

CARTHAGE INDUSTRIAL
DEVELOPMENT CORPORATION
AND SUBSIDIARIES

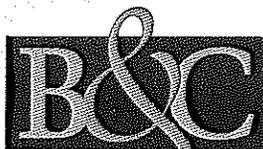
CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

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CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

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BOWERS & COMPANY
CPAs PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

We have audited the accompanying consolidated financial statements of **Carthage Industrial Development Corporation** (a nonprofit organization) and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carthage Industrial Development Corporation and Subsidiaries as of December 31, 2013, and the changes in their net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Carthage Industrial Development Corporation's 2012 consolidated financial statements, and our report dated March 18, 2013, expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Bowers & Company

Watertown, New York
March 11, 2014

AUDITED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2013 with Comparative Totals for 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 802,189	\$ 646,662
Other Receivable - Buckley Realty, LLC	-	20,000
Due from Northbrook Carthage, LLC	116,349	40,578
Other Receivables	1,058	550
Rents Receivable	84,640	73,080
	<u>1,004,236</u>	<u>780,870</u>
Total Current Assets	<u>1,004,236</u>	<u>780,870</u>
PROPERTY AND EQUIPMENT - NET	<u>3,714,409</u>	<u>3,810,446</u>
OTHER ASSETS		
Notes Receivable	310,054	336,922
Interest Receivable	407,380	371,185
Lease Acquisition Costs, Net	38,913	40,328
Organization Costs, Net	600	840
Investment in Carthage Coordinated Development Group, LLC	-	95,388
Investment in Carthage Development Group, L.P.	(94)	(72)
Land Donation	23,000	23,000
Advances to Carthage Development Group, LP	1,949,409	1,939,826
	<u>2,729,262</u>	<u>2,807,417</u>
Total Other Assets	<u>2,729,262</u>	<u>2,807,417</u>
TOTAL ASSETS	<u>\$ 7,447,907</u>	<u>\$ 7,398,733</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 12,083	\$ 12,083
Accounts Payable	432	2,495
Accrued Expenses	1,348	1,529
Deferred Revenue	16,667	26,667
Tenants' Security Deposits	5,595	5,595
Due to Economic Development Corporation of Carthage	-	20,000
	<hr/>	<hr/>
Total Current Liabilities	36,125	68,369
	<hr/>	<hr/>
LONG-TERM DEBT		
Long-Term Debt, Net of Current Portion	60,418	72,501
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Total Long-Term Debt	60,418	72,501
	<hr/>	<hr/>
Total Liabilities	96,543	140,870
	<hr/>	<hr/>
NET ASSETS		
Unrestricted net assets	7,351,364	7,257,863
	<hr/>	<hr/>
Total Net Assets	7,351,364	7,257,863
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 7,447,907	\$ 7,398,733
	<hr/>	<hr/>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2013 with Summarized Totals at 2012

	2013	2012
	Unrestricted	Summarized
SUPPORT AND REVENUE		
Ground Lease - Rental Income	\$ 454,798	\$ 341,317
Grants	-	211,969
Building Owners' Matching Funds	-	46,301
Loss on Investments	(95,681)	(177,391)
Rental Income	50,092	49,790
Other Income	9,756	9,708
Interest Income	60,460	68,538
	<hr/>	<hr/>
Total Support and Revenue	479,425	550,232
	<hr/>	<hr/>
EXPENSES		
Program Services	303,582	693,929
Management and General	19,650	18,954
	<hr/>	<hr/>
Total Expenses	323,232	712,883
	<hr/>	<hr/>
Losses on Loan and Interest Forgiveness	62,692	57,324
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Total Expenses and Losses	385,924	770,207
	<hr/>	<hr/>
Change in Net Assets	93,501	(219,975)
	<hr/>	<hr/>
Net Assets at Beginning of Year	7,257,863	7,477,838
	<hr/>	<hr/>
Net Assets at End of Year	\$ 7,351,364	\$ 7,257,863
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013 with Summarized Totals at 2012

	Program Services	Management and General	Totals 2013	2012 (Summarized)
Shared Expenses With Economic Development Corporation of Carthage	\$ -	\$ 9,583	\$ 9,583	\$ 96,936
Legal Fees	6,127	-	6,127	5,523
Real Estate Taxes	707	-	707	824
Master Lease Expense	62,220	-	62,220	62,220
Main Street Grant Program	-	-	-	261,584
Grants to Others	115,000	-	115,000	105,675
Accounting Fees	-	6,400	6,400	5,620
Insurance	4,079	-	4,079	2,054
Other Professional Fees	1,800	-	1,800	750
Office Supplies	-	289	289	512
Contract Services	12,274	-	12,274	5,031
Braman Expenses	-	-	-	1,518
Dues	-	275	275	275
Interest	-	1,088	1,088	1,269
Repairs and Maintenance	2,559	-	2,559	365
Bad Debt Expense	-	-	-	61,331
Utilities	47	-	47	638
Filing Fees	-	360	360	334
Depreciation and Amortization	98,769	1,655	100,424	100,424
Total	\$ 303,582	\$ 19,650	\$ 323,232	\$ 712,883

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2013 with Comparative Totals for 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 93,501	\$ (219,975)
Reconciliation of Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	100,424	100,424
Non-Cash Loan and Interest Forgiveness	62,692	57,324
Non-Cash Rental Income	(10,000)	(10,000)
Loss on Investments	(95,681)	(176,727)
Bad Debt Expense	-	61,331
(Increase) Decrease in Operating Assets:		
Grants Receivable	-	193,757
Due from Northbrook Carthage, LLC	(75,771)	94,313
Due from West End Dam Associates	-	5,940
Loans Receivable	-	40,000
Other Receivables	(508)	(212)
Rents Receivable	(11,560)	(73,080)
Interest Receivable	(36,195)	(47,847)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(2,063)	(44,785)
Accrued Expenses	(181)	79
Security Deposits	-	(4,080)
Due to West End Dam Associates	-	(37,500)
Net Cash Provided By (Used In) Operating Activities	<u>24,658</u>	<u>(61,038)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase Fixed Assets	(2,732)	-
Investments In and Advances to Affiliated Companies	145,684	19,073
Net Cash Provided By Investing Activities	<u>142,952</u>	<u>19,073</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Long-Term Debt	(12,083)	(12,083)
Net Cash Used In Financing Activities	<u>(12,083)</u>	<u>(12,083)</u>
Increase (Decrease) in Cash	155,527	(54,048)
Cash and Cash Equivalents, Beginning of Year	<u>646,662</u>	<u>700,710</u>
Cash and Cash Equivalents, End of Year	<u>\$ 802,189</u>	<u>\$ 646,662</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF BUSINESS

Principles of Consolidation

The accompanying consolidated financial statements includes the accounts of Carthage Industrial Development Corporation (CIDC), its 33.33% owned subsidiary Carthage Coordinated Development Group, LLC (CCDG), its wholly owned subsidiary Braman Development, LLC, and its .01% owned subsidiary Carthage Development Group, LP (CDG). All significant intercompany transactions have been eliminated. CIDC and its subsidiaries are collectively referred to herein as the “Organization”.

Operations

Carthage Industrial Development Corporation (“CIDC”)

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

Carthage Coordinated Development Group, LLC (“CCDG”)

CCDG was created as a joint venture with Carthage Area Hospital and the Economic Development Corporation of Carthage, New York to acquire certain real estate in the Village of Carthage, New York for the purposes of development. CIDC’s costs associated with formation and continued investment in CCDG, are recognized on the Consolidated Statement of Financial Position. CCDG has completed the purpose for which it was created, and the company was dissolved as of December 31, 2013.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 1 – NATURE OF BUSINESS - Continued

Operations - Continued

Braman Development, LLC

Braman Development, LLC was created in anticipation of receiving certain real estate parcels in Carthage, New York. CIDC incurred organization costs in establishing the new company, and title to the real estate passed to CIDC in 2011. The Village of Carthage donated land to CIDC, which consists of two parcels with an estimated fair market value of \$14,652. Costs associated with acquiring the property were capitalized as part of the cost of the Braman property and are reported on the Consolidated Statement of Financial Position.

Carthage Development Group, LP (“CDG”)

CDG was formed for the purpose of acquiring, rehabilitating and operating property consisting of two qualified low-income housing buildings (20 apartment units) and commercial space, located at 256-262 State Street, Carthage, New York. Prior to 2004, CDG was a wholly owned subsidiary of CIDC. In 2004, NDC Corporate Equity Fund VI, L.P. acquired 99.99% interest in CDG in order to obtain lucrative tax credits associated with CDG’s projects in Carthage, New York. CIDC remains a .01% owner through its ownership of 256 West Main Street, LLC, a single member LLC. 256 West Main Street, LLC is the general partner in CDG. CIDC’s proportionate share of income/(loss) is recognized as investment in CDG on the Consolidated Statement of Financial Position and Consolidated Statement of Activities.

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization’s consolidated financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation is in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not for Profit Organizations*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Property and Equipment

Property and equipment are carried at cost. Expenditures for major renewals and betterments that extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation is computed on a straight-line basis over their estimated useful lives. For the years ended December 31, 2013 and 2012, depreciation expense totaled \$98,769, respectively.

Donated fixed assets are carried at fair market value at time of donation, if that value is readily determinable. The West End Dam Hydroelectric Facility is recorded based on the value established by the New York State Office of Real Property Services Utility Valuation Unit using the income approach to value.

Current Vulnerability Due to Certain Concentrations

The Organization's primary asset is the West End Dam Hydroelectric Facility. The revenue generated by the ground lease represented approximately 94% and 62% of total revenue for the years ended December 31, 2013 and 2012, respectively.

Income Tax Status

CIDC is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation under Section 509(a)(2). Accordingly, no provision has been made for federal or state taxes.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status - Continued

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

CCDG, Braman Development, LLC, and CDG are limited liability companies taxed as a partnership in which all elements of income and deductions are included in the tax returns of the members of the companies. Therefore, no liability for income taxes has been included in the consolidated financial statements.

The Organization recognizes potential liabilities associated with anticipated tax audit issues that may arise during an examination. Interest and penalties that are anticipated to be due upon examination are recognized as accrued interest and other liabilities with an offset to interest and other expense. The Organization analyzed its tax positions taken on their Federal and State tax returns for the open tax years 2010, 2011, and 2012. Based on our analysis, the Organization determined that there were no uncertain tax positions and that the Organization should prevail upon examination by the taxing authorities.

Donated Services

Donated services are recognized as contributions in accordance with FASB Accounting Standards Codification (ASC) 958, *Not for Profit Organizations*. Under ASC 958-605-25-16, contributions are recognized if the donated services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, and various fundraising efforts. These services are not recognized as contributions in the consolidated financial statements since the criteria for ASC 958-605-25-16 are not met.

Advertising

The Organization expenses advertising and marketing costs as incurred.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Functional Allocation of Expense

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

Lease Acquisition Costs

Lease acquisition costs in the amount of \$42,451, are written off on a straight-line basis over the thirty year term of the West End Dam Hydroelectric Facility lease. For the years ended December 31, 2013 and 2012, amortization expense for the West End Dam Hydroelectric Facility lease was \$3,538 and \$2,123, respectively.

Organization Costs

Organization costs in the amount of \$1,200 related to Braman Development, LLC are written off over a period of five years. For the years ended December 31, 2013 and 2012, amortization expense totaled \$600 and \$360, respectively.

Contracted Services

During the year ended December 31, 2012, the Carthage Chamber of Commerce was engaged to provide bookkeeping for CIDC per the administrative services contract, in order to establish effective internal controls and proper segregation of duties.

Comparative Financial Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2012 from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements in order for them to be in conformity with the current year's presentation.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 3 – PROPERTY AND EQUIPMENT

	2013	2012
Land	\$ 224,029	\$ 224,029
West End Dam Hydroelectric Facility	4,777,110	4,774,378
Leasehold Improvements	<u>142,027</u>	<u>142,027</u>
	5,143,166	5,140,434
Less: Accumulated Depreciation	<u>(1,428,757)</u>	<u>(1,329,988)</u>
Net Fixed Assets	<u>\$ 3,714,409</u>	<u>\$ 3,810,446</u>

NOTE 4 – LOANS RECEIVABLE

CIDC approved the advance of \$80,000 to the Village of Carthage to assist with the development of a public park in the Village of Carthage. According to the terms of the agreement, \$40,000 of the advance is to be considered a grant and is not required to be repaid to CIDC.

The remaining \$40,000 is to be treated as a loan to the Village. Terms of the written note require repayment in full within one year. No interest will be charged on the loan. The loan was paid in full as of December 31, 2012.

NOTE 5 – NOTES RECEIVABLE

At December 31, 2013 and 2012, Notes Receivable consisted of the following:

	2013	2012
Buckley Realty, LLC	\$ -	\$ 40,000
4 River Valleys Historical Society	15,300	-
Main Street Grant – Tracy Hoch	10,777	12,532
Main Street Grant - Chang Biak	2,534	2,947
Carthage Area Hospital	31,443	31,443
Carthage Area Hospital	<u>250,000</u>	<u>250,000</u>
Total Notes Receivable	<u>\$ 310,054</u>	<u>\$ 336,922</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 5 – NOTES RECEIVABLE - Continued

Per the terms of these agreements, the note receivables for Tracy Hoch and Chang Biak will be forgiven over a seven year period commencing in February 2013. For the year ended December 31, 2013, the amount of forgiveness totaled \$2,168.

CIDC loaned \$200,000 to Buckley Realty, LLC to support the restoration of the Buckley Building in Carthage, New York. Interest is computed at a fixed rate of 8% per annum on the unpaid principal. As of December 31, 2013 and 2012, accrued interest totaled \$0 and \$17,324, respectively. Pursuant to the agreement, and based on Buckley Realty, LLC's compliance with the terms of the loan, the loan was completely forgiven as of December 31, 2013.

On July 24, 2012, CIDC approved a short term demand loan to Meadowbrook Terrace, Inc. in the amount of \$250,000. Meadowbrook Terrace, Inc. requested the funds on behalf of its owner, Carthage Area Hospital, to assist with cash flow, and increase working capital. This is part of a larger participation agreement with three other organizations which provides a total of \$1,000,000 working capital for Carthage Area Hospital.

Per terms of the agreement, commencing on January 1, 2014, monthly installments of principal and interest of \$11,517 will be due, of which 25% will be disbursed to CIDC. The entire principal balance plus accrued, but unpaid interest is due on January 1, 2023.

Future minimum receipts of notes receivable at December 31, are as follows:

2014	\$ 56,973
2015	26,109
2016	27,334
2017	28,622
2018	29,975
Thereafter	<u>141,041</u>
Total	<u>\$ 310,054</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 6 – CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains its cash balances in one local bank. The balances are partially insured by the Federal Deposit Insurance Corporation (FDIC). In addition, the bank pledges securities as collateral.

Effective January 1, 2013, all accounts are insured up to \$250,000 per depositor per bank.

Balances at December 31, 2013 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	<u>\$ 15,658</u>	<u>\$ 15,658</u>	<u>\$ -</u>
Money Market and Certificates of Deposit	<u>\$ 786,531</u>	<u>\$ 234,342</u>	<u>\$ 552,189</u>

NOTE 7 – ADVANCES TO CARTHAGE DEVELOPMENT GROUP, LP (CDG)

Advances to CDG consist of the following as of December 31:

	2013	2012
Sponsor note receivable in the amount of \$1,464,425. The note accrues interest at 4% per annum and will be charged on the outstanding principal balance. Repayments of \$206,456 were received on the outstanding principal balance. Principal and accrued interest are due December 31, 2021. Interest of \$373,328 and \$323,009 are included in accrued interest receivable at December 31, 2013 and 2012, respectively.	\$ 1,257,969	\$ 1,257,969

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 7 – ADVANCES TO CARTHAGE DEVELOPMENT GROUP, LP (CDG) - Continued

A 32-year nonrecourse note receivable in the amount of \$320,000. The note is unsecured and bears interest at 1% of the outstanding principal balance. Principal and interest are due December 31, 2036. Interest of \$28,800 and \$25,600 are included in accrued interest receivable at December 31, 2013 and 2012, respectively.

	320,000	320,000
Other unsecured, non-interest bearing advances to CDG	<u>371,440</u>	<u>361,857</u>
Total	<u>\$ 1,949,409</u>	<u>\$ 1,939,826</u>

NOTE 8 –LAND DONATION

CIDC acquired a real estate parcel in Carthage, New York. CIDC paid approximately \$43,000 for the site and the seller made a gift of \$23,000 for the balance of the site's fair market value. CIDC sold the parcel to CDG at no gain or loss.

	2013	2012
	<u>\$ 23,000</u>	<u>\$ 23,000</u>

NOTE 9 – DEFERRED REVENUE

Deferred revenue consists of the following as of December 31:

	2013	2012
In order for CCDG to acquire a certain real estate parcel, CIDC made an agreement with the property owner to provide commercial rental property to his business at a reduced rent for a period of ten years. The economic value of the reduced rent was agreed to be \$100,000. In exchange for the reduced rent, the property owner agreed to a \$100,000 reduction in the price of the real estate purchased by CCDG. CIDC recorded the transaction as a \$100,000 capital contribution to CCDG and deferred rental income of \$100,000. Deferred rent is being recognized on a straight-line basis over a period of ten years.	<u>\$ 16,667</u>	<u>\$ 26,667</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 10 – LONG-TERM DEBT

	2013	2012
A note in the amount of \$145,000 is payable to the Economic Development Corporation of Carthage (EDCC). The note accrues interest at the higher of 1.5% per annum or the one year certificate of deposit rate at Carthage Federal Savings and Loan. The interest rate was 1.5% per annum for the years ended December 31, 2013 and 2012. Interest of \$1,088 and \$1,269 are included in accrued expense at December 31, 2013 and 2012, respectively. The loan is to be repaid in twelve annual installments of \$12,083, plus interest. The note matures on January 1, 2019.	\$ 72,501,	\$ 84,584
Less: Estimated Current Portion	<u>(12,083)</u>	<u>(12,083)</u>
Total	<u>\$ 60,418</u>	<u>\$ 72,501</u>

Estimated maturities of long-term debt as of December 31, are as follows:

2014	\$ 12,083
2015	12,083
2016	12,083
2017	12,083
2018	12,083
Thereafter	<u>12,086</u>
Total	<u>\$ 72,501</u>

NOTE 11 – DUE TO ECONOMIC DEVELOPMENT CORPORATION OF CARTHAGE

In order to assist in funding for the Buckley Building (See Note 5), the EDCC provided a \$100,000 loan to Buckley Realty, LLC. Pursuant to the repayment/forgiveness terms, the liability was reduced each year by one-fifth or \$20,000. For the year ended December 31, 2013, the loan was completely forgiven.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 12 – GROUND LEASE - RENTAL INCOME

The Organization entered into a net lease agreement with Northbrook Carthage, LLC. Under the terms of the thirty year lease which expires June 30, 2041, base rent is payable in quarterly installments beginning October 1, 2011 and the first day of every third month thereafter. For the first year, quarterly payments are \$100,000 and will total \$400,000 for the year ended June 30, 2012. Thereafter, base rent is 42.20% of gross energy sales, but not less than \$370,000 per annum.

Future minimum ground lease payments as of December 31, are as follows:

2014	\$ 370,000
2015	370,000
2016	370,000
2017	370,000
2018	370,000
Thereafter	8,325,000
Total	<u>\$ 10,175,000</u>

NOTE 13 – MASTER LEASE

CIDC entered into a Master Lease with CDG for commercial space at 256-260, 262-264 State Street, Carthage, New York. The master lease was established to assist in securing limited partners for CDG's project. CIDC is leasing the commercial space from CDG for a base rent of \$62,220 per year for fifteen years. The lease expires in March 2020. CIDC is authorized to sublet the property for retail, office or other legal and non-hazardous rental use. Rental expense relating to the lease totaled \$62,220 for the years ended December 31, 2013 and 2012, respectively.

Rental expense relating to the lease totaled \$62,220 for the years ended December 31, 2013 and 2012, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 13 – MASTER LEASE - Continued

Future minimum rentals at December 31, are as follows:

2014	\$	62,220
2015		62,220
2016		62,220
2017		62,220
2018		62,220
Thereafter		<u>77,775</u>
Total	\$	<u>388,875</u>

NOTE 14 – LEASES

As described in Note 13, CIDC entered into a master lease with CDG. CIDC is authorized to sublet the property. As of December 31, 2013, there are four leases for subletting the property. All are written leases. There are no vacancies.

- Sublet 1. The first lease with a commencement date of approximately September 1, 2012 is for a term of five years with renewal right for an additional five years. For the first year monthly rental was \$1,148. Effective September 1, 2013 monthly rental is \$1,171.
- Sublet 2. The second lease with a commencement date of approximately February 1, 2013 was for a term of sixty (60) months with an option to extend the lease for five additional years. Monthly rental is \$1,150 per month for the sixty months.
- Sublet 3. The third lease with a commencement date of approximately March 1, 2013 was for a term of thirty (30) months with renewal rights for an additional two consecutive five year terms. Monthly rental is \$700 per month for the thirty months.
- Sublet 4. The fourth lease with a commencement date of approximately November 1, 2012 is for a term of five years with renewal rights for an additional two year period. For the first two years monthly rental was \$600, then increases \$100 each year after.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 14 – LEASES - Continued

Minimum future rentals for the following five years as of December 31 are as follows:

	Sublet 1	Sublet 2	Sublet 3	Sublet 4	Total
2014	\$ 14,148	\$ 13,800	\$ 8,400	\$ 7,400	\$ 43,748
2015	9,560	13,800	5,600	8,600	37,560
2016	-	13,800	-	9,800	23,600
2017	-	12,650	-	9,000	21,650
Total	<u>\$ 27,708</u>	<u>\$ 54,040</u>	<u>\$ 14,000</u>	<u>\$ 34,800</u>	<u>\$ 126,558</u>

**NOTE 15 – NON CASH INVESTING AND FINANCING
ACTIVITIES**

	2013	2012
Non Cash Rental Income	<u>\$ 10,000</u>	<u>\$ 10,000</u>
Loan Principal and Accrued Interest Forgiven:		
Note Receivable - Buckley Realty, LLC	<u>\$ -</u>	<u>\$ 40,000</u>
Other Receivable - Buckley Realty, LLC	<u>\$ -</u>	<u>\$ 20,000</u>
Interest Receivable - Buckley Realty, LLC	<u>\$ -</u>	<u>\$ 17,324</u>
Due to Economic Development Corporation of Carthage	<u>\$ -</u>	<u>\$ 20,000</u>

The Buckley Realty, LLC and Economic Development Corporation of Carthage notes were completely forgiven as of December 31, 2013. Therefore, no corresponding note or interest receivable was recorded (See Note 5 and Note 11).

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Debt Guarantor

CIDC is a guarantor on a \$125,000 note owed to the Village of Carthage by CDG. CIDC agrees to assign its rental and lease income as collateral on the note. For the years ended December 31, 2013 and 2012, CIDC, on CDG's behalf, made annual principal payments of \$8,333 and accrued interest of \$1,250 and \$1,375, respectively to the Village of Carthage. These amounts are included in Advances to Carthage Development Group, L.P. on the Statements of Financial Position.

Operating Deficit Guarantee Agreement

CIDC and 256 West Main Street, LLC entered into an Unconditional Guaranty Agreement with NDC Corporation Equity Fund VI, L.P., the 99.99% owner of CDG. Advances made, shall be non-interest bearing loans repayable in accordance with the Limited Partnership Agreement. Payments by CIDC amounted to \$9,583 and \$9,289 for each of the years ended December 31, 2013 and 2012, respectively. Management has created a \$100,000 reserve fund in a certificate of deposit to ensure funds will be available to meet obligations under this agreement.

Carthage Free Library

Effective January 25, 2012, CIDC signed a Guaranty of Payment with Carthage Federal Savings and Loan. Under the agreement, CIDC guarantees up to \$300,000 of a \$500,000 loan which the bank is making to Carthage Free Library. Under terms of the agreement, in the event of default, the bank is not required to commence any action against Carthage Free Library prior to making demand for payment upon CIDC.

National Grid Grant

CIDC received a \$30,000 grant from National Grid for the Buckley Building restoration. The National Grid grant is dependent on CIDC's \$200,000 commitment to the Buckley Building project as described in Note 5. In the event CIDC does not forgive the \$200,000 loan to the Buckley project and receives payments on the loan, National Grid could review its commitment of \$30,000 to the project and authorize CIDC to use the funds on another eligible project or request repayment of the funds. As of December 31, 2013, the loan was completely forgiven, and this no longer applies.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

NOTE 17 – RELATED PARTY TRANSACTIONS

CDG is obligated to pay its general partner (256 West Main Street, LLC) a general partner management fee as defined in the General Partner Management Agreement (“the Agreement”). CDG may terminate this Agreement without further liability upon the removal of the general partner under the Partnership Agreement. Unless otherwise terminated sooner, this Agreement shall terminate at the end of the compliance period for the CDG’s Project. The Agreement provides for an annual fee of \$5,000 payable subject to available net cash flow at year end. The fee is subordinate to operating expenses (including debt service) and shall not accrue. No management fees were due for 2013 and 2012.

CDG is obligated to pay the general partner (256 West Main Street, LLC) a fee (“the incentive management fee”) equal to 10% of the gross income (not to exceed 80% of remaining available net cash flow as defined in the Partnership Agreement). These fees are due within 90 days of the calendar year end. No incentive management fees were due for 2013 and 2012.

CIDC provides maintenance services on a property owned by CDG. CIDC is then reimbursed a like amount by CDG. Amounts for the years ended December 31, 2013 and 2012 were \$9,074 and \$9,289, respectively.

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

NOTE 18 – NEW YORK STATE MAIN STREET GRANT

CIDC was awarded a \$424,075 New York State Main Street Grant. The purpose of the grant is building rehabilitation in downtown Carthage, New York. All projects were completed and funding received as of April 2012.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

**NOTE 19 – WEST END DAM ASSOCIATES AND NORTHBROOK
CARTHAGE, LLC**

As part of the hydro facility lease negotiations between CIDC, West End Dam Associates and Northbrook Carthage, LLC, several agreements between the companies had to be settled. Such agreements included reimbursement of lost revenue while a shaft was replaced, and allocation of the True-up Agreement between CIDC and Northbrook Carthage, LLC.

As of December 31, 2013, the following is the amount owed between the companies:

Due from Northbrook Carthage, LLC	<u>\$ 116,349</u>
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For the year ended December 31, 2012, per discussion with legal counsel and correspondence with West End Dam Associates (WEDA), it was noted by the CIDC Board of Directors that all repair warranty periods ended in November 2012. It was therefore decided that the lease termination agreement period was closed, and CIDC ended any pursuit of judgment against WEDA, and wrote off approximately \$61,331 to bad debt expense for the year ended December 31, 2012. CIDC accepted the lease termination agreement as fulfilled.

NOTE 20 – CASH PAID FOR INTEREST

	2013	2012
Interest	<u>\$ 1,088</u>	<u>\$ 1,269</u>

NOTE 21 – VILLAGE OF CARTHAGE GRANT

On February 13, 2012, CIDC granted the Village of Carthage \$300,000 to lessen the burden of government and to enhance the Village's community and economic development capabilities. The Village wishes to re-establish its community development programs and fill its Community Development Director position, without burdening the Village taxpayers. Per terms of the grant agreement, the grant shall be disbursed in three lump sums. The first payment of \$100,000 was disbursed on July 24, 2012, the second payment of \$115,000 was disbursed on July 15, 2013, and the final payment of \$85,000 will be disbursed.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 22 – LOSS ON INVESTMENTS

Loss on investments is related to the change in investment in CCDG, and CDG, as of December 31, 2013.

Loss on investments consisted of the following as of December 31, 2013:

Dissolution of CCDG as of December 31, 2013	\$ (95,659)
Loss on investment in CDG	<u>(22)</u>
Total Loss on Investments	<u>\$ (95,681)</u>

NOTE 23 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 11, 2014 which is the date the consolidated financial statements were available to be issued.