	December 31, 2010	December 31, 2009
Percentage of ownership	33.33%	33.33%

During 2004, CIDC entered into a joint venture with Carthage Area Hospital and the Economic Development Corporation of Carthage, New York to acquire certain real estate in the Village of Carthage, New York for purposes of development. Each of the partners has contributed $283,913 to CCDG as of December 31, 2010.

CIDC'S proportionate share of income/ (loss) for the years ended December 31, 2010 and 2009 are $(3,681) and $(6,821), respectively.

CIDC's investment in CCDG is as follows:

	December 31, 2010	December 31, 2009
Capital contributions	$283,913	$283,913
CIDC's accumulated share of income/ (losses)	(11,181)	(7,500)
Total	$272,732	$276,413

The investment is reported at its tax basis.

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

D. Investment in Braman Development, LLC:

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

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

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

	December 31, 2010	December 31, 2009
Percentage of ownership	.01%	.01%

Prior to 2004, CIDC was the sole owner of CDG. During 2004, NDC Corporate Equity Fund VI, L.P. acquired a 99.99% interest in CDG in order to obtain lucrative tax credits associated with CDG's project in Carthage, New York. CIDC remains a .01% owner through its ownership of 256 West Main Street, LLC, a single member LLC. 256 West Main Street, LLC is the general partner in CDG. CIDC's proportionate share of income/ (loss) for the years ended December 31, 2010 and 2009 are $(20) and $(20), respectively.

CIDC's investment in CDG is as follows:

	December 31, 2010	December 31, 2009
Capital contributions	$ 100	$ 100
CIDC's accumulated share of losses	(130)	(110)
Total	$ (30)	$ (10)

The investment is reported at its tax basis.

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

Advances to Carthage Development Group, L.P. consist of the following as of December 31, 2010 and 2009:

		December 31, 2010	2009
1.	Sponsor note receivable in the original amount of $579,425. The nonrecourse loan is subordinate to any indebtedness to Key Bank National Association. The note accrues interest at 4% per annum and will be charged on the outstanding principal balance. During 2006, additional borrowings of $885,000 were made on the sponsor note. Repayments of $206,456 were received on the outstanding principal balance. The outstanding principal and accrued interest are due December 31, 2021. Interest of $222,371 and $172,052 are included in accrued interest receivable at December 31, 2010 and 2009, respectively.	$ 1,257,969	$ 1,257,969
2.	A 32-year nonrecourse note receivable in the original amount of $320,000. The note is unsecured and bears interest at 1% of the outstanding principal balance. The outstanding principal and interest balance are due December 31, 2036 and is subordinate to any indebtedness due to Key Bank National Association. Interest of $19,200 and $16,000 are included in accrued interest receivable at December 31, 2010 and 2009, respectively.	320,000	320,000
3.	Other unsecured, non-interest bearing advances to Carthage Development Group, L.P.	342,191	334,030
	Total	$1,920,160	$1,911,999

As of December 31, 2010 and 2009, there is a discrepancy between CIDC and CDG's records in the amount of other unsecured, non-interest bearing advances to CDG. CDG's records reflect $231,737 and $223,576, as of December 31, 2010 and 2009, respectively. The difference is $110,454 for each year.

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

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

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

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

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

	December 31, 2010	December 31, 2009
	$23,000	$23,000

The investment is reported at its tax basis.

H. Capitalized Costs – Cogeneration Site Property Search:

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

There is uncertainty as to the ownership of land at the site. The ownership of structures at the site is not an issue. Apparently, some time in the past, title to the land may have been separated from the structures. If it is determined that Carthage Industrial Development Corporation owns the land, the costs incurred will form part of the basis of the property. If Carthage Industrial Development Corporation does not own the land, the costs incurred to perform the property search will be written off as expenses in the year of final determination.

I. Fixed Assets:

Fixed assets consist of the following at December 31,

	2010	2009
Land	$ 206,885	$ 206,885
West End Hydroelectric Dam	4,651,000	4,651,000
Leasehold improvements	142,027	142,027
	4,999,912	4,999,912
Less, accumulated depreciation:		
West End Hydroelectric Dam	1,116,240	1,023,220
Leasehold improvements	18,104	14,421
	1,134,344	1,037,641
Net fixed assets	$3,865,568	$3,962,271

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

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

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

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

J. Loan Receivable – Carthage Chamber of Commerce:

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

K. Deferred Revenue:

Deferred revenue consists of the following as of December 31, 2010 and 2009:

	2010	2009
In order for Carthage Coordinated Development Group, LLC (CCDG) to acquire a certain real estate parcel, CIDC made an agreement with the property owner to provide commercial rental property to his business at a reduced rent for a period of ten years. That business signed the first lease as more fully described at Note Q. The economic value of the reduced rent was agreed to be $100,000. In exchange for the reduced rent, the property owner agreed to a $100,000 reduction in the price of the real estate purchased by CCDG. CIDC recorded the transaction as a $100,000 capital contribution to CCDG and deferred rental income of $100,000. Deferred rent is being recognized on a straight-line basis over a period of ten years.	$46,667	$56,667

L. Long-term Debt:

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

	2010	2009
A promissory note in the amount of $145,000 dated December 23, 2004 is payable to the Economic Development Corporation of Carthage (EDCC). The note was amended in 2007. Under the amended terms, the note accrues interest at the higher of 1.5% per annum or the one year certificate of deposit rate at Carthage Federal Savings and Loan. The interest rate was 1.5% per annum for the years ended December 31, 2010 and 2009. Interest of $1,631 and $1,812 are included in accrued interest expense at December 31, 2010 and 2009, respectively. The loan is to be repaid in twelve annual installments of $12,083.33, plus interest. The first payment was made in 2008. The maturity date is January 1, 2019.	$ 108,750	$ 120,834
Less estimated current portion	12,083	12,083
Long-term debt	$ 96,667	$ 108,751

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

L. Long-term Debt – contd.:

Estimated maturities of long-term debt are as follows:

Year Ended December 31,	Amount
2011	$ 12,083
2012	12,083
2013	12,083
2014	12,083
2015	12,083
Thereafter	48,335
Total	$ 108,750

M. Due from Buckley Realty, LLC:

Note Receivable – Buckley Realty, LLC:

In August 2007, CIDC loaned $200,000 to Buckley Realty, LLC to support the restoration of the Buckley Building in Carthage, New York. Interest is computed at a fixed rate of 8% per annum on the unpaid principal. As of December 31, 2010 and 2009, accrued interest totals $32,772 and $30,895, respectively.

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

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

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

Pursuant to this agreement, based on Buckley Realty, LLC's compliance with the terms of the loan, CIDC forgave principal of $40,000 and accrued interest of $10,924 during 2010.

Other Receivable – Buckley Realty, LLC:

As further described in Note N, in 2008, the Economic Development Corporation of Carthage (EDCC) provided a loan of $100,000 to Buckley Realty, LLC with repayment/forgiveness terms as previously described for CIDC's note receivable from Buckley Realty, LLC. Other receivable – Buckley Realty, LLC is the offset to the due to Economic Development Corporation of Carthage liability of $100,000. Pursuant to the repayment/forgiveness terms, the receivable was reduced by one-fifth or $20,000 during 2010 and 2009

N. Due to Economic Development Corporation of Carthage:

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

Pursuant to the repayment/forgiveness terms, the liability was reduced by one-fifth or $20,000 during 2010 and 2009.

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

O. Ground Lease - Rental Income:

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

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

Carthage Industrial Development Corporation is researching its options for the operation of the hydroelectric facility and has been in contact with several energy companies. A decision will be made prior to the expiration of the lease with West End Dam Associates.

P. Master Lease:

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

Rental expense relating to the lease totaled $63,599 and $64,823 for the years ended December 31, 2010 and 2009, respectively.

Future minimum rentals are as follows:

Year Ending December 31,	Amount
2011	$ 62,220
2012	62,220
2013	62,220
2014	62,220
2015	62,220
Thereafter	264,435
Total	$ 575,535

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

P. Master Lease cont'd:

As of December 31, 2010, four leases for subletting the property have been signed. Those leases are further described in Note Q.

Q. Leases:

As more fully described in Note P, CIDC entered into a master lease with Carthage Development Group, LP. CIDC is authorized to sublet the property. As of December 31, 2010, there are four leases for subletting the property. All are written leases.

1. The first lease with a commencement date of approximately September 1, 2005 is for a term of five years with renewal rights for three, five-year additional periods. For the first year monthly rental is $1,000. Increases of approximately 2% each year are scheduled for subsequent years. The lease was renewed for five years effective September 1, 2010. As of December 31, 2010, the monthly rent is $1,104.

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

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

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

3. The third lease with a commencement date of approximately June 1, 2006 is for a term of five years with renewal rights for an additional five-year period. Monthly rental is $1,090. CIDC was notified by the tenant that the lease would not be renewed at the expiration date of May 31, 2011. However, CIDC is currently negotiating with the tenant for a short term lease or reduced rent in order for the tenant to remain at the site.

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

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

   The tenant has apparently developed financial difficulties and as of December 31, 2010 was two months in arrears on its rent. CIDC is working with the tenant and has agreed to waive late fees. The tenant has made payments in 2011, but may not be able to fulfill its obligations under the lease.

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

Q. Leases cont'd:

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

Year Ended December 31,	Lease 1	Lease 2	Lease 3	Lease 4	Total
2011	$ 13,336	$ 16,056	$ 5,450	$ 15,000	$ 49,842
2012	13,600	16,056	---	8,750	38,406
2013	13,868	16,056	---	---	29,924
2014	14,148	16,056	---	---	30,204
2015	9,560	13,380	---	---	22,940
Thereafter	---	---	---	---	---
Total	$ 64,512	$ 77,604	$ 5,450	$ 23,750	$171,316

Late payments may be assessed a late payment penalty.

R. Non Cash Investing and Financing Activities:

Non cash rental income	$ 10,000
Loan principal and accrued interest forgiven:	
Note receivable – Buckley Realty, LLC	$ 40,000
Other receivable – Buckley Realty, LLC	$ 20,000
Interest receivable – Buckley Realty, LLC	$ 10,924
Due to Economic Development Corporation of Carthage	$ 20,000

S. Commitments and Contingencies:

Litigation

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

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

S. Commitments and Contingencies:

Debt Guarantor

CIDC is a guarantor on a $125,000 note owed to the Village of Carthage by Carthage Development Group, L.P. (CDG). In loan documents amended July 13, 2005, CIDC agrees to assign its rental and lease income as collateral on the note. In October 2010, CIDC, on CDG's behalf, made a principal payment of $8,333.33 and accrued interest of $1,625 to the Village of Carthage. In August 2009, CIDC, on CDG's behalf, made a principal payment of $8,333.33 and accrued interest of $2,800 to the Village of Carthage. These amounts are included in Advances to Carthage Development Group, L.P. on the Statements of Financial Position. Such amounts have been applied to the Operating Deficit Guarantee Agreement described in the following paragraph.

Operating Deficit Guarantee Agreement

CIDC and 256 West Main Street, LLC entered into an Unconditional Guaranty Agreement with NDC Corporation Equity Fund VI, L.P., the 99.99% owner of Carthage Development Group, L.P. (CDG). Under the agreement, in the event an operating deficit arises, Carthage Industrial Development Corporation has agreed to advance funds to cover such shortfall (not to exceed three months operating expenses). Advances made under these conditions shall be non-interest bearing loans repayable in accordance with the Limited Partnership Agreement. This guarantee shall expire when the Project has achieved and maintained a ratio of net operating income to debt service of 1.5 annually for three calendar years (they need not be consecutive provided a debt coverage ratio of greater than 1.0 is achieved in the intervening years) and will be limited to $100,000. Payments by CIDC amounted to $9,958 and $11,133 for the years ended December 31, 2010 and 2009, 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.

Right of First Refusal

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

Lien on Assisted Properties

In a prior year, CIDC received a grant through the New York State Housing Trust Fund Corporation.

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

S. **Commitments and Contingencies –contd.:**

Carthage Coordinated Development Group, LLC

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

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

256 West Main Street, LLC

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

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

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

Carthage Free Library

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

National Grid Grant

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

NOTES TO FINANCIAL STATEMENTS - CONTD.
DECEMBER 31, 2010

T. **Related Party Transactions:**

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

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

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

4. Carthage Development Group, L.P. (CDG) is obligated to pay its general partner (256 West Main Street, LLC) a general partner management fee as defined in the General Partner Management Agreement ("the Agreement"). CDG may terminate this Agreement without further liability upon the removal of the general partner under the Partnership Agreement. Unless otherwise terminated sooner, this Agreement shall terminate at the end of the compliance period for the CDG's Project. The Agreement provides for an annual fee of $5,000 payable subject to available net cash flow at year end. The fee is subordinate to operating expenses (including debt service) and shall not accrue. No management fees were due for 2010 and 2009.

5. Carthage Development Group, L.P. (CDG) is obligated to pay the general partner (256 West Main Street, LLC) a fee ("the incentive management fee") equal to 10% of the gross income (not to exceed 80% of remaining available net cash flow as defined in the Partnership Agreement). These fees are due within 90 days of the calendar year end. No incentive management fees were due for 2010 and 2009.

6. CIDC contracts with Jefferson County Job Development Corporation (JCJDC) to provide maintenance services on a property owned by Carthage Development Group, L.P. (CDG). CIDC pays JCJDC for the services and is then reimbursed a like amount by CDG. Amounts for the years ended December 31, 2010 and 2009 are $8,478 and $7,880, respectively.

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

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

U. New York State Main Street Grant:

In February 2009, CIDC was awarded a $424,075 New York State Main Street Grant. The purpose of the grant is building rehabilitation in downtown Carthage, New York. As of December 31, 2010, the projects are in varying stages of engineering and bid processing. Originally, CIDC was given two years to complete the projects. However, in January 2011, CIDC received approval of a one year extension of the grant. The period for expending grant funds has been extended to February 27, 2012.

As of December 31, 2010, CIDC had expended amounts totaling $6,000 for preliminary costs related to the grant. CIDC expects reimbursement upon completion of the projects.

V. Cash Paid for Interest and Income Taxes:

	2010	2009
Interest	$ 1,812	$ 3,190
Income taxes	$ ---	$ ---

W. Subsequent Events:

In an agreement dated March 7, 2011, Carthage Industrial Development Corporation will loan an amount of $80,000 to the Village of Carthage. The purpose of the loan is for development of a certain public park known as Guyot Island.

Under the terms of the agreement, the $80,000 loan consists of a $40,000 repayable loan and a $40,000 grant from CIDC to the Village. The $40,000 repayable loan is noninterest bearing and is due one year from the closing date of the loan. The grant of $40,000 will not be repaid to CIDC.

Subsequent events have been evaluated through March 23, 2011 which is the date the financial statements were available to be issued.

Sovie & Bowie C.P.A., P.C.
Certified Public Accountants

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Thomas E. Bowie, C.P.A.

Charlene A. Fisk, C.P.A.
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To the Board of Directors of
Carthage Industrial Development Corporation
Carthage, New York

In planning and performing our audit of the financial statements of Carthage Industrial Development Corporation as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Carthage Industrial Development Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Carthage Industrial Development Corporation's internal control to be significant deficiencies:

Preparation of Financial Statements

In accordance with new accounting standard SAS112, should management choose to allow the auditors to prepare the Organization's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the new standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with the knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

Management Response

In accordance with Statement of Auditing Standards (SAS) No. 112, it is the responsibility of the Carthage Industrial Development Corporation (CIDC) to prepare the Organization's financial statements. The CIDC chose to allow the independent auditor to prepare the financial statements for the reporting period as has been standard practice for many small organizations. It is important to note that this practice is not precluded under the new guideline, but rather is now listed as a significant deficiency under the published standards.

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

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

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

Sovie & Bowie C.P.A., P.C.

March 23, 2011

Sovie & Bowie C.P.A., P.C.
Certified Public Accountants

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March 23, 2011

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

We have audited the financial statements of Carthage Industrial Development Corporation for the year ended December 31, 2010, and have issued our report thereon dated March 23, 2011. Professional standards require that we provide you with the following information about our responsibilities under generally accepted 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 19, 2010. 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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. 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 useful lives of assets for computation of depreciation.

Management's estimate of the useful lives of capital assets is based on generally accepted guidelines. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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 known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following schedule summarizes material misstatements detected as a result of audit procedures and which were corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 23, 2011.

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 accounting principles 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.

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 those specified parties.

Very Truly Yours,

Sovie & Bowie C.P.A., P.C.

Thomas E. Bowie, C.P.A.

March 23, 2011

Sovie & Bowie, C.P.A., P.C.
167 Polk Street, Suite 340
Watertown, New York

We are providing this letter in connection with your audits of the statements of financial position of Carthage Industrial Development Corporation as of December 31, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of Carthage Industrial Development Corporation in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 23, 2011, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the Organization's control.

2. We have made available to you all -

   a. Financial records and related data.

   b. Minutes of the meetings of the Board of Directors of Carthage Industrial Development Corporation or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving -

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators or others.

8. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

9. The following, if any, have been properly recorded or disclosed in the financial statements:

   a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

   b. Guarantees, whether written or oral, under which the Organization is contingently liable.

   c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

10. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

12. Carthage Industrial Development Corporation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities, of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

13. There are no -

   a. Violations or possible violations of laws or regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on non compliance.

b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with *FASB Accounting Standards Codification 450, Contingencies.*

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *FASB Accounting Standards Codification 450, Contingencies.*

d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.

14. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

16. Except as discussed in Note W of the financial statements, no events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

17. We are in agreement with the adjusting entries you have proposed, and they have been posted to the Organization's accounts.

Chief Executive Officer	Date
Chief Financial Officer	Date