

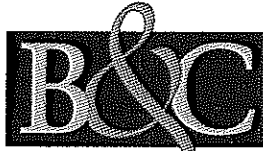
CARTHAGE INDUSTRIAL
DEVELOPMENT
CORPORATION

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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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 financial statements of Carthage Industrial Development Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, statements of functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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 financial statements are free of material misstatement.

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

Syracuse Office

1200 AXA Tower I, 100 Madison Street, Syracuse, NY 13202
(315) 234-1100 • FAX (315) 234-1111 • www.bcpllc.com

Watertown Office

167 Polk Street, Suite 340, Watertown, NY 13601
(315) 788-7690 • FAX (315) 788-0966 • www.bcpllc.com

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 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Carthage Industrial Development Corporation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bowles & Company

Watertown, New York
March 18, 2013

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 646,662	\$ 700,710
Other Receivable - Buckley Realty, LLC	20,000	40,000
Grants Receivable	-	193,757
Due from Northbrook Carthage, LLC	40,578	134,891
Due from West End Dam Associates	-	57,940
Loans Receivable	-	40,000
Other Receivables	550	338
Rents Receivable	73,080	-
	<u>780,870</u>	<u>1,167,636</u>
Total Current Assets		
	<u>780,870</u>	<u>1,167,636</u>
PROPERTY AND EQUIPMENT - NET	<u>3,810,446</u>	<u>3,909,215</u>
OTHER ASSETS		
Notes Receivable	336,922	80,000
Interest Receivable	371,185	323,338
Lease Acquisition Costs - Net	40,328	41,743
Organization Costs - Braman Development, LLC - Net	840	1,080
Investment in Carthage Coordinated Development Group, LLC	95,388	270,998
Investment in Carthage Development Group, L.P.	(72)	(51)
Investment in Carthage Development Group, L.P. - Land Donation	23,000	23,000
Advances to Carthage Development Group, L.P.	1,939,826	1,930,118
	<u>2,807,417</u>	<u>2,670,226</u>
Total Other Assets		
	<u>2,807,417</u>	<u>2,670,226</u>
TOTAL ASSETS	<u>\$ 7,398,733</u>	<u>\$ 7,747,077</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 12,083	\$ 12,083
Accounts Payable	2,495	47,280
Accrued Expenses	1,529	1,450
Deferred Revenue	26,667	36,667
Tenants' Security Deposits	5,595	9,675
Due to West End Dam Associates	-	37,500
Due to Economic Development Corporation of Carthage	20,000	40,000
	<u>68,369</u>	<u>184,655</u>
LONG-TERM DEBT		
Loan Payable - Economic Development Corporation of Carthage - Net of Current Portion	<u>72,501</u>	<u>84,584</u>
Total Long-Term Debt	<u>72,501</u>	<u>84,584</u>
Total Liabilities	<u>140,870</u>	<u>269,239</u>
NET ASSETS		
Unrestricted net assets	<u>7,257,863</u>	<u>7,477,838</u>
Total Net Assets	<u>7,257,863</u>	<u>7,477,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,398,733</u></u>	<u><u>\$ 7,747,077</u></u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES

Year Ended December 31, 2012 with Comparative Totals for 2011

	Unrestricted	Temporarily Restricted	Totals 2012	Totals 2011
SUPPORT AND REVENUE				
Ground Lease - Rental Income	\$ 341,317	\$ -	\$ 341,317	\$ 381,170
Grants	-	211,969	211,969	237,106
Building Owners' Matching Funds	-	46,301	46,301	43,224
Income (Loss) on Investments	(177,391)	-	(177,391)	(2,755)
Rental Income	49,790	-	49,790	84,113
Other Income	9,708	-	9,708	9,126
Land Donation from Village of Carthage	-	-	-	14,652
Reimbursements from West End Dam Associates	-	-	-	107,940
Interest Income	68,538	-	68,538	68,313
	<u>291,962</u>	<u>258,270</u>	<u>550,232</u>	<u>942,889</u>
Net Assets Released from Restrictions - Restrictions Satisfied by Payments	<u>258,270</u>	<u>(258,270)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>550,232</u>	<u>-</u>	<u>550,232</u>	<u>942,889</u>
EXPENSES				
Program Services	693,929	-	693,929	729,707
Management and General	18,954	-	18,954	28,167
	<u>712,883</u>	<u>-</u>	<u>712,883</u>	<u>757,874</u>
Losses on Loan and Interest Forgiveness	57,324	-	57,324	54,124
	<u>770,207</u>	<u>-</u>	<u>770,207</u>	<u>811,998</u>
Total Expenses and Losses	<u>770,207</u>	<u>-</u>	<u>770,207</u>	<u>811,998</u>
Change in Net Assets	(219,975)	-	(219,975)	130,891
Net Assets at Beginning of Year	7,477,838	-	7,477,838	7,346,947
Net Assets at End of Year	<u>\$ 7,257,863</u>	<u>\$ -</u>	<u>\$ 7,257,863</u>	<u>\$ 7,477,838</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total 2011
SUPPORT AND REVENUE			
Ground Lease - Rental Income	\$ 381,170	\$ -	\$ 381,170
Grants	-	237,106	237,106
Building Owners' Matching Funds	-	43,224	43,224
Income (Loss) on Investments	(2,755)	-	(2,755)
Rental Income	84,113	-	84,113
Other Income	9,126	-	9,126
Land Donation from Village of Carthage	14,652	-	14,652
Reimbursements from West End Dam Associates	107,940	-	107,940
Interest Income	68,313	-	68,313
	<u>662,559</u>	<u>280,330</u>	<u>942,889</u>
Net Assets Released from Restrictions - Restrictions Satisfied by Payments	<u>280,330</u>	<u>(280,330)</u>	<u>-</u>
Total Support and Revenue	<u>942,889</u>	<u>-</u>	<u>942,889</u>
EXPENSES			
Program Services	729,707	-	729,707
Management and General	28,167	-	28,167
Total Expenses	<u>757,874</u>	<u>-</u>	<u>757,874</u>
Losses on Loan and Interest Forgiveness	<u>54,124</u>	<u>-</u>	<u>54,124</u>
Total Expenses and Losses	<u>811,998</u>	<u>-</u>	<u>811,998</u>
Change in Net Assets	130,891	-	130,891
Net Assets at Beginning of Year	<u>7,346,947</u>	<u>-</u>	<u>7,346,947</u>
Net Assets at End of Year	<u>\$ 7,477,838</u>	<u>\$ -</u>	<u>\$ 7,477,838</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012 with Comparative Totals for 2011

	Program Services	Management and General	Totals 2012	2011
Shared Expenses With Economic Development Corporation of Carthage	\$ 87,647	\$ 9,289	\$ 96,936	\$ 80,314
Legal Fees	5,523	-	5,523	6,437
Real Estate Taxes	2,342	-	2,342	6,073
Master Lease Expense	62,220	-	62,220	63,010
Main Street Grant Program	261,584	-	261,584	340,565
Grants to Others	100,000	-	100,000	40,000
Accounting Fees	-	5,620	5,620	6,450
Insurance	2,054	-	2,054	3,554
Other Professional Fees	6,425	-	6,425	10,760
Office Supplies	-	787	787	1,024
Dues	5,031	-	5,031	275
Interest	-	1,269	1,269	1,450
Repairs and Maintenance	365	-	365	9,234
Hydro Shaft Reimbursement to West End Dam Associates	-	-	-	75,000
Bad Debt Expense	61,331	-	61,331	-
Utilities	638	-	638	288
Lost Revenue Reimbursements to Northbrook Carthage LLC	-	-	-	8,536
Filing Fees	-	334	334	300
Uncollectible Rents	-	-	-	6,900
Depreciation and Amortization	98,769	1,655	100,424	97,704
Total	\$ 693,929	\$ 18,954	\$ 712,883	\$ 757,874

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (219,975)	\$ 130,891
Reconciliation of Change in Net Assets to Net Cash Used In Operating Activities:		
Depreciation and Amortization	100,424	97,703
Non-Cash Donations	-	(14,652)
Non-Cash Loan and Interest Forgiveness	57,324	54,124
Non-Cash Rental Income	(10,000)	(10,000)
Loss on Investments	(176,727)	-
Bad Debt Expense	61,331	-
(Increase) Decrease in Operating Assets:		
Grants Receivable	193,757	(193,757)
Due from Northbrook Carthage, LLC	94,313	(134,891)
Due from West End Dam Associates	5,940	(57,940)
Loans Receivable	40,000	(22,000)
Other Receivables	(212)	5,994
Rents Receivable	(73,080)	2,588
Interest Receivable	(47,847)	(63,119)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(44,785)	27,986
Accrued Expenses	79	(181)
Security Deposits	(4,080)	1,029
Due to West End Dam Associates	(37,500)	37,500
Net Cash Used In Operating Activities	<u>(61,038)</u>	<u>(138,725)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase Fixed Assets	-	(125,870)
Capitalized Costs - Cogeneration Site Property Search	-	5,100
Lease Acquisition Costs	-	(42,451)
Investments In and Advances to Affiliated Companies	19,073	(8,203)
Net Cash Provided By (Used In) Investing Activities	<u>19,073</u>	<u>(171,424)</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>
Decrease in Cash	(54,048)	(322,232)
Cash and Cash Equivalents, Beginning of Year	700,710	1,022,942
Cash and Cash Equivalents, End of Year	<u>\$ 646,662</u>	<u>\$ 700,710</u>

See notes to financial statements.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 – NATURE OF OPERATIONS

The Carthage Industrial Development Corporation (CIDC) was incorporated under the not-for-profit laws of the State of New York on August 26, 1998. The 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.

The CIDC's initial activity was accepting title to the 66 acre former Fort James Paper Mill. Today the CIDC manages the remaining properties including the West End Dam Hydroelectric Facility. The CIDC also is engaged in community development activities including the redevelopment of both downtowns and the development of industrial properties.

Initially, the CIDC's only source of operating revenue was the ground lease payments received from West End Dam Associates relating to the West End Dam Hydroelectric Facility. Currently, CIDC receives governmental grants in addition to the ground lease payments. Also, CIDC receives monthly rentals from four commercial store fronts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Carthage Industrial Development Corporation 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 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 FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Cash and Cash Equivalents

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

Current Vulnerability Due to Certain Concentrations

Carthage Industrial Development Corporation's primary asset is the West End Dam Hydroelectric Facility. The revenue generated by the ground lease typically represents approximately 70% of total revenue.

The Organization operates in the Northern New York area and such operations may be affected by local economic conditions.

Income Tax Status

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

The Organization 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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Tax Status – Continued

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 2009, 2010, and 2011. 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 financial statements since the criteria for ASC 958-605-25-16 are not met.

Advertising

The Organization expenses advertising and marketing costs as incurred.

Expense Allocation

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

Lease Acquisition Costs

Lease acquisition costs 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, 2012 and 2011, amortization expense for the West End Dam Hydroelectric Facility lease was \$1,415 and \$708, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Organization Costs – Braman Development, LLC

Organization costs related to Braman Development, LLC are written off over a period of five years. For the years ended December 31, 2012 and 2011, amortization expense associated with these organization costs were \$240 and \$120, 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 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 financial statements for the year ended December 31, 2011 from which the summarized information was derived.

NOTE 3 – PROPERTY AND EQUIPMENT

	2012	2011
Land	\$ 224,029	\$ 224,029
West End Dam Hydroelectric Facility	4,774,378	4,774,378
Leasehold Improvements	<u>142,027</u>	<u>142,027</u>
	5,140,434	5,140,434
Less: Accumulated Depreciation	<u>(1,329,988)</u>	<u>(1,231,219)</u>
Net Fixed Assets	<u>\$ 3,810,446</u>	<u>\$ 3,909,215</u>

Purchased fixed assets 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 periods of fifteen to fifty years. For the years ended December 31, 2012 and 2011, depreciation expense totaled \$98,769 and \$96,875, respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 3 – PROPERTY AND EQUIPMENT - Continued

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.

NOTE 4 – LOANS RECEIVABLE

In March 2011, CIDC approved the advance of \$80,000 to the Village of Carthage to assist with the development of a public park known as the Guyot Island Project 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 dated March 7, 2011, 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

As of December 31, 2012 and 2011, Notes Receivable consisted of the following:

	2012	2011
Buckley Realty, LLC	\$ 40,000	\$ 80,000
Main Street Grant – Tracy Hoch	12,532	-
Main Street Grant - Chang Biak	2,947	-
Carthage Area Hospital	31,443	-
Carthage Area Hospital (Note 26)	250,000	-
	<hr/>	<hr/>
Total Notes Receivable	\$ 336,922	\$ 80,000

In August 2007, 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, 2012 and 2011, accrued interest totaled \$17,324 and \$28,248, respectively. Pursuant to the agreement, and based on Buckley Realty, LLC's compliance with the terms of the loan, CIDC forgave principal of \$40,000.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

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

Carthage Industrial Development Corporation 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.

From December 31, 2011 through December 31, 2012, all non interest bearing transaction accounts are fully insured, regardless of account balance and the ownership capacity of the funds. Interest bearing accounts are insured up to \$250,000 per depositor per bank.

Balances at December 31, 2012 are as follows:

	Bank Balances	Insured by FDIC	Collateralized by Bank
Checking	\$ 20,304	\$ 20,304	\$ -
Money Market and Certificates of Deposit	\$ 626,358	\$ 250,000	\$ 800,000

As of December 31, 2012, CIDC's bank balances are adequately protected by the FDIC limits and collateralization by the bank.

NOTE 7 – INVESTMENT IN CARTHAGE COORDINATED DEVELOPMENT GROUP, LLC (CCDG)

	2012	2011
Percentage of Ownership	<u>33.33%</u>	<u>33.33%</u>

During 2004, CIDC entered into 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 purposes of development. CIDC'S proportionate share of income/ (loss) for the years ended December 31, 2012 and 2011, was \$(2,032) and \$(2,734), respectively.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 7 – INVESTMENT IN CARTHAGE COORDINATED DEVELOPMENT GROUP, LLC (CCDG) - Continued

CIDC's investment in CCDG as of December 31, is as follows:

	2012	2011
Capital Contributions	\$ 286,673	\$ 284,913
Charitable Contributions	(175,338)	-
CIDC's Accumulated Share of Income / (Losses)	<u>(15,947)</u>	<u>(13,915)</u>
Total	<u>\$ 95,388</u>	<u>\$ 270,998</u>

The investment is reported at its tax basis.

In as much as Carthage Coordinated Development Group, LLC has completed the purpose for which it was created, its Board of Directors approved the dissolution of the entity. The dissolution will be completed in 2013.

NOTE 8 – INVESTMENT IN BRAMAN DEVELOPMENT, LLC

In November 2010, CIDC created a new entity known as Braman Development, LLC. The Company was created in anticipation of receiving title to certain real estate parcels in Carthage, New York. CIDC incurred \$1,200 in organization costs to establish the new Company. Title to the real estate passed to CIDC during the year ended December 31, 2011. The Village of Carthage donated the land to CIDC.

The property which consists of two parcels was recorded at its estimated fair market value based on the Village of Carthage Assessor's determination as presented on the real estate tax bills in 2011. That amount is \$14,652. Costs associated with acquiring the property, including delinquent real estate taxes and recording costs, were capitalized as part of the cost of the Braman property.

Braman Development, LLC is a single member limited liability company in which CIDC is the sole member.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 9 – INVESTMENT IN CARTHAGE DEVELOPMENT GROUP, LP (CDG)

	2012	2011
Percentage of Ownership	<u>0.01%</u>	<u>0.01%</u>

Prior to 2004, CIDC was the sole owner of CDG. During 2004, NDC Corporate Equity Fund VI, L.P. acquired a 99.99% interest in CDG in order to obtain lucrative tax credits associated with CDG's project 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) for the years ended December 31, 2012 and 2011 are \$(21) and \$(21), respectively.

CIDC's investment in CDG as of December 31, is as follows:

	2012	2011
Capital Contributions	\$ 100	\$ 100
CIDC's Accumulated Share Losses	<u>(172)</u>	<u>(151)</u>
Total	<u>\$ (72)</u>	<u>\$ (51)</u>

The investment is reported at its tax basis.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 10 – ADVANCES TO CARTHAGE DEVELOPMENT GROUP, LP (CDG)

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

	2012	2011
Sponsor note receivable in the original amount of \$579,425. The nonrecourse loan is subordinate to any indebtedness to Key Bank National Association. The note accrues interest at 4% per annum and will be charged on the outstanding principal balance. During 2006, additional borrowings of \$885,000 were made on the sponsor note. Repayments of \$206,456 were received on the outstanding principal balance. The outstanding principal and accrued interest are due December 31, 2021. Interest of \$323,009 and \$272,690 are included in accrued interest receivable at December 31, 2012 and 2011, respectively.	\$ 1,257,969	\$ 1,257,969
A 32-year nonrecourse note receivable in the original amount of \$320,000. The note is unsecured and bears interest at 1% of the outstanding principal balance. The outstanding principal and interest balance are due December 31, 2036 and is subordinate to any indebtedness due to Key Bank National Association. Interest of \$25,600 and \$22,400 are included in accrued interest receivable at December 31, 2012 and 2011, respectively.	320,000	320,000
Other unsecured, non-interest bearing advances to CDG	<u>361,857</u>	<u>352,149</u>
Total	<u>\$ 1,939,826</u>	<u>\$ 1,930,118</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 11 – INVESTMENT IN CARTHAGE DEVELOPMENT GROUP, L.P. - LAND DONATION

In January 2004, 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. The \$23,000 value of the gifted real estate is included in CIDC's investment in CDG.

2012	2011
<u>\$ 23,000</u>	<u>\$ 23,000</u>

The investment is reported at its tax basis.

NOTE 12 – DEFERRED REVENUE

Deferred revenue consists of the following as of December 31:

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. That business signed the first lease as more fully described at Note 18. 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.

2012	2011
<u>\$ 26,667</u>	<u>\$ 36,667</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 13 – LONG-TERM DEBT

	2012	2011
A promissory note in the amount of \$145,000 dated December 23, 2004 is payable to the Economic Development Corporation of Carthage (EDCC). The note was amended in 2007. Under the amended terms, 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, 2012 and 2011. Interest of \$1,269 and \$1,450 are included in accrued interest expense at December 31, 2012 and 2011, respectively. The loan is to be repaid in twelve annual installments of \$12,083, plus interest. The first payment was made in 2008. The maturity date is January 1, 2019.		
	\$ 84,584	\$ 96,667
Less: Estimated Current Portion	<u>(12,083)</u>	<u>(12,083)</u>
Total	<u>\$ 72,501</u>	<u>\$ 84,584</u>

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

2013	\$ 12,083
2014	12,083
2015	12,083
2016	12,083
2017	12,083
Thereafter	<u>24,169</u>
Total	<u>\$ 84,584</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 14 – DUE TO ECONOMIC DEVELOPMENT CORPORATION OF CARTHAGE

In order to assist in funding for the Buckley Building, the EDCC provided a \$100,000 loan to Buckley Realty, LLC.

Pursuant to the repayment/forgiveness terms, the liability was reduced by one-fifth or \$20,000 during 2012 and 2011, respectively. For reporting purposes, the loan balances are reported as the liability due to EDCC on the accompanying Statements of Financial Position.

NOTE 15 – GROUND LEASE - RENTAL INCOME

CIDC had a long-term ground lease agreement with West End Dam Associates relating to the West End Dam Hydroelectric Facility. At the request of West End Dam Associates, the parties signed a lease termination agreement in December 2010. The lease terminated June 30, 2011. Under the terms of the lease termination, West End Dam Associates made two scheduled quarterly lease payments of \$90,585 each or a total of \$181,170 in 2011.

A net lease with Northbrook Carthage, LLC became effective July 1, 2011. 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:

2013	\$ 370,000
2014	370,000
2015	370,000
2016	370,000
2017	370,000
Thereafter	<u>8,695,000</u>
Total	<u>\$ 10,545,000</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 16 – MASTER LEASE

In March 2004, 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 beginning April 1, 2005. In addition, CIDC may be charged its proportionate share of increases in property taxes, insurance and utilities. 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 and \$63,010 for the years ended December 31, 2012 and 2011, respectively.

Future minimum rentals as of December 31, are as follows:

2013	\$	62,220
2014		62,220
2015		62,220
2016		62,220
2017		62,220
Thereafter		<u>139,995</u>
Total	\$	<u>451,095</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 17 – LEASES

As described in Note 17, CIDC entered into a master lease with CDG. CIDC is authorized to sublet the property. As of December 31, 2012, there are three leases for subletting the property. All are written leases. One storefront is vacant.

Sublet 1. The first lease with a commencement date of approximately September 1, 2005 was for a term of five years with renewal rights for three, five-year additional periods. For the first year monthly rental was \$1,000. Increases of approximately 2% each year are scheduled for subsequent years. The lease was renewed for five years effective September 1, 2010 with monthly rent of \$1,104. Effective September 1, 2012, monthly rental is \$1,148.

Sublet 2. The second lease with a commencement date of approximately December 1, 2011 was for a term of five years with an option to extend the lease for two additional years. The monthly rent is \$1,150 for sixty months.

Sublet 3. The third lease with a commencement date of approximately December 31, 2012 was for a term of five years with renewal rights for an additional two-year period. Monthly rental was \$600 for the first year, and increasing \$100 each year after.

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

	Sublet 1	Sublet 2	Sublet 3	Total
2013	\$ 13,868	\$ 13,800	\$ 7,200	\$ 34,868
2014	14,148	13,800	8,400	36,348
2015	9,560	13,800	9,600	32,960
2016	-	12,650	10,800	23,450
2017	-	-	12,000	12,000
Total	<u>\$ 37,576</u>	<u>\$ 54,050</u>	<u>\$ 48,000</u>	<u>\$ 139,626</u>

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

**NOTE 18 – NON CASH INVESTING AND FINANCING
ACTIVITIES**

	2012	2011
Non Cash Rental Income	\$ 10,000	\$ 10,000
Non Cash Land Donation from the Village of Carthage	\$ -	\$ 14,652
Loan Principal and Accrued Interest Forgiven:		
Note Receivable - Buckley Realty, LLC	\$ 40,000	\$ 40,000
Other Receivable - Buckley Realty, LLC	\$ 20,000	\$ 20,000
Interest Receivable - Buckley Realty, LLC	\$ 17,324	\$ 14,124
Due to Economic Development Corporation of Carthage	\$ 20,000	\$ 20,000

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Debt Guarantor

CIDC is a guarantor on a \$125,000 note owed to the Village of Carthage by CDG. In loan documents amended July 13, 2005, CIDC agrees to assign its rental and lease income as collateral on the note. For the years ended December 31, 2012 and 2011, CIDC, on CDG's behalf, made annual principal payments of \$8,333 and accrued interest of \$1,375 and \$1,625 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 \$9,289 and \$9,958 for each of the years ended December 31, 2012 and 2011, 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 INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 19 – COMMITMENTS AND CONTINGENCIES - Continued

Right of Refusal

At the end of the tax credit compliance period, CIDC will have the right of first refusal to buy CDG's Project for the sum of the outstanding debt and sufficient cash to pay all federal and state tax liabilities on behalf of the limited partner. If CIDC elects not to purchase the Project, the limited partner (NDC Corporate Equity Fund) will have the right to purchase it.

Lien on Assisted Properties

CIDC has received grants through the New York State Housing Trust Fund Corporation.

According to the terms of the grants, for a period of seven years from final disbursement of the grant funds, CIDC must take all necessary steps to ensure owners of the assisted properties maintain the properties and facades in good condition and ensure that the streetscape enhancements are maintained in good condition. In the event of noncompliance or resale, the amount of grant funds may be subject to repayment.

256 West Main Street, LLC

256 West Main Street, LLC is the general partner in CDG. CIDC is the sole member of 256 West Main Street, LLC.

NDC Corporate Equity Fund VI, L.P. is the limited partner and owns 99.99% of CDG.

As the general partner, 256 West Main Street, LLC has certain legal and financial obligations to the limited partners.

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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 19 – COMMITMENTS AND CONTINGENCIES - Continued

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 14. 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.

NOTE 20 – 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 2012 and 2011.

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 2012 and 2011.

CIDC contracts with Jefferson County Job Development Corporation (JCJDC) to provide maintenance services on a property owned by CDG. CIDC pays JCJDC for the services and is then reimbursed a like amount by CDG. Amounts for the years ended December 31, 2012 and 2011 were \$9,289 and \$9,126, respectively.

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

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 21 – NEW YORK STATE MAIN STREET GRANT

In February 2009, 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. Originally, CIDC was given two years to complete the projects. However, in January 2011, CIDC received approval of a one year extension of the grant. The period for expending grant funds was extended to February 27, 2012. All projects were completed and funding received as of April 2012.

Grant revenue consists of the vouchered amounts collected. For the years ended December 31, 2012 and 2011, grant revenue totaled \$211,969 and \$237,106, respectively. For the year ended December 31, 2011, grant revenue also included \$25,000 due under the grant for the downtown lighting project completed in December 2011.

Rehabilitation expenses incurred but not vouchered under the grant are reported as Grants Receivables per the statements of financial position. The amounts as of December 31, 2012 and 2011 were \$0 and \$193,757, respectively.

NOTE 22 – 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 other agreements between the companies also had to be settled. Such agreements included reimbursement of lost revenue while a shaft was replaced, the cost, and reimbursement for the cost of the shaft and its installation and allocation of the True-up Agreement.

As of December 31, 2012, the following is a summary of amounts owed between the companies:

Due from Northbrook Carthage, LLC	<u>\$ 40,578</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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 23 – CASH PAID FOR INTEREST

	2012	2011
Interest	<u>\$ 1,269</u>	<u>\$ 1,450</u>

NOTE 24 – 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 will be disbursed within twelve months, and the final payment of \$85,000 will be disbursed within 24 months.

NOTE 25 – TERM NOTE RECEIVABLE

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.

CIDC entered into the \$1,000,000 loan participation agreement, bearing 5% interest, on December 12, 2012, with Development Authority of the North Country (DANC), in which DANC holds possession of and title to the loan documents and collateral on behalf of CIDC. CIDC is the holder of the equitable interest in the loan. All payments will flow through DANC, in which CIDC holds a 25% pro rata share, and payments will be disbursed accordingly when received.

Per terms of the agreement, commencing on January 1, 2014, monthly installments of principal and interest of \$11,517.27 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.

CARTHAGE INDUSTRIAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 25 – TERM NOTE RECEIVABLE - Continued

Future minimum receipts as of December 31, are as follows:

2013	\$	-
2014		19,024
2015		23,051
2016		24,230
2017		25,470
Thereafter		<u>158,225</u>
Total	\$	<u>250,000</u>

NOTE 26 – LOSS ON INVESTMENTS

Loss on investments is related to the change in investment in CCDG, and CDG, as of December 31, 2012.

Loss on investments consisted of the following as of December 31, 2012:

Share of loss from Schedule K-1 from Carthage Coordinated Development Group, LLC	\$	(2,032)
Charitable Contribution – Schedule K-1 from Carthage Coordinated Development Group, LLC		(175,338)
Loss on investment in CDG		<u>(21)</u>
Total Loss on Investments	\$	<u>(177,391)</u>

NOTE 27 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 18, 2012 which is the date the financial statements were available to be issued.

On January 9, 2013, a new lease agreement for the 256-262 State Street Building commenced between CIDC and Maria and Alan Runyon dba NNY Gals and Guys. The lease is for a five year term with monthly rent of \$1,150, with an additional five year renewal option.