

LEWIS COUNTY DEVELOPMENT
CORPORATION AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY** (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements 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 consolidated financial statements.

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

Opinion

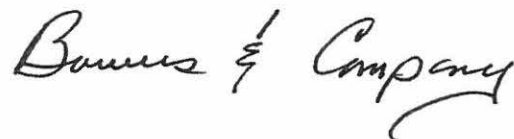
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lewis County Development Corporation and Subsidiary as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Lewis County Development Corporation and Subsidiary's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated March 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018, on our consideration of Lewis County Development Corporation and Subsidiary'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 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 Lewis County Development Corporation and Subsidiary's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Banner & Company". The signature is written in black ink and is positioned to the right of the main body of text.

Watertown, New York
March 30, 2018

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	ASSETS	
	2017	2016
Cash	\$ 163,493	\$ 195,535
Grants Receivable	14,084	314,753
Property and Equipment, Net	<u>287,029</u>	<u>296,018</u>
TOTAL ASSETS	<u><u>\$ 464,606</u></u>	<u><u>\$ 806,306</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ -	\$ 61,988
Retainage Payable	-	33,625
Accrued Interest Payable	6,901	6,901
Deposits	10,000	10,000
Deferred Grant Revenue	15,065	15,065
Notes Payable	<u>350,000</u>	<u>446,583</u>
Total Liabilities	<u>381,966</u>	<u>574,162</u>
NET ASSETS		
Unrestricted Net Deficit	(191,865)	(39,891)
Permanently Restricted Net Assets	<u>274,505</u>	<u>272,035</u>
Total Net Assets	<u>82,640</u>	<u>232,144</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 464,606</u></u>	<u><u>\$ 806,306</u></u>

See notes to consolidated financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2017 with Summarized Totals for December 31, 2016

	Unrestricted	Permanently Restricted	2017	2016 (Summarized)
SUPPORT AND REVENUE				
Contributions	\$ 86	\$ -	\$ 86	\$ 175
Grants and Contracts Earned	-	-	-	317,174
Rent	2,996	-	2,996	7,993
Interest	-	32	32	307
Miscellaneous	-	-	-	300
Sale of Miscellaneous Property	4,500	-	4,500	-
Net Assets Permanently Restricted	<u>(2,438)</u>	<u>2,438</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>5,144</u>	<u>2,470</u>	<u>7,614</u>	<u>325,949</u>
EXPENSES				
Program Service:				
Local Development	142,344	-	142,344	791,425
Supporting Service:				
Management and General	<u>14,774</u>	<u>-</u>	<u>14,774</u>	<u>21,388</u>
Total Expenses	<u>157,118</u>	<u>-</u>	<u>157,118</u>	<u>812,813</u>
CHANGE IN NET ASSETS	(151,974)	2,470	(149,504)	(486,864)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(39,891)</u>	<u>272,035</u>	<u>232,144</u>	<u>719,008</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (191,865)</u>	<u>\$ 274,505</u>	<u>\$ 82,640</u>	<u>\$ 232,144</u>

See notes to consolidated financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017 with Summarized Totals for December 31, 2016

	Program Service Local Development	Management and General	2017	Totals 2016 (Summarized)
Grants Paid	\$ 117,527	\$ -	\$ 117,527	\$ 702,736
Advertising, Postage and Printing	-	52	52	137
Bad Debt Expense	-	-	-	41,548
Fees and Permits	5,023	575	5,598	12,427
Insurance	-	4,291	4,291	7,041
Interest	3,847	667	4,514	9,078
Miscellaneous	-	1,650	1,650	3,114
Professional Fees	6,508	7,539	14,047	28,806
Repairs and Maintenance	450	-	450	410
Supplies	-	-	-	25
Depreciation	8,989	-	8,989	7,491
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	\$ 142,344	\$ 14,774	\$ 157,118	\$ 812,813

See notes to consolidated financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2017 with Comparative Totals for 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (149,504)	\$ (486,864)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation Expense	8,989	7,491
Bad Debt Expense	-	41,548
Decrease in Operating Assets:		
Grants Receivable	300,669	406,244
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(61,988)	33,723
Retainage Payable	(33,625)	6,675
	<u>64,541</u>	<u>8,817</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	-	(62,924)
Principal Received From Loans Receivable	-	11,943
	<u>-</u>	<u>(50,981)</u>
Net Cash Used In Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds From Notes Payable	-	346,582
Repayment of Notes Payable	(96,583)	(200,000)
Proceeds From Line of Credit	75,000	-
Repayment of Line of Credit	(75,000)	(200,000)
	<u>(96,583)</u>	<u>(53,418)</u>
Net Cash Used In Financing Activities		
Net Decrease in Cash	(32,042)	(95,582)
Cash, Beginning of Year	195,535	291,117
Cash, End of Year	<u>\$ 163,493</u>	<u>\$ 195,535</u>

See notes to consolidated financial statements.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 1 – NATURE OF ACTIVITIES

Lewis County Development Corporation (the “LCDC”) was established in 2003 under the Not-for-Profit Corporation Law of the State of New York for the following purposes:

- To identify, research, fund, develop and manage projects, programs and business opportunities that will increase economic opportunities for Lewis County, New York (the “County”) and its residents;
- To revitalize and enhance business areas in the County;
- To stabilize and enhance the infrastructure of the County to include the utilization of new technologies;
- To recruit enterprises and businesses to the County;
- To provide education and research on the best practices for the economic development of the County;
- To preserve the cultural, historical, and natural resources of the County; and
- To expand economic development potential through collaboration and partnerships.

LCDC is a duly organized local development corporation formed under the New York State Not-for-Profit Corporation Law.

LCDC’s wholly owned subsidiary, Black Moose Development, LLC, was established in 2011 for the purposes of owning property in the Village of Lyons Falls, New York.

LCDC and Black Moose Development, LLC’s significant sources of operating revenues are from grant and contract revenue, rental revenue, interest received on loans issued, and contributions received.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of LCDC and its wholly owned subsidiary, Black Moose Development, LLC. All significant intercompany transactions and balances have been eliminated. LCDC and its Subsidiary are collectively referred to herein as the “Corporation”.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting

The Corporation's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, revenue is recognized when earned rather than received, and expenses are recognized when incurred, rather than when the obligation is paid.

Basis of Presentation

The 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

The preparation of consolidated 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 Consolidated Statement of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. As of December 31, 2017 and 2016, the Corporation held no cash equivalents.

Property and Equipment

Equipment purchases are capitalized at cost and depreciated using the straight-line method over their estimated useful lives. Land held for sale and land improvements are capitalized at cost. Depreciation is not recorded on these assets since they have not been placed into service. The Corporation does not have a formal capitalization policy.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status

The Corporation 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 Corporation has adopted the provisions of Financial Accounting Standards Board Codification, “*Income Taxes*.” In determining the recognition of uncertain tax positions, the Corporation applies a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with taxing authorities.

The Corporation recognizes potential liabilities associated with anticipated tax audit issues that may arise during an examination. Interest and penalties that are anticipated to be due upon examination are recognized as accrued interest and other liabilities with an offset to interest and other expense. The Corporation analyzed its tax positions taken on their Federal and State tax returns for the open tax years 2014, 2015, and 2016. Based on this analysis, the Corporation determined that there were no uncertain tax positions and that the Corporation should prevail upon examination by the taxing authorities.

Comparative Financial Information

The consolidated 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation’s consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Functional Allocation of Expenses

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

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Corporation typically maintains cash deposits in local federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. As of December 31, 2017 and 2016, all of the Corporation's deposits were covered by FDIC insurance.

NOTE 4 – PROPERTY AND EQUIPMENT

On January 10, 2011, Black Moose Development, LLC purchased property with a building on its premises on Center Street in the Village of Lyons Falls, New York. During the year ended December 31, 2012, the Corporation began work to rehabilitate this property. There is no depreciation recorded on the building or improvements for the years ended December 31, 2017 and 2016, because a substantial portion of the building and improvements have not been placed into service. This property was purchased using Lewis County Shovel Ready Industrial Development Program (Shovel Ready Program) grant funds. As a result, the County has a security interest in this property. The County has the right to reimbursement for the proceeds of the sale of any property purchased with Shovel Ready Program funds until such time as the grant program closes and all program requirements are satisfied.

On September 16, 2016, Lewis County Development Corporation purchased \$62,924 worth of equipment with United States Department of Agriculture Grant monies to be used by Tug Hill Vineyards. No equipment was purchased for the year ended December 31, 2017.

Property and equipment as of December 31 are summarized as follows:

	2017	2016
Land and Land Improvements	\$ 190,000	\$ 190,000
Buildings and Improvements	50,585	50,585
Equipment	62,924	62,924
	<hr/>	<hr/>
	303,509	303,509
Less: Accumulated Depreciation	(16,480)	(7,491)
	<hr/>	<hr/>
Property and Equipment, Net	\$ 287,029	\$ 296,018

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 5 – EQUIPMENT ON OPERATING LEASES

The following schedule provides an analysis of the Corporation's investment in equipment on operating leases as of December 31:

	2017	2016
Equipment	\$ 62,924	\$ 62,924
Less: Accumulated Depreciation	<u>(16,480)</u>	<u>(7,491)</u>
Equipment on Operating Leases, Net	<u>\$ 46,444</u>	<u>\$ 55,433</u>

The scheduled future rental payments under current operating leases as of December 31, are as follows:

2018	\$ 2,996
2019	2,996
2020	2,996
2021	<u>2,999</u>
	<u>\$ 11,987</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 6 – REVOLVING LOAN FUND

In 2004, the Town of Lyonsdale, New York entered into a grant agreement with the New York State Housing Trust Fund Corporation under the Small Cities Program Community Development Block Grant to create a Lyonsdale Economic Assistance Program (“LEAP”) revolving loan fund. During the year ended December 31, 2008, the Town of Lyonsdale, New York entered into a servicing agreement with LCDC to continue the revolving loan fund under LCDC’s administration. Under this agreement the Town of Lyonsdale, New York transferred \$257,371 of its Small Cities Community Development Block Grant monies to the LCDC. Interest earned on these funds is to be capitalized into the program and is permanently restricted. Principal amounts loaned out are deducted from the balance of deferred revenue and recognized as permanently restricted revenue in the period loaned. Interest earned on loans receivable is also capitalized into the program as permanently restricted revenues. Deferred revenue associated with funds not yet loaned for both years ended December 31, 2017 and 2016 totaled \$15,065.

Loans outstanding under this servicing agreement are as follows at December 31:

	2017	2016
On February 5, 2009, the Town of Lyonsdale, New York entered into a loan agreement under the LEAP revolving loan fund with TMT BioFuels, LLC. LCDC was named as the agent for the Town of Lyonsdale, New York, and is responsible for administering the loan. The original amount of the loan was \$122,306. The loan was payable over five years at an interest rate of 3.25% at a monthly amount of \$1,459, beginning March 2009 and maturing on January 1, 2014. If TMT BioFuels, LLC meets certain job creation goals, up to \$41,584 of the total loan will be forgiven upon maturity. At December 31, 2015, TMT BioFuels, LLC had not met its job creation goals. During the year ended December 31, 2015 the Town of Lyonsdale stated that they would waive the job creation stipulation and allow the remaining \$41,548 to be forgiven. In 2016, an allowance was established for the full amount. The loan was written off against the allowance during the current year.	\$ -	\$ 41,548

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 6 – REVOLVING LOAN FUND - Continued

	2017	2016
Total Loans	\$ -	\$ 41,548
Allowance for Bad Debts	-	(41,548)
Total Loans, Net	<u>\$ -</u>	<u>\$ -</u>

NOTE 7 – LINE OF CREDIT

The Corporation has a \$200,000 line of credit with Community Bank. The interest rate is 0.75% above the prime rate, currently 5.25%, with a floor of 4%. The line is secured by various assets of the Corporation. The total amount outstanding for both years ended December 31, 2017 and 2016 was \$0. The line of credit will expire on June 30, 2018.

NOTE 8 – NOTES PAYABLE

The Corporation had notes payable as follows at December 31:

	2017	2016
A note and mortgage dated May 10, 2011 in the amount of \$100,000. The mortgage created a lien on real estate located in the Village of Lyons Falls, New York. The value of all property and equipment subject to this lien at December 31, 2017 and 2016 was \$303,509 and \$303,509, respectively. Annual payments of interest only at 3.00% have been made since May 10, 2012. Monthly installments of approximately \$833 plus interest will be due at a future date to be determined.	\$ 100,000	\$ 100,000

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 8 – NOTES PAYABLE - Continued

A note dated August 25, 2016 in the amount of \$250,000 from the Development Authority of the North Country. The note is secured by a guarantee by the County of Lewis Industrial Development Agency. Interest accrues annually at 1.00%. Repayment is to begin on the anniversary date of the loan one year from the loan closing in the amount of \$13,854 annually.

\$	250,000	\$	244,808
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A note dated August 25, 2016 in the amount of \$222,500 from the Development Authority of the North Country. The note is secured by the assignment of payments from a National Grid grant in the same amount. Interest accrues annually at 1.50%. Repayment is to begin one year from the anniversary date of the loan or upon final disbursement of the National Grid grant. The note was paid in full as of December 31, 2017.

-	101,775
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Total

\$	350,000	\$	446,583
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Maturities of long-term debt over the next five years are estimated as follows:

2018	\$	11,467
2019		11,582
2020		11,698
2021		21,815
2022		21,933
Thereafter		271,505
Total	\$	350,000

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 9 – GRANTS AND CONTRACTS EARNED

The Corporation recognized grant and contract revenue as follows during the year ended December 31:

	2017	2016
Development Authority of the North Country	\$ -	\$ 254,250
United States Department of Agriculture – Rural Business Enterprise Grant	-	62,924
Total	<u>\$ -</u>	<u>\$ 317,174</u>

NOTE 10 – ADVERTISING

The Corporation uses advertising to notify the public of grant opportunities and to make public announcements. Advertising costs are expensed as incurred.

NOTE 11 – CONTINGENCY

The Corporation has been named in a notice of claim. Although the outcome of this claim is not presently determinable, in the opinion of management, the resolution of this matter will not have a material adverse effect on the Corporation's financial position, results of operations, or cash flows.

NOTE 12 – CASH FLOW INFORMATION

There were no noncash investing or financing activities during 2017 and 2016.

Cash paid for interest was as follows for the years ended December 31:

	2017	2016
Interest	<u>\$ 4,514</u>	<u>\$ 6,078</u>

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 13 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2017 and 2016:

	2017	2016
LEAP Revolving Loan Fund	<u>\$ 274,505</u>	<u>\$ 272,035</u>

NOTE 14 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 30, 2018 which is the date the consolidated financial statements were available to be issued.



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

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

BOARD OF DIRECTORS

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

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 consolidated financial statements of Lewis County Development Corporation and Subsidiary (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lewis County Development Corporation and Subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lewis County Development Corporation and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Lewis County Development Corporation and Subsidiary'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 the internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. 2017-01.

Compliance and Other Matters

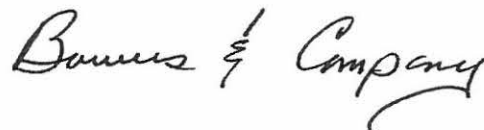
As part of obtaining reasonable assurance about whether Lewis County Development Corporation and Subsidiary's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 or other matters that are required to be reported under *Government Auditing Standards*.

Lewis County Development Corporation and Subsidiary's Response to Findings

Lewis County Development Corporation and Subsidiary's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Lewis County Development Corporation and Subsidiary's response was not subjected to the auditing procedures applied in the audit of the consolidated 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Watertown, New York
March 30, 2018

LEWIS COUNTY DEVELOPMENT CORPORATION AND SUBSIDIARY

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2017

Internal Control Over Financial Reporting

SIGNIFICANT DEFICIENCY

2017-01 Preparation of Consolidated Financial Statements

Condition: Management is unable to prepare the consolidated financial statements in accordance with GAAP and relies on the external auditor to prepare the consolidated financial statements, which also includes preparation of a significant amount of journal entries.

Criteria: Management needs to exercise control over the preparation of its consolidated financial statements. To exercise control, management must possess the necessary accounting expertise to prevent, detect and correct a potential misstatement in its consolidated financial statements.

Cause: The Corporation does not have a person who possesses the necessary accounting expertise to take responsibility for the preparation of the consolidated financial statements.

Effect: Management may not be able to detect and correct potential misstatements in its consolidated financial statements.

Recommendation: The Board of Directors should be aware that this condition is a significant deficiency and will be in future years unless management is able to prepare their consolidated financial statements in accordance with the accrual basis of accounting.

Management's

Response: The Corporation currently has its own staff perform day-to-day bookkeeping duties and prepare financial statements using QuickBooks software. At year-end, the Corporation contracts with an outside auditing firm to prepare its audited consolidated financial statements. The Corporation recognizes that this is viewed as a significant deficiency; however, it is not financially feasible now to hire someone with the expertise to prepare the consolidated financial statements.



**BOWERS & COMPANY
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

To the Board of Directors
Lewis County Development Corporation and Subsidiary

In planning and performing our audit of the consolidated financial statements of Lewis County Development Corporation and Subsidiary as of and for the year ended December 31, 2017, 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, we considered Lewis County Development Corporation and Subsidiary'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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated March 30, 2018, on the consolidated financial statements of Lewis County Development Corporation and Subsidiary.

Segregation of Duties

Due to the small size of the entity there is limited segregation of duties. This presents the risk for both intentional and unintentional errors to be made and go undetected. There is no recommendation to change current procedures and personnel, only acknowledgement that this is considered a deficiency in internal control.

Develop Year-End Closing Procedures

There is currently no formal process in place with regards to closing the books at year-end which results in delays in producing financial reports needed by management. We believe that the year-end closing would proceed more efficiently by developing a checklist of requirements and procedures for closing the year-end books, including the preparation of various balance sheet account reconciliations and the entry of some recurring annual journal entries. We also recommend that audit journal entries be booked as soon as available to provide the Corporation with more accurate reports for internal financial reporting and Board review.

Board of Directors
Lewis County Development Corporation and Subsidiary
March 30, 2018
Page 2

Year End Cash Reconciliation

We noted that the Corporation did not reconcile the General Checking account as of December 31, 2017 due to the bank statement date being December 16, 2017. We recommend the Corporation contact Community Bank N.A. to change the bank statement date to coincide with the Corporation's year end in order to aid in the reconciliation process.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Corporation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Bowers & Company

Watertown, New York
March 30, 2018



BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

March 30, 2018

Board of Directors and Management
Lewis County Development Corporation

We have audited the consolidated financial statements of Lewis County Development Corporation and Subsidiary for the year ended December 31, 2017, and have issued our report thereon dated March 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 2, 2018. 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 Lewis County Development Corporation and Subsidiary are described in Note 2 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated 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 consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the consolidated financial statements was:

Management's estimate of the grants receivable is based on collectability from various funding sources. We evaluated the key factors and assumptions used to develop the collectability from various sources in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

The consolidated financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following schedule of material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 30, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's consolidated 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.

Board of Directors and Management
Lewis County Development Corporation and Subsidiary
March 30, 2018
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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Lewis County Development Corporation and Subsidiary and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Bowers & Company

Engagement: **2017 - Lewis County Development Corporation**
 Period Ending: **12/31/2017**

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 101			
To roll Net Assets			
3001-1	Unrestricted Fund Balance	52,383.00	
3002-1	Temporarily Restricted Net Asse	308.00	
32000	Unrestricted Net Assets	2,396.00	
20000	Accounts Payable		52,383.00
3003-1	Restricted Fund Balance		2,704.00
Total		<u>55,087.00</u>	<u>55,087.00</u>
Adjusting Journal Entries JE # 103			
To reverse PY A/P AJE			
20000	Accounts Payable	61,989.00	
5302-L	Demolition - Phase 1		61,989.00
Total		<u>61,989.00</u>	<u>61,989.00</u>
Adjusting Journal Entries JE # 104			
To reverse PY retainage Payable			
20001	Retainage Payable	33,625.00	
5302-L	Demolition - Phase 1		33,625.00
Total		<u>33,625.00</u>	<u>33,625.00</u>
Adjusting Journal Entries JE # 106			
To record CY DANC repayment			
2016-3	DANC Project Financing:2016-3 DANC Finance Phase 3	153,377.00	
5025-1-L	Interest	847.00	
5004-1-L	Loan & Service Fees		154,224.00
Total		<u>154,224.00</u>	<u>154,224.00</u>
Adjusting Journal Entries JE # 108			
to write off TMT Note			
2017-1	Allowance for Doubtful Accounts	41,548.00	
1104-1	Restricted Funds - Loan:1104-1 -+		41,548.00
Total		<u>41,548.00</u>	<u>41,548.00</u>
Adjusting Journal Entries JE # 109			
to reduce Grant Receivable to actual			
4000-2	Contributions - Kruger	81,726.00	
4003-1	National Grid Econ Development	209,500.00	
4009-1	Grants & Contracts Earned	5,193.00	
1202-1	Grant Receivable		296,419.00
Total		<u>296,419.00</u>	<u>296,419.00</u>
Adjusting Journal Entries JE # 110			
To adjust bank fees based on audit procedures			
2009-4	Community Bank Line of Credit	75,000.00	
4900-1	Interest Expense - Community Bank	521.00	
5017-1-L	Application and Filing Fees	100.00	
5018-1-L	Bank Fee		75,621.00
Total		<u>75,621.00</u>	<u>75,621.00</u>