

**COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY**

- MAY 31, 2010 -

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MAY 31, 2010

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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, 2010 and 2009 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, 2010 and 2009 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2010 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

July 30, 2010

COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
Year End May 31, 2010

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 year end May 31, 2010. 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, VS Virkler & Son, Otis Products, Kraft Foods, Roaring Book Windmills, Lewis County Dairy, OmniaFiltra, Lewis Lanes, Ridgeview Motor Lodge, Lowville Producers Co-Op, WPS Beaver Falls Generation, Fibermark, LCGH, and many others. Over the years, the LCIDA has provided a means of financing for approximately 35 large projects in the amount of over 284 million dollars.

During this past year the LCIDA felt 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 500 hours of business counseling to approximately 51 local citizens. This resulted in packaging over 10 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 55 on site visitations
- Sponsor grants for Lewis County Businesses
- Marketing
 - Web Site product marketing – The creation and maintenance of approximately 651 business Web Pages. The site is visited by 10's of thousands of hits from over 80 Countries.
- 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 & Post 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 \$1,635,531 (net assets). This has decreased from the prior year by \$5,129 or 0.31%. 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 5,129. This compares to last year of revenues exceeding expenses by \$77,963.
- Project Agency Fees increased and Interest Revenue decreased. Agency’s Fees in 2010 were \$80,341 and in 2009 were \$10,401. Interest Revenue for 2010 was 6,877, in 2009 were 26,721 and in 2008 was \$63,137 as compared to 2007 of \$93,605.
- Expenses other than PILOT, Bad Debt, NYS Fee Expense and Deprecation to operate the Agency were decreased by \$997 or 0.63%. This included the Beaverite Building Maintenance Expense. The following expenses have decreased: Salary and wages, Benefits, Supplies, Utilities, Travel, Printing, and Miscellaneous.

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 2010, 2009, 2008, 2007 & 2006

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS					
Current & Other Assets	1,652,239	1,625,739	1,703,274	1,884,154	1,875,913
Capital Assets	<u>14,504</u>	<u>15,113</u>	<u>15,974</u>	<u>16,947</u>	<u>18,114</u>
Total Assets	1,666,743	1,640,852	1,719,248	1,901,101	1,894,027
LIABILITIES					
Current Liabilities	31,212	192	625	136,973	129,775
Long-Term Liabilities	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Liabilities	31,212	192	625	136,973	129,775
NET ASSETS					
Invested in Capital Assets, net of related debt	104,439	221,980	227,450	228,423	229,590
Unrestricted	<u>1,531,092</u>	<u>1,418,680</u>	<u>1,491,173</u>	<u>1,535,705</u>	<u>1,534,662</u>
Total Net Assets	<u>1,635,531</u>	<u>1,640,660</u>	<u>1,718,623</u>	<u>1,764,128</u>	<u>1,764,252</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 \$5,129. Key elements of this decrease are as follows:

	CHANGES IN NET ASSETS		Without PILOT, Grant Expense & NYS Fee	
	As Stated 2010	2009	2010	2009
OPERATING REVENUES				
Agency Fees	80,341	10,401	80,341	10,401
Payment in Lieu of Taxes	533,331	564,686	-----	-----
Grant Revenue	-----	-----	-----	-----
Rental Income	24,000	24,000	24,000	24,000
Miscellaneous	<u>28,773</u>	<u>750</u>	-----	<u>750</u>
Total Revenues	666,445	599,837	104,341	35,151
OPERATING EXPENSES				
Payment in Lieu of Taxes	533,331	564,686	-----	-----
Grants	-----	-----	-----	-----
General Operations	117,459	130,768	117,459	130,768
Professional Fees	4,990	3,765	4,990	3,765
Depreciation	4,988	5,470	4,988	5,470
Miscellaneous	<u>28,789</u>	<u>85</u>	<u>16</u>	<u>85</u>
Total Operating Expenses	<u>689,557</u>	<u>704,774</u>	<u>127,453</u>	<u>140,088</u>
Operating Income Loss	(23,112)	(104,937)	(23,112)	(104,937)
NON-OPERATING REVENUES				
Gain on sale of building	11,106	----	----	----
Interest	<u>6,877</u>	<u>26,974</u>	<u>6,877</u>	<u>26,974</u>
Net Income (Loss)	<u>(5,129)</u>	<u>(77,963)</u>	<u>(16,235)</u>	<u>(77,963)</u>
Net assets at beginning of year	<u>1,640,660</u>	<u>1,718,623</u>	<u>1,640,660</u>	<u>1,718,623</u>
Net assets at end of year	<u>1,635,531</u>	<u>1,640,660</u>	<u>1,624,425</u>	<u>1,640,660</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, NYS Fee and Grant Expense decreased by \$12,635 or 9.02%. This decrease was largely due to reduced payroll, no bad debt expense and lower depreciation, which include the Beaverite depreciation.

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

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, 2010, amounted to \$14,504 (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. Property has a purchase offer in it and closing is expected in July.
- 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:

	2010	2009	2008	2007	2006
Land	16,210	16,210	16,210	16,210	16,210
Leasehold	5,264	5,264	5,264	5,264	5,264
Improvements					
Furniture & Fixtures	1,236	1,236	1,236	1,236	1,236
Equipment	<u>2,594</u>	<u>2,594</u>	<u>2,594</u>	<u>3,526</u>	<u>3,526</u>
Less	<u>(10,800)</u>	<u>(10,191)</u>	<u>(9,330)</u>	<u>(9,289)</u>	<u>(8,122)</u>
Accumulated Depreciation					
Net Capital Assets	<u>14,504</u>	<u>15,113</u>	<u>15,974</u>	<u>16,947</u>	<u>18,114</u>

The Beaverite Property is now valued at \$89,935. In 2009 was valued at \$206,867. The difference is depreciation and part of the property was sold.

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 2009-2010 year, several projects have been started which will enhance the economy for 2010-2011. 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. This is a growth company and future expansion is expected.
- Qubica AMF – This Company is 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 2012. Burrows Paper is also considering the construction of a windmill.
- 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.
- 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 LINKINGLewis newsletter.
- Existing larger manufacturing, other than above, appear to remain stable this coming year.

LCIDA Outlook

The 2009-2010 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.

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 utilities expense. 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. We are sponsoring a grant for \$500,000.
- We sold a 30 office building in Beaver Falls. We have prospects for the manufacturing building and are collecting rental income. Selling the office building will cut down on maintenance cost of these building 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 2011 or 2012 we may have a possible sizable windmill-financing project.
- In the year 2012 to 2015 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, 2010 AND 2009

ASSETS

	<u>May 31,</u>	
	<u>2010</u>	<u>2009</u>
<u>Current Assets:</u>		
Cash	\$ 1,528,678	\$ 1,413,721
Prepaid insurance	4,406	5,151
Other receivable	447	-
New York State Section 2975 fee receivable	<u>28,773</u>	<u>-</u>
Total Current Assets	<u>1,562,304</u>	<u>1,418,872</u>
<u>Capital Assets:</u>		
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>(10,800)</u>	<u>(10,191)</u>
Net Capital Assets	<u>14,504</u>	<u>15,113</u>
<u>Other Assets:</u>		
Property held for lease, net of depreciation of \$3,688 and \$4,609	<u>89,935</u>	<u>206,867</u>
Total Other Assets	<u>89,935</u>	<u>206,867</u>
TOTAL	<u>\$ 1,666,743</u>	<u>\$ 1,640,852</u>

The accompanying notes are an

LIABILITIES AND NET ASSETS

	<u>May 31,</u>	
	<u>2010</u>	<u>2009</u>
<u>Current Liabilities:</u>		
Accrued payroll and payroll taxes	\$ 65	\$ 192
New York State Section 2975 fee payable	<u>31,147</u>	<u>-</u>
Total Current Liabilities	<u>31,212</u>	<u>192</u>
Total Liabilities	<u>31,212</u>	<u>192</u>
<u>Net Assets:</u>		
Invested in capital assets	104,439	221,980
Unrestricted	<u>1,531,092</u>	<u>1,418,680</u>
Total Net Assets	<u>1,635,531</u>	<u>1,640,660</u>
TOTAL	<u>\$ 1,666,743</u>	<u>\$ 1,640,852</u>

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>Operating Revenue:</u>		
Agency fees	\$ 80,341	\$ 10,401
Payment in lieu of taxes	533,331	564,686
New York State Section 2975 fee revenue	28,773	-
Rental revenue	24,000	24,000
Application fee revenue	<u>-</u>	<u>750</u>
 Total Operating Revenue	 <u>666,445</u>	 <u>599,837</u>
<u>Operating Expenses:</u>		
Payment in lieu of taxes	533,331	564,686
New York State Section 2975 Fee Expense	28,773	-
Salaries and wages	77,258	78,309
Payroll taxes and employee benefits	20,759	20,518
Insurance	2,135	2,135
Office supplies and expense	489	1,498
Professional fees	4,990	3,765
Rent	5,775	6,300
Utilities	3,156	3,367
Travel and meals	1,204	1,335
Depreciation	4,988	5,470
Maintenance and repairs	557	349
Dues and subscriptions	389	507
Printing	377	562
Beaverite building expenses	5,360	4,381
Bad debt expense	-	11,507
Miscellaneous	16	85
 Total Operating Expenses	 <u>689,557</u>	 <u>704,774</u>
 Operating loss	 <u>(23,112)</u>	 <u>(104,937)</u>
<u>Nonoperating Revenue</u>		
Gain on sale of building	11,106	-
Interest revenue	<u>6,877</u>	<u>26,974</u>
 Total Nonoperating Revenue	 <u>17,983</u>	 <u>26,974</u>
 Net Loss	 (5,129)	 (77,963)
Net assets - beginning of year	<u>1,640,660</u>	<u>1,718,623</u>
 Net assets - end of year	 <u>\$ 1,635,531</u>	 <u>\$ 1,640,660</u>

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

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

	<u>2010</u>	<u>2009</u>
<u>Operating Activities:</u>		
Receipts from customers	\$ 637,672	\$ 599,837
Payments to suppliers	(555,405)	(588,970)
Payments to employees	<u>(97,846)</u>	<u>(99,260)</u>
Net cash used for operating activities	<u>(15,579)</u>	<u>(88,393)</u>
<u>Capital and Related Financing Activities:</u>		
Sale of building	<u>123,659</u>	<u>-</u>
Net cash provided by investing activities	<u>123,659</u>	<u>-</u>
<u>Investing Activities:</u>		
Interest earned	6,877	30,209
Collection on notes receivable	<u>-</u>	<u>58,904</u>
Net cash provided by investing activities	<u>6,877</u>	<u>89,113</u>
Increase in cash	114,957	720
Cash at beginning of year	<u>1,413,721</u>	<u>1,413,001</u>
Cash at end of year	<u>\$ 1,528,678</u>	<u>\$ 1,413,721</u>
<u>Reconciliation of operating loss to net cash used for operating activities:</u>		
Operating loss	\$ (23,112)	\$ (104,937)
Depreciation	4,988	5,470
Bad debt expense	-	11,507
(Increase) decrease in assets:		
Prepaid insurance	745	-
Other receivable	(447)	-
New York State Section 2975 fee receivable	(28,773)	-
Increase (decrease) in liabilities:		
Accrued payroll and payroll taxes	(127)	(433)
New York State Section 2975 fee payable	31,147	-
Pilot payable	<u>-</u>	<u>-</u>
Net cash used for operating activities	<u>\$ (15,579)</u>	<u>\$ (88,393)</u>

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

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2010

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.

Operating Revenue and Expenses

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

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.

NOTES TO FINANCIAL STATEMENTS - CONTD.
MAY 31, 2010

A. Summary of Significant Accounting Policies - contd.:

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>May 31,</u>	
	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 1,236	\$ 1,236
Equipment	2,594	2,486
Land improvements	3,134	2,867
Leasehold improvements	<u>3,836</u>	<u>3,602</u>
	<u>\$10,800</u>	<u>\$10,191</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, 2010 per the banks were \$1,537,682. These deposits are categorized as follows:

(1)	(2)	(3)
\$250,000	\$1,287,682	\$ ---

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. 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.

NOTES TO FINANCIAL STATEMENTS - CONTD.
MAY 31, 2010

E. 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, 2010 was renewed for another one year term expiring March 20, 2011. The rental revenue was \$24,000 for the years ending May 31, 2010 and 2009, respectively.

F. Property Held for Lease:

Property held for lease at May 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Building	\$ 93,623	\$211,476
Accumulated depreciation	<u>(3,688)</u>	<u>(4,609)</u>
	<u>\$ 89,935</u>	<u>\$206,867</u>

The property consists of two buildings. The office building was sold in April 2010. The sale resulted in a gain of \$11,106.

H. Related Party Transactions:

A Board member is also the President and owner of a local business that signed a PILOT (payment in lieu of tax) agreement with the Agency several years ago. During the current year, a new PILOT agreement was signed to update the terms of the original agreement. The Agency also earned and received a project fee of \$33,915 in March 2010. The board member doesn't participate in board discussions and voting of matters related to her company.

*Sovie
& Bowie C.P.A., P.C.*
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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, 2010, and have issued our report thereon dated July 30, 2010. 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2010-1 is considered a significant deficiency. 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.

Members of:
American Institute of Certified Public Accountants
New York State Society of Certified Public Accountants

Finding 2010-1 Preparation of Financial Statements

In accordance with the 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 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 is only \$127,000 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.

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*.

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 J Bowie C.P.A., P.C.

July 30, 2010