

**COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY**

- MAY 31, 2011 -

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

MAY 31, 2011

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

Peter J. Sovie, C.P.A.
Thomas E. Bowie, C.P.A.

Charlene A. Fisk, C.P.A.
Elizabeth A. Bush, C.P.A.
Catherine A. Satterley, C.P.A.
Karen M. Christie, C.P.A.

167 Polk St., Suite 340
Watertown, New York 13601-2764
Telephone: (315) 788-7690
Fax: (315) 788-0966
E-mail: sovie@sovie-bowie.com
www.sovie-bowie.com

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, 2011 and 2010 as listed in the table of contents. These 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 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, 2011 and 2010 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 August 10, 2011 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, 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 6 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.

August 10, 2011

COUNTY OF LEWIS
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS
Year End May 31, 2011

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, 2011. 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.

The LCIDA has ongoing Projects with Lyonsdale Biogas, MA&N Railroad, Harrisville Dry Kiln, VS Virkler & Son, Otis Technology, WPS Beaver Falls Generation and Fibermark. The LCIDA has provided a means of financial benefits for approximately 35 large Projects in the amount of over 284 million dollars.

During this past year the LCIDA continued to support the small family business, which may grow into larger manufacturing companies. This past year we provided with our economic partner New York State Business Development Corporation over 100 hours of business counseling to approximately 25 local citizens. At least two new retail businesses resulted.

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 45 on site visitations
- Sponsor grants for Lewis County Businesses
- Marketing
 - Web Site product marketing – The creation and maintenance of approximately 600 business Web Pages.
- 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:
 - Lewis County Comprehensive Plan Implementation Committee
 - Lewis County Legislator Economic Sub-Committee
 - Comprehensive Economic Development Strategy Committee (CEDS)
 - Community Digester Initiative
 - North Country Alliance (NCA)
 - Central Upstate Regional Alliance
 - Town and Village Supervisor Meetings

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 \$1,619,700 (net assets). Net Assets decreased from the prior year by \$15,831 or 0.96%. A decrease is not unusual for an IDA in a small County with limited manufacturing plants. Project fees generating operating revenue for the Agency occur infrequently.
- During the most recent fiscal year expenses exceed revenues by 15,831. This compares to last year of expenses exceeding revenues by \$5,129.
- Project Agency Fees decreased and Interest Revenue increased. Agency's Fees in 2011 were \$15,000 and in 2010 were \$80,341. Interest Revenue for 2011 was 6,909, in 2010 were 6,877.
- Expenses other than PILOT, NYS Fee Expense and Deprecation to operate the Agency were decreased by \$40,769 or 33%. The major contributor's to this decrease was a decision by Management to change the Executive Director's position to part time thus saving \$26,332 in Salary and \$14,967 in 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 2011, 2010 & 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current & Other Assets	1,914,095	1,652,239	1,625,739
Capital Assets	<u>1,194</u>	<u>14,504</u>	<u>15,113</u>
Total Assets	1,915,289	1,666,743	1,640,852
LIABILITIES			
Current Liabilities	295,589	31,212	192
Long-Term Liabilities	<u>-----</u>	<u>-----</u>	<u>-----</u>
Total Liabilities	295,589	31,212	192
NET ASSETS			
Invested in Capital Assets, net of related debt	89,286	104,439	221,980
Unrestricted	<u>1,530,414</u>	<u>1,531,092</u>	<u>1,418,680</u>
Total Net Assets	<u>1,619,700</u>	<u>1,635,531</u>	<u>1,640,660</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 \$15,831. Key elements of this decrease are as follows:

	CHANGES IN NET ASSETS			
	As Stated		Without PILOT, Grant Expense & NYS Fee	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES				
Agency Fees	15,000	80,341	15,000	80,341
Payment in Lieu of Taxes	809,780	533,331	-----	-----
Grant Revenue	-----	-----	-----	-----
Rental Income	24,000	24,000	24,000	24,000

Miscellaneous	<u>1,975</u>	<u>28,773</u>	<u>1,975</u>	<u>0</u>
Total Revenues	850,755	666,445	40,975	104,341
OPERATING EXPENSES				
Payment in Lieu of Taxes	809,780	533,331	-----	-----
Grants	-----	-----	-----	-----
General Operations	74,858	117,459	74,858	117,459
Professional Fees	5,949	4,990	5,949	4,990
Depreciation	2,099	4,988	2,099	4,988
Miscellaneous	<u>889</u>	<u>28,789</u>	<u>889</u>	<u>16</u>
Total Operating Expenses	<u>893,575</u>	<u>689,557</u>	<u>83,795</u>	<u>127,453</u>
Operating Income Loss	(42,820)	(23,112)	(42,820)	(23,112)
NON-OPERATING REVENUES				
Gain on sale of building	20,080	11,106	----	----
Interest	<u>6,909</u>	<u>6,877</u>	<u>6,809</u>	<u>6,877</u>
Net Income (Loss)	<u>(15,831)</u>	<u>(5,129)</u>	<u>(36,011)</u>	<u>(16,235)</u>
Net assets at beginning of year	<u>1,635,531</u>	<u>1,640,660</u>	<u>1,635,531</u>	<u>1,640,660</u>
Net assets at end of year	<u>1,619,700</u>	<u>1,635,531</u>	<u>1,599,520</u>	<u>1,624,425</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 normal taxes and are disbursed to the various taxing jurisdictions.

Operating expenses before PILOTS, NYS Fee and Grant Expense decreased by \$43,658 or 34%. This decrease was largely due to reduced Salary and Benefits expense.

The Agency does not depend on any taxpayer's dollars to fund operations of the Agency.

CAPITAL ASSETS & LONG TERM DEBT ACTIVITY

Capital Assets

The LCIDA investment in capital assets for its business activities as of May 31, 2011, amounted to \$1,194 (net of depreciation). The LCIDA's investment in capital assets includes Leasehold Improvements, Furniture & Fixtures, and Equipment. The amount invested in capital assets decreased due to the sale of the #4 Road property.

- Land – There presently is no land in inventory.
- 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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	0	16,210	16,210
Leasehold Improvements	5,264	5,264	5,264
Furniture & Fixtures	1,236	1,236	1,236
Equipment	<u>2,594</u>	<u>2,594</u>	<u>2,594</u>

Less	(7,900)	(10,800)	(9,330)
Accumulated Depreciation			
Net Capital Assets	1,194	14,504	15,113

The Beaverite Property is now valued at \$88,092. 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 and slowing hiring due to an uncertain economic outlook. In spite of this the State of Lewis County's industry looks Stable to positive. During the 2010-2011 year, several projects have been started which will enhance the economy for 2011-2012. They are:

- Otis Products – This company remains in a growth mode and continues to increase employment to the southern part of the County.
- Qubica AMF – This Company is producing bowling pins for Brunswick Bowling. They produce approximately 99% of the bowling pins for the world. They are stabilizing their plant in Lewis County and may 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 the future of the cream cheese plant.
- Wind Mills – There are plans for another 39 windmills in 2011 or 2012.
- 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.
- Lyonsdale Biogas was awarded a \$500,000 Department of Energy grant. The final use of the proceeds is presently being renegotiated.

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:

Contact:
 Richard H. Porter, Executive Director
 County of Lewis Industrial Development
 Agency
 7642 N. State St., PO Box 106
 Lowville, NY 13367
 Phone: (315) 376-3014
 Email: lcida@lcida.org
 Web Address: www.lcida.org

Prepared by:
 Richard H. Porter, Executive Director
 County of Lewis Industrial Development
 Agency

COUNTY OF LEWIS INDUSTRIAL DEVELOPMENT AGENCY

STATEMENTS OF NET ASSETS
MAY 31, 2011 AND 2010

ASSETS

	<u>May 31,</u>	
	<u>2011</u>	<u>2010</u>
<u>Current Assets:</u>		
Cash	\$ 1,686,233	\$ 1,528,678
Prepaid expense	2,228	4,406
Other receivable	37,542	447
New York State Section 2975 fee receivable	-	28,773
	<hr/>	<hr/>
Total Current Assets	1,726,003	1,562,304
<u>Capital Assets:</u>		
Land	-	16,210
Leasehold improvements	5,264	5,264
Furniture and fixtures	1,236	1,236
Equipment	2,594	2,594
	<hr/>	<hr/>
	9,094	25,304
Less Accumulated Depreciation	(7,900)	(10,800)
	<hr/>	<hr/>
Net Capital Assets	1,194	14,504
<u>Other Assets:</u>		
Note receivable	100,000	-
Property held for lease, net of depreciation of \$5,531 and \$3,688	88,092	89,935
	<hr/>	<hr/>
Total Other Assets	188,092	89,935
	<hr/>	<hr/>
TOTAL	<u>\$ 1,915,289</u>	<u>\$ 1,666,743</u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>May 31,</u> <u>2010</u>
<u>Current Liabilities:</u>		
Accrued payroll and payroll taxes	\$ 1,086	\$ 65
Accounts payable	13,323	31,147
Pilots payable	<u>281,180</u>	<u>-</u>
 Total Current Liabilities	 <u>295,589</u>	 <u>31,212</u>
 Total Liabilities	 <u>295,589</u>	 <u>31,212</u>
 <u>Net Assets:</u>		
Invested in capital assets	89,286	104,439
Unrestricted	<u>1,530,414</u>	<u>1,531,092</u>
 Total Net Assets	 <u>1,619,700</u>	 <u>1,635,531</u>
 TOTAL	 <u>\$ 1,915,289</u>	 <u>\$ 1,666,743</u>

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Operating Revenue:</u>		
Agency fees	\$ 15,000	\$ 80,341
Payment in lieu of taxes	809,780	533,331
New York State Section 2975 fee revenue	-	28,773
Rental revenue	24,000	24,000
Late fee	1,475	-
Application fee revenue	<u>500</u>	<u>-</u>
 Total Operating Revenue	 <u>850,755</u>	 <u>666,445</u>
<u>Operating Expenses:</u>		
Payment in lieu of taxes	809,780	533,331
New York State Section 2975 Fee Expense	-	28,773
Salaries and wages	50,926	77,258
Payroll taxes and employee benefits	5,792	20,759
Insurance	2,184	2,135
Office supplies and expenses	683	489
Professional fees	5,949	4,990
Rent	6,300	5,775
Utilities	3,243	3,156
Travel, meals and cell phone	2,031	1,204
Depreciation	2,099	4,988
Maintenance and repairs	189	557
Dues and subscriptions	370	389
Printing	523	377
Beaverite building expenses	2,517	5,360
Penalties	100	-
Miscellaneous	<u>889</u>	<u>16</u>
 Total Operating Expenses	 <u>893,575</u>	 <u>689,557</u>
 Operating loss	 <u>(42,820)</u>	 <u>(23,112)</u>
<u>Nonoperating Revenue</u>		
Gain on sale of property	20,080	11,106
Interest revenue	<u>6,909</u>	<u>6,877</u>
 Total Nonoperating Revenue	 <u>26,989</u>	 <u>17,983</u>
 Net Loss	 (15,831)	 (5,129)
Net assets - beginning of year	<u>1,635,531</u>	<u>1,640,660</u>
 Net assets - end of year	 <u>\$ 1,619,700</u>	 <u>\$ 1,635,531</u>

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Operating Activities:</u>		
Receipts from customers	\$ 842,433	\$ 637,672
Payments to suppliers	(569,224)	(555,405)
Payments to employees	(55,697)	(97,846)
Net cash provided (used) for operating activities	<u>217,512</u>	<u>(15,579)</u>
<u>Capital and Related Financing Activities:</u>		
Sale of building	<u>33,134</u>	<u>123,659</u>
Net cash provided by investing activities	<u>33,134</u>	<u>123,659</u>
<u>Investing Activities:</u>		
Note receivable	(100,000)	-
Interest earned	<u>6,909</u>	<u>6,877</u>
Net cash provided (used) for investing activities	<u>(93,091)</u>	<u>6,877</u>
Increase in cash	157,555	114,957
Cash at beginning of year	<u>1,528,678</u>	<u>1,413,721</u>
Cash at end of year	<u>\$ 1,686,233</u>	<u>\$ 1,528,678</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss Net cash provided (used) for operating activities	\$ (42,820)	\$ (23,112)
Depreciation	2,099	4,988
(Increase) decrease in assets:		
Prepaid insurance	2,178	745
Other receivable	(37,095)	(447)
New York State Section 2975 fee receivable	28,773	(28,773)
Increase (decrease) in liabilities:		
Accrued payroll and payroll taxes	1,021	(127)
New York State Section 2975 fee payable	(17,824)	31,147
Pilot payable	<u>281,180</u>	<u>-</u>
Net cash provided (used) for operating activities	<u>\$ 217,512</u>	<u>\$ (15,579)</u>

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

NOTES TO FINANCIAL STATEMENTS
MAY 31, 2011

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, 2011

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>2011</u>	<u>May 31,</u> <u>2010</u>
Furniture and fixtures	\$ 1,236	\$ 1,236
Equipment	2,594	2,594
Land improvements	---	3,134
Leasehold improvements	<u>4,070</u>	<u>3,836</u>
	<u>\$7,900</u>	<u>\$10,800</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, 2011 per the banks were \$1,692,014. These deposits are categorized as follows:

<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
\$250,000	\$1,442,014	\$ ---

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, 2011

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, 2011 was renewed for another one year term expiring March 20, 2012. The rental revenue was \$24,000 for the years ending May 31, 2011 and 2010, respectively.

F. Property Held for Lease:

Property held for lease at May 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Building	\$ 93,623	\$ 93,623
Accumulated depreciation	<u>(5,531)</u>	<u>(3,688)</u>
	<u>\$ 88,092</u>	<u>\$ 89,935</u>

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 prior 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.

I. Note Receivable:

The Agency entered into a note and mortgage agreement with Black Moose Development, LCC on May 10, 2011 in the amount of \$100,000. The mortgage was originally executed between Black Moose Development, LLC and Michael R. Johnson. On May 5, 2011 Mr. Johnson assigned the mortgage to the County of Lewis Industrial Development Agency. The mortgage created a lien on real estate located in the Village of Lyons Falls, Lewis County, New York. The interest rate is 3.00% per year. The Agency shall receive annual payments of interest only beginning May 10, 2012 through April 10, 2016. Beginning on May 10, 2016, the Agency shall receive equal monthly installments of principal and interest each month of approximately \$966 through the maturity date of April 10, 2026.

J. Subsequent Events:

Subsequent events were evaluated through August 10, 2011 which is the date that the financial statements were available to be issued.

K. Lyonsdale Biomass (ReEnergy) Turbine Generator Project:

In a prior year, County of Lewis Industrial Development Agency applied for federal assistance on behalf of Lyonsdale Biomass (ReEnergy) with the Department of Energy in the amount of \$500,000. The project is being managed by Mosaic Federal Affairs LLC. The actual expenses of the project are recorded on Lyonsdale Biomass (ReEnergy) books and Catalyst Renewables LLC will receive the grant funds from the Department of Energy and disburse to Lyonsdale Biomass (ReEnergy) when the grant funds are released. The grant is expected to be completed by December 31, 2011.

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

Peter J. Sovie, C.P.A.
Thomas E. Bowie, C.P.A.

Charlene A. Fisk, C.P.A.
Elizabeth A. Bush, C.P.A.
Catherine A. Satterley, C.P.A.
Karen M. Christie, C.P.A.

167 Polk St., Suite 340
Watertown, New York 13601-2764
Telephone: (315) 788-7690
Fax: (315) 788-0966
E-mail: sovie@sovie-bowie.com
www.sovie-bowie.com

**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, 2011, and have issued our report thereon dated August 10, 2011. 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 2011-1 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 2011-1 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 \$84,000 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of County of Lewis Industrial Development Agency in a separate letter dated August 10, 2011.

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 Development 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 & Bowie C.P.A., P.C.

August 10, 2011

Sovie
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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, 2011, we considered the Agency's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a certain matter involving the internal control structure and other operational matters that is presented for your consideration. We previously reported on the Agency's internal control structure in our report dated August 10, 2011. This letter does not affect our report dated August 10, 2011 on the financial statements of the County of Lewis Industrial Development Agency.

We will review the status of the comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss the 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:

Quarterly Payroll Taxes:

During our audit it was noted that the first quarter 2011 payroll tax returns were not prepared and filed on a timely basis with the IRS and New York State. The tax returns were subsequently filed in July 2011. We recommend that a reminder procedure be established to ensure that all tax filings are filed promptly.

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, management, and others within the Organization.

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

August 10, 2011

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August 10, 2011

To the 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 for the year ended May 31, 2011. 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 communicated such information in our letter dated February 27, 2009. 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 has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by County of Lewis Industrial Development Agency are described in Note A to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by County of Lewis Industrial Development Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was useful lives of assets for computation of depreciation.

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

Difficulties Encountered in Performing the Audit

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

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New York State Society of Certified Public Accountants

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected misstatements of the financial statements. Management has determined that their effects are material both individually and in the aggregate to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 10, 2011.

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 County of Lewis Industrial Development Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of accounting principle to the governmental unit's basic financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

This information is intended solely for the use of the board of directors and management of County of Lewis Industrial Development Agency, and is not intended to be and should not be used by anyone other than those specified parties.

Very Truly Yours,

Thomas E. Bowie, C.P.A.

Sovie I. Bowie C.P.A., P.C.

County of Lewis I D A
Adjusting Journal Entries
 June 2010 through May 2011

3:38 PM
 07/29/11
 Accrual Basis

Date	Num	Memo	Account	Debit	Credit	Account Type
5/31/2011	AJE 1	to reverse receivable form 5/31/10 to reverse receivable form 5/31/10	Public Authority 2975 Fee Income Accounts Receivable	28,773.00 28,773.00	28,773.00 28,773.00	Income Other Current Asset
5/31/2011	AJE 2	to expense prepaid insurance from prior year to expense prepaid insurance from prior year to expense prepaid insurance from prior year to expense prepaid insurance from prior year	Insurance Health Ins. Insurance Prepaid Insurance	1,633.00 1,098.06 2,731.06	28.05 2,703.01 2,731.06	Expense Expense Expense Other Current Asset
5/31/2011	AJE 3	to record depreciation to record depreciation	Depreciation Accumulated Depreciation	2,099.00 2,099.00	2,099.00 2,099.00	Expense Fixed Asset
5/31/2011	AJE 4	to reclassify prior year net loss to reclassify prior year net loss	Net Assets Retained Earnings	5,128.81 5,128.81	5,128.81 5,128.81	Equity Equity
5/31/2011	AJE 5	to reclassy withholding for NYS taxes to reclassy withholding for NYS taxes to reclassy withholding for NYS taxes	penalties Payroll-SWT Payroll Taxes	100.00 1,186.47 1,286.47	1,286.47 1,286.47	Expense Other Current Liability Expense
5/31/2011	AJE 6	to adjust to actual FICA expense to adjust to actual FICA expense	Comp FICA Payroll-FICA	411.00 411.00	411.00 411.00	Expense Other Current Liability
5/31/2011	AJE 7	to remove liability to remove liability	Health Ins. MERP	88.00 88.00	88.00 88.00	Expense Other Current Liability
5/31/2011	AJE 8	to correct the pilot fees to amount per agreement to correct the pilot fees to amount per agreement	Pilot Fees PILOTs Payable	13,667.52 13,667.52	13,667.52 13,667.52	Income Other Current Liability
5/31/2011	AJE9	to remove duplicate revenue entry to remove duplicate revenue entry	Pilot Fees PILOTs Payable	3,899.55 3,899.55	3,899.55 3,899.55	Income Other Current Liability
5/31/2011	AJE 10	to record PILOT revenue and expense for Otis,Fibermark & HDK to record PILOT revenue and expense for Otis,Fibermark & HDK to record PILOT revenue and expense for Otis,Fibermark & HDK to record PILOT revenue and expense for Otis,Fibermark & HDK to record PILOT revenue and expense for Otis,Fibermark & HDK	County School Town Village Pilot Fees	67,307.64 106,767.06 31,346.04 75,759.81 281,180.55	281,180.55	Expense Expense Expense Expense Income
5/31/2011	AJE 11	to record prepaid rent to record prepaid rent	Prepaid Rent Building	525.00 525.00	525.00 525.00	Other Current Asset Expense
5/31/2011	AJE 12	to reclassify from building account to reclassify from building account	Note receivable-Black Moose Dev Building	100,000.00 100,000.00	100,000.00 100,000.00	Other Asset Fixed Asset
TOTAL				439,789.96	439,789.96	