

**COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY**

- MAY 31, 2009 -

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MAY 31, 2009

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY LOWVILLE, NEW YORK

We have audited the accompanying basic financial statements of the County of Lewis Industrial Development Agency (a State of New York corporate governmental agency), as of and for the years ended May 31, 2009 and 2008 as listed in the table of contents. These basic financial statements are the responsibility of the County of Lewis Industrial Development Agency's management. Our responsibility is to express an opinion on these basic 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the County of Lewis Industrial Development Agency as of May 31, 2009 and 2008 and the results of its operations and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2009 on our consideration of the County of Lewis Industrial Development Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

August 10, 2009

COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
Years Ended May 31, 2009 and 2008

INTRODUCTION

The following is the County of Lewis Industrial Development Agency's (LCIDA) Management Discussion and Analysis (MD&A) of financial activities and performance for the fiscal years ended May 31, 2009 and 2008. Information contained in the MD&A has been prepared by the LCIDA management and should be considered in conjunction with the financial statement and the notes of the independent auditors' report conducted by Sovie & Bowie, C.P.A. PC.

The notes are essential to a full understanding of the data contained in the financial statements. The goal is to provide readers an objective and easily understood overview of the LCIDA's financial performance.

OPERATION HIGHLIGHTS

The LCIDA is a self-funded public benefit corporation created to attract and enhance industrial development, help create jobs and maintain economic stability within Lewis County. Our secondary function is to assist other agencies with tourism, natural resources, retail, wholesale, professional and community enhancements.

This past year the LCIDA has provided financial and technical assistance to most of the industries in Lewis County. Major assistance this past year was provided to AMF, Climax, HDK, Catalyst Renewable, Lowville Farmers Co-Op, VS Virkler & Son, Otis Products, Kraft Foods, Lewis County Dairy, OmniaFiltru, Lewis Lanes, Ridgeview Motor Lodge, Lowville Producers Co-Op, WPS Beaver Falls Generation, Fibermark, LCGH, R&R Classic Wood, and many others. Over the years, the LCIDA has provided a means of financing for approximately 31 large projects in the amount of over 250 million dollars.

The LCIDA feels it is important to support the small family business, which may grow into larger manufacturing companies. This past year we provided, with our economic partners, over 1000 hours of business counseling to approximately 93 local citizens. This resulted in packaging over 21 loans for start-up businesses.

The LCIDA feels it is important to learn more precisely the issues and concerns of our industries and help address these issues. We have accomplished this by:

- Over 67 on site visitations
- Sponsor grants for Lewis County Businesses
- Marketing
 - Web Site product marketing – The creation and maintenance of approximately 609 business Web Pages. The site is visited by 10's of thousands of hits from over 80 Countries.
 - Maple Syrup marketing initiative.
 - Wood Products marketing initiative.
- LINKING^{lewis} – An informational e-flash on contract bidding, success stories, grant opportunities, and other business information.
- Organization Participation – Allows the LCIDA to interact with industry on a regular basis to learn more about their issues and to find solutions. Some of the major organizations are:
 - Comprehensive Economic Development Strategy Committee (CEDS)
 - Industrial Council
 - Empire Zone Board (EZ)

- Community Digester Initiative
- North Country Alliance (NCA)
- Lewis County General Hospital
- Central Upstate Regional Alliance
- FDRLO – GAP Committee
- Ogdensburg Bridge & Port Transportation Steering Committee
- Town and Village Supervisor Meetings
- Forest Products Association
- Lewis County Maple Producers

The LCIDA is a small quiet agency with a progressive, even aggressive posture working with their many partners to create “A Positive Economic Attitude in Lewis County.”

FINANCIAL HIGHLIGHTS

- The assets of the LCIDA exceeded its liabilities at the most recent fiscal year by \$1,640,660 (net assets). This has decreased from the prior year by \$77,963 or 4.54%. A decrease is not unusual for an IDA in this size county, with only four manufacturing plants with over 100 employees each. A major revenue project only occurs every 6-9 years. Projects fees generate operating revenue for the Agency.
- During the most recent fiscal year expenses exceed revenues by \$77,963. This compares to last year of revenues exceeding expenses by \$45,505.
- Project Agency Fees increased and Interest Revenue decreased. Agency’s Fees in 2009 were \$10,401 and in 2008 were \$5,000. Interest Revenue for 2008 was 26,974 and in 2008 was \$63,137 as compared to 2007 of \$93,605.
- Expenses other than PILOT, Grant Expense, Bad Debt, and Deprecation to operate the Agency were increased by \$5,525 or 4.69%. This included the Beaverite Building Maintenance Expense. The following expenses have decreased: Insurance, Utilities, Travel, Maintenance, Printing, and Miscellaneous. Net operating income was down only \$3,958 including salaries and benefits.

OVERVIEW OF FINANCIAL STATEMENTS

Net Assets serve as an indicator of the LCIDA’s financial position. Increases or decreases in net assets may indicate over a period of time, if the financial position of the LCIDA is improving or deteriorating.

Condensed Comparative Financial Statements

The following provides an overview of the LCIDA assets, liabilities, and net assets at the close of fiscal years 2008, 2007, 2006 & 2005:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS					
Current & Other Assets	1,625,739	1,703,274	1,884,154	1,875,913	\$1,901,104
Capital Assets	<u>15,113</u>	<u>15,974</u>	<u>16,947</u>	<u>18,114</u>	<u>19,477</u>
Total Assets	1,640,852	1,719,248	1,901,101	1,894,027	1,920,581
LIABILITIES					
Current Liabilities	192	625	136,973	129,775	141,797
Long-Term Liabilities	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Liabilities	192	625	136,973	129,775	141,797
NET ASSETS					
Invested in Capital Assets, net of related debt	221,980	227,450	228,423	229,590	230,953
Unrestricted	<u>1,418,680</u>	<u>1,491,173</u>	<u>1,535,705</u>	<u>1,534,662</u>	<u>1,547,831</u>
Total Net Assets	<u>1,640,660</u>	<u>1,718,623</u>	<u>1,764,128</u>	<u>1,764,252</u>	<u>1,778,784</u>

Analysis of Financial Position and Results of Operations

The statement of revenues, expenses, and changes in net assets show how the LCIDA net assets changed during the most recent year. Business type activities decreased the LCIDA's net assets by \$77,963. Key elements of this decrease are as follows:

	CHANGES IN NET ASSETS			
	As Stated		Without PILOT & Grant Expense	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES				
Agency Fees	10,401	5,000	10,401	5,000
Payment in Lieu of Taxes	564,686	526,053	-----	-----
Grant Revenue	0	9,586	-----	-----
Rental Income	24,000	4,667	24,000	4,667
Miscellaneous	<u>750</u>	<u>250</u>	<u>750</u>	<u>250</u>
Total Revenues	599,837	545,556	35,151	9,917
OPERATING EXPENSES				
Payment in Lieu of Taxes	564,686	526,053	-----	-----
Grants	-----	9,586	-----	-----
General Operations	130,768	114,079	130,768	114,079
Professional Fees	3,765	3,365	3,765	3,365
Depreciation	5,470	973	5,470	973
Miscellaneous	<u>85</u>	<u>142</u>	<u>85</u>	<u>142</u>
Total Operating Expenses	<u>704,774</u>	<u>654,198</u>	<u>140,088</u>	<u>118,559</u>
Operating Income	(104,937)	(108,642)	(104,937)	(108,642)
(Loss)				
NON-OPERATING REVENUES				
Interest	<u>26,974</u>	<u>63,137</u>	<u>26,974</u>	<u>63,137</u>
Net Income (Loss)	<u>(77,963)</u>	<u>(45,505)</u>	<u>(77,963)</u>	<u>(45,505)</u>
Net assets at beginning of year	<u>1,718,623</u>	<u>1,764,128</u>	<u>1,718,623</u>	<u>1,764,128</u>
Net assets at end of year	<u>1,640,660</u>	<u>1,718,623</u>	<u>1,640,660</u>	<u>1,718,623</u>

PILOTs and Grant Activities were separated out to show the true cost of operations. Generally, those two items cancel each other out in revenues and expenses.

Analysis of Transaction of Individual Funds

The PILOTs are the monies received from the companies in lieu of taxes and are disbursed to the various taxing jurisdictions.

Operating expenses before PILOTs and Grant Expense increased by \$21,529 or 18%. This increase was largely due to Bad Debt Expense and Depreciation, which includes the Beaverite depreciation. Without those two additional unusual expenses core operating expenses decrease by \$4,091 or 3.22%

The Agency does not depend on any taxpayer's dollars to fund the Agency. This has caused some operational issues.

BUDGET HIGHLIGHTS

Each year the LCIDA board approves an operating expense budget and it is reviewed each meeting along with financials of the LCIDA Board. The management of the LCIDA is expected to inform the board of possible variances. The following provides a budgetary financial comparison:

OPERATING EXPENSE BUDGET SUMMARY

	08-09 Budget	08-09 Actual	Variance	09-10 Budget
General Operations	\$125,750	119,261	(6,489)	121,714
Professional Fees	3,800	3,765	(35)	3,600
Miscellaneous	<u>400</u>	<u>85</u>	<u>(315)</u>	<u>400</u>
Sub Total	129,950	123,111	(6,839)	125,714

This is an internal operating budget without PILOTs, Bad Debt, Depreciation, and Grants. The LCIDA adjusted operating budget came in at \$6,839 under budget.

CAPITAL ASSETS & LONG TERM DEBT ACTIVITY

Capital Assets

The LCIDA investment in capital assets for its business activities as of May 31, 2009, amounted to \$15,113 (net of depreciation). The LCIDA's investment in capital assets includes Land, Leasehold Improvements, Furniture & Fixtures, and Equipment. The amount invested in capital assets remains virtually the same.

- Land – in the Commercial Park on the #4 Rd. between Sherwin Williams and the Credit Union.
- Leasehold Improvements - improvements made to the office LCIDA is renting at 7642 State St.
- Furniture & Fixtures, and Equipment - assets used for the LCIDA general operations.

A summary of Capital Assets:

	2009	2008	2007	2006	2005
Land	16,210	16,210	16,210	16,210	\$16,210
Leasehold Improvements	5,264	5,264	5,264	5,264	5,264
Furniture & Fixtures	1236	1236	1,236	1,236	1,236
Equipment	<u>2594</u>	<u>2594</u>	<u>3,526</u>	<u>3,526</u>	<u>4,126</u>
Less Accumulated Depreciation	<u>(10,191)</u>	<u>(9,330)</u>	<u>(9,289)</u>	<u>(8,122)</u>	<u>(7,359)</u>
Net Capital Assets	<u>15,113</u>	<u>15,974</u>	<u>16,947</u>	<u>18,114</u>	<u>19,477</u>

The Beaverite Property is now valued at \$206,867. In 2008 was valued at \$211,476. The difference of \$4,609 is depreciation.

Long-Term Debt

The Agency has no long-term debt.

ECONOMIC OUTLOOK AND THE LCIDA

Many of our companies are cutting capital expenditures due to an uncertain economic outlook. In spite of this presently the State of Lewis County's industry looks positive. During the 2007-2008 year, several projects have been started which will enhance the economy for 2008-2009. They are:

- Otis Products – This company is in a growth mode have constructed a 46,000 sq. ft. warehouse to efficiently handle increased orders. This company has added much needed employment to the southern part of the County.

- Qubica AMF – This company is now producing bowling pins for Brunswick Bowling. They will be producing 99% of the bowling pins for the world. They are stabilizing their plant in Lewis County and should increase employment.
- Kraft Foods - This Company is considering adding new product lines and sometime in the next five years may need our assistance in building expansion. This is stabilizing their cream cheese plant.
- HDK –During this next year they have plans to construct another manufacturing building and another warehouse. This project has been delayed because of economic conditions.
- Wind Mills – There are plans for another 39 windmills in 2010 or 2011. Burrows Paper is also considering the construction of windmills.
- A company is in the R&D stage in establishing an ethanol plant. R&D may take another 2 to 3 years. This is converting willow trees to ethanol.
- Lewis Lanes – Is near the completion of their new bowling center. When completed this project should even improve Lewis County’s recreation and quality of life.
- Ridgeview Motor Lodge – Is constructing 20 additional units. This is a benefit in attracting tourism and recreation to our county. Our retail and service sector will benefit from this addition.
- We are working on several leads for the Lowville Plaza vacant shopping center.
- Many other small businesses are expanding. If each small business in the County expanded by one employee, there will be an employment demand.
- The LCIDA has assisted many of these small businesses by direct consulting, creating a Web presence for their small business, and providing information via LINKING*Lewis* newsletter.
- Existing larger manufacturing, other than above, appear to remain stable this coming year.

LCIDA Outlook

The 2008-2009 year has again been a very active year for the LCIDA. We partner with other organizations, which can assist us in meeting the many economic challenges. With the involvement of the LCIDA many challenges have been and are being addressed.

In the coming year, the LCIDA will continue:

- An aggressive call (visitation) program to business and industry identifying issues and assistance in finding solutions.
- Work on developing ways to lower energy cost to industry.
- Identify and cultivate leads and prospects for industrial development.
- Assist project owners/developers/prospects with technical and financial support.
- Work with local governments, when appropriate, in developing economic development in their areas.
- Work as a catalyst with the various economic development agencies to develop a systematic approach in attacking economic issues of a prospective or existing company, municipality, or the public.
- To assist small “Made in Lewis County” businesses to stabilize and grow. Assist them in their marketing efforts via the LCIDA Web Site, information by direct consulting, and LINKING*Lewis*.

LCIDA Finances

The LCIDA’s future is very positive. Our operating statements will be improved by:

- Increased investment interest rates.
- The LCIDA will continue their operation expense control program. One example is this past year we cut our electrical expense by approximately 50%. Our insurance expense, maintenance and repairs, etc. has been reduced.

- Improving project income. With new regulations in the Empire Zone Program, this should create more projects for the LCIDA.
- We are assisting the Lyonsdale Biomass and the taxing jurisdictions in keeping the plant in Lewis County. This may develop into an IDA project.
- We expect to sell a 35,000 sq. ft. manufacturing building and a 30 individual office building in Beaver Falls. These building are in good shape. We have two prospects for the manufacturing building and one for the offices. Once sold it would cut down on maintenance cost of these buildings and have a positive effect on our operating statement.
- We have several companies wanting to expand once the economy shows a better future.
- In the year 2010 or 2011 we may have a possible sizable windmill financing project.
- In the year 2011 or 2012 may have a possible ethanol manufacturing project.

The Agency expects to remain strong to be able to assist in the County's economic development.

CONTACT THE LCIDA FINANCIAL MANAGEMENT

This financial report is designed to provide the public with a general overview of the LCIDA finances and to show the LCIDA accountability for the money it manages. If you have any questions concerning any information provided in this report or need additional financial information contact:

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COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF NET ASSETS
MAY 31, 2009 AND 2008

ASSETS

May 31,

2009

2008

Current Assets:

Cash	\$ 1,413,721	\$ 1,413,001
Prepaid insurance	5,151	5,151
Interest receivable	-	4,581
Notes receivable, current portion	-	<u>25,422</u>
Total Current Assets	<u>1,418,872</u>	<u>1,448,155</u>

Capital Assets:

Land	16,210	16,210
Leasehold improvements	5,264	5,264
Furniture and fixtures	1,236	1,236
Equipment	<u>2,594</u>	<u>2,594</u>
	25,304	25,304
Less Accumulated Depreciation	<u>(10,191)</u>	<u>(9,330)</u>
Net Capital Assets	<u>15,113</u>	<u>15,974</u>

Other Assets:

Property held for lease, net of depreciation of \$4,609 and \$0	206,867	211,476
Notes receivable, net of current portion	-	<u>43,643</u>
Total Other Assets	<u>206,867</u>	<u>255,119</u>

TOTAL	<u>\$ 1,640,852</u>	<u>\$ 1,719,248</u>
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The accompanying notes are an

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>May 31,</u> <u>2008</u>
<u>Current Liabilities:</u>		
Accrued payroll and payroll taxes	\$ 192	\$ 625
Total Current Liabilities	<u>192</u>	<u>625</u>
Total Liabilities	<u>192</u>	<u>625</u>
<u>Net Assets:</u>		
Invested in capital assets	221,980	227,450
Unrestricted	<u>1,418,680</u>	<u>1,491,173</u>
Total Net Assets	<u>1,640,660</u>	<u>1,718,623</u>
TOTAL	<u>\$ 1,640,852</u>	<u>\$ 1,719,248</u>

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Operating Revenue:</u>		
Agency fees	\$ 10,401	\$ 5,000
Payment in lieu of taxes	564,686	526,053
Grant revenue	-	9,586
Rental revenue	24,000	4,667
Application fee revenue	<u>750</u>	<u>250</u>
 Total Operating Revenue	 <u>599,837</u>	 <u>545,556</u>
<u>Operating Expenses:</u>		
Payment in lieu of taxes	564,686	526,053
Grant expense	-	9,586
Salaries and wages	78,309	74,947
Payroll taxes and employee benefits	20,518	18,267
Insurance	2,135	2,259
Office supplies and expense	1,498	1,124
Professional fees	3,765	3,665
Rent	6,300	6,300
Utilities	3,367	3,882
Travel and meals	1,335	1,354
Depreciation	5,470	973
Maintenance and repairs	349	417
Dues and subscriptions	507	500
Printing	562	601
Beaverite building expenses	4,381	4,128
Bad debt expense	11,507	-
Miscellaneous	<u>85</u>	<u>142</u>
Total Operating Expenses	<u>704,774</u>	<u>654,198</u>
 Operating loss	 <u>(104,937)</u>	 <u>(108,642)</u>
<u>Nonoperating Revenue</u>		
Interest revenue	<u>26,974</u>	<u>63,137</u>
Total Nonoperating Revenue	<u>26,974</u>	<u>63,137</u>
 Net Loss	 (77,963)	 (45,505)
Net assets - beginning of year	<u>1,718,623</u>	<u>1,764,128</u>
 Net assets - end of year	 <u>\$ 1,640,660</u>	 <u>\$ 1,718,623</u>

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>Operating Activities:</u>		
Receipts from customers	\$ 599,837	\$ 545,556
Payments to suppliers	(588,970)	(698,491)
Payments to employees	<u>(99,260)</u>	<u>(94,677)</u>
Net cash used for operating activities	<u>(88,393)</u>	<u>(247,612)</u>
 <u>Investing Activities:</u>		
Interest earned	30,209	58,902
Collection on notes receivable	<u>58,904</u>	<u>18,984</u>
Net cash provided by investing activities	<u>89,113</u>	<u>77,886</u>
 Increase (decrease) in cash	 720	 (169,726)
Cash at beginning of year	<u>1,413,001</u>	<u>1,582,727</u>
 Cash at end of year	 <u>\$ 1,413,721</u>	 <u>\$ 1,413,001</u>
 Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (104,937)	\$ (108,642)
Depreciation	5,470	973
Bad debt expense	11,507	-
(Increase) decrease in assets:		
Prepaid insurance	-	(3,595)
Increase (decrease) in liabilities:		
Accrued payroll and payroll taxes	(433)	(1,475)
Accrued expenses	-	(1,026)
Pilot payable	<u>-</u>	<u>(133,847)</u>
Net cash used for operating activities	<u>\$ (88,393)</u>	<u>\$ (247,612)</u>

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2009

A. Summary of Significant Accounting Policies:

Financial Reporting Entity

The County of Lewis Industrial Development Agency (the "Agency") was established under Title 1 of Article 18-A of the General Municipal Law of the State of New York for the purpose of promoting employment, attracting industry and businesses to the community or area and to lessen the burdens of government and act in the public interest.

The financial statements include Lewis IDA Community Development Corporation (the "Corporation"), a component unit of the Agency. The Corporation in prior years borrowed funds from the Agency and loaned it to local businesses. As the loans are repaid to the Corporation, the money is in turn repaid to the Agency. The governing body of the Lewis IDA Community Development Corporation is substantially the same as the governing body of the County of Lewis Industrial Development Agency, therefore, the financial information of the Corporation is blended with the financial information of the Agency.

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

Basis of Accounting

The Agency's operations consist of a single fund, which is a proprietary type fund. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are segregated into investment in capital assets and unrestricted components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GASB No. 34

For the fiscal year ended May 31, 2005, the Agency implemented GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The significant change is the management discussion and analysis (MD & A) section providing an analysis of the Agency's overall financial position and results of operations.

Operating Revenue and Expenses

Operating revenue and expenses for proprietary funds are those that result from providing services.

NOTES TO FINANCIAL STATEMENTS - CONTD.
MAY 31, 2009

A. Summary of Significant Accounting Policies - contd.:

Cash and Cash Equivalents

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

Capital Assets

Capital assets are recorded at cost if purchased; or at fair market value on the date of gift, if donated. The Agency adopted a formal capitalization policy. Expenditures for major renewals and betterments that exceed \$1,000 and extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred

Allowance for Doubtful Accounts

The Agency has elected not to establish an allowance for doubtful accounts since all receivables are deemed collectible. An allowance will be established when an event occurs in the future that would necessitate a reserve.

Use of FASB Pronouncements

The County of Lewis Industrial Development Agency has elected to apply all FASB pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements and that are developed for business enterprises.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation

Depreciation is computed using the straight-line method. Equipment and furniture and fixtures are depreciated over their estimated useful lives ranging from five to seven years. Land improvements and leasehold improvements are depreciated over the estimated useful life of fifteen years.

Accumulated depreciation consists of the following:

	<u>2009</u>	<u>May 31,</u> <u>2008</u>
Furniture and fixtures	\$ 1,236	\$ 1,236
Equipment	2,486	2,272
Land improvements	2,867	2,601
Leasehold improvements	<u>3,602</u>	<u>3,221</u>
	<u>\$10,191</u>	<u>\$ 9,330</u>

B. Cash:

The Agency's investment policies are governed by state statutes. The Agency's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The Agency is authorized to use demand and time accounts and certificates of deposit. Permissible instruments include U. S. Treasury bills.

Collateral is required for demand and time deposits and certificates of deposit for all deposits not covered by Federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

Deposits are valued at cost or cost plus interest and are categorized as either:

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
2. Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
3. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at May 31, 2009 per the banks were \$1,656,762. These deposits are categorized as follows:

<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
\$494,216	\$1,162,546	\$ ---

C. Rent Agreement:

The Agency pays monthly rent to Jim Arvanites for occupied office space. The monthly rent is \$525 per the terms of an agreement between the Agency and Mr. Arvanites. Either party shall give 60 days written notice to terminate the agreement.

D. Notes Receivable:

Notes receivable due to the Lewis IDA Community Development Corporation consist of the following:

	<u>2009</u>	<u>2008</u>
1. A note receivable with the Lewis County Dairy Corp. was issued on September 16, 1994 for a principal amount of \$75,000 plus interest at 6% for a period of 15 years. Monthly payments of \$832.65 include interest. The loan is secured with all machinery, equipment, fixtures and furnishings of the Lewis County Dairy Corp. The owner of Lewis County Dairy Corp. has initiated bankruptcy proceedings. The balance of the loan of \$11,507 was deemed uncollectible and written off as a bad debt on January 30, 2009.	\$ ---	\$ 10,861

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS - CONTD.
MAY 31, 2009

D. Notes Receivable - contd.:

	<u>2009</u>	<u>2008</u>
2. A note receivable with the Northern Developers, LLC dated April 17, 1996 was issued for a principal sum of \$125,000. The note was advanced in installments pursuant to a financing agreement between the Lewis IDA Community Development Corporation and Northern Developers, L.L.C. Interest at 9% is charged on the amount of principal sum advanced. Principal and interest monthly payments of \$1,602 will continue through February 1, 2012. The note was paid in full during the current year.	---	<u>58,204</u>
Total	---	69,065
Less: Current Portion of long-term notes	---	<u>25,422</u>
Long-Term Notes Receivable	<u>\$ ---</u>	<u>\$ 43,643</u>

Notes made by the Lewis IDA Community Development Corporation were funded through the borrowing of the same amounts from the County of Lewis Industrial Development Agency. The intercompany receivable and payable between the Corporation and the Agency has been eliminated for financial statement purposes.

E. Woodproducts Industrial Park:

The Agency entered into a lease agreement with Harrisville Dry Kiln, Inc., a subsidiary of Bestway Enterprises, (the "Company") on August 9, 1999 to lease the Woodproducts Industrial Park Facility located in the Town of Diana, Lewis County, New York. The lease was paid in full in November 2004.

The Agency will retain title to the project facility and the PILOT will remain in full force and effect.

The Agency was a recipient of a federal grant from the U. S. Department of Commerce - Economic Development Administration for an amount of \$600,000. The grant was utilized to construct a Woodproducts Industrial Park in the Village of Harrisville, New York. In accordance with the terms of the grant agreement, a mortgage on the property in the amount of \$285,000 has been filed. The mortgage shall terminate on August 18, 2022.

F. Economic Development:

The Agency received and recognized the following grant revenue in 2009 and 2008:

	<u>2009</u>	<u>2008</u>
New York State Department of Economic Development	<u>\$ ---</u>	<u>\$ 9,586</u>

The grant funds were disbursed to the following private corporations for economic development:

	<u>2009</u>	<u>2008</u>
Qubica AMF Worldwide, LLC	<u>\$ ---</u>	<u>\$ 9,586</u>

G. Rental Revenue:

The Agency leases the former Beaverite building that it is holding for sale to Omniafiltra, LLC beginning March 20, 2008. The lease may be cancelled by either party with a sixty day notice. The term of the lease which expired March 20, 2009 was renewed for another one year term expiring March 20, 2010. The rental revenue was \$24,000 and \$4,667 for the years ending May 31, 2009 and 2008, respectively.

H. Property Held for Lease:

Property held for lease at May 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Building	\$211,476	\$211,476
Accumulated depreciation	<u>(4,609)</u>	<u>(---)</u>
	<u>\$206,867</u>	<u>\$211,476</u>

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**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
COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY
LOWVILLE, NEW YORK**

We have audited the basic financial statements of County of Lewis Industrial Development Agency as of and for the year ended May 31, 2009, and have issued our report thereon dated August 10, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County of Lewis Industrial Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Lewis Industrial Development Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Lewis Industrial Development Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County of Lewis Industrial Development Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County of Lewis Industrial Development Agency's financial statements that is more than inconsequential will not be prevented or detected by the County of Lewis Industrial Development Agency's internal control. We consider the deficiency described in the next paragraph to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements

In accordance with the new Statement on Auditing Standards (SAS) No. 112, the auditor's preparation of an organization's financial statements, including full footnote disclosure, may be considered an internal control deficiency. It has been a common practice for the auditor to assist clients with the preparation of their financial statements and the new standard does not preclude the auditor from continuing such practice. Instead, we are required to communicate to those charged with governance that the Organization will need to demonstrate their capability to prepare and understand financial statements and the related disclosures in accordance with generally accepted accounting principles. The Board must determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained.

Management Response

It is felt that the cost of contracting with another accounting firm to prepare the statement for the LCIDA is not cost beneficial or cost effective. Internal statements are prepared on a regular basis and reviewed by the Board of Directors. The operating expense before PILOTS & grants is only \$140,000 and the bottom line is in the negative. The average numbers of checks written per month is only 19 and are reviewed by the Directors. For small agencies with modest budgets, such as LCIDA, the expense of another accounting firm is cost prohibitive.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County of Lewis Industrial Development Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Lewis Industrial Development Agency's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of County of Lewis Industrial Development Agency, in a separate letter dated August 10, 2009.

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

This report is intended for the information of the Board of Directors, the audit committee, management and the State of New York Office of the State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Sovie L Bowie C.P.A., P.C.

August 10, 2009

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Board of Directors
County of Lewis Industrial Development Agency
Lowville, New York

In planning and performing our audit of the financial statements of County of Lewis Industrial Development Agency for the year ended May 31, 2009, we considered the Agency's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. We previously reported on the Agency's internal control structure in our report dated August 10, 2009. This letter does not affect our report dated August 10, 2009 on the financial statements of County of Lewis Industrial Development Agency.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with Agency personnel, and we will be pleased to discuss this comment in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

Budget:

Our review of QuickBooks revealed that the approved budget was not properly recorded. We recommend that the Executive Director review the input data to ensure that the proper budget amounts are reported in QuickBooks.

We wish to thank the Executive Director and staff for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, audit committee, management, and others within the Agency 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.

August 10, 2009