

C LAYTON LOCAL DEVELOPMENT
CORPORATION

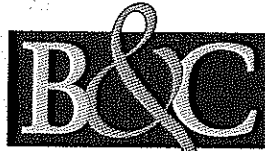
FINANCIAL STATEMENTS

December 31, 2014

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CLAYTON LOCAL DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
CLAYTON LOCAL DEVELOPMENT CORPORATION

We have audited the accompanying financial statements of Clayton Local Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from 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.

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

Opinion

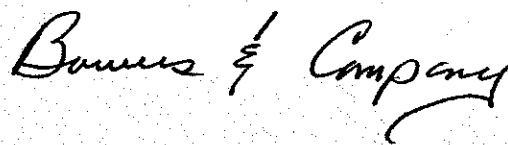
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Local Development Corporation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Clayton Local Development Corporation's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015, on our consideration of Clayton Local Development Corporation'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clayton Local Development Corporation's internal control over financial reporting and compliance.



Watertown, New York
February 11, 2015

CLAYTON LOCAL DEVELOPMENT CORPORATION

AUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

December 31, 2014 with Comparative Totals for 2013

	ASSETS	
	2014	2013
Cash	\$ 13,190	\$ 158,107
Accounts Receivable	0	5,000
Grants Receivable	0	9,424
Utility Deposit	100	100
TOTAL ASSETS	\$ 13,290	\$ 172,631
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 2,484	\$ 4,968
Grants Payable	0	18,848
Deferred Revenue	0	126,640
Total Liabilities	2,484	150,456
NET ASSETS		
Unrestricted	10,806	22,175
Total Net Assets	10,806	22,175
TOTAL LIABILITIES AND NET ASSETS	\$ 13,290	\$ 172,631

See notes to financial statements.

CLAYTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2014 with Summarized Totals for 2013

	2014	2013
	Unrestricted	(Summarized)
SUPPORT AND REVENUE		
Grant Revenue	\$ 146,825	\$ 143,360
Contracted Services	10,000	11,067
In-Kind Donations	0	10,068
Contributions	126,640	123,360
Miscellaneous	700	12
Loss on Sale of Property & Equipment	0	(208,716)
	<hr/>	<hr/>
Total Support and Revenue	284,165	79,151
EXPENSES		
Program Service:		
Local Development	284,535	299,819
Supporting Service:		
Management and General	10,999	6,660
	<hr/>	<hr/>
Total Expenses	295,534	306,479
Change in Net Assets	(11,369)	(227,328)
Net Assets, Beginning of Year	22,175	249,503
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Net Assets, End of Year	\$ 10,806	\$ 22,175
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See notes to financial statements.

CLAYTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014 with Summarized Totals for 2013

	Program Service Local Development	Management and General	Totals 2014	Totals 2013 (Summarized)
Grants Paid	\$ 253,466	\$ 0	\$ 253,466	\$ 246,720
Management Fee	28,914	897	29,811	36,801
Legal Fees	584	18	602	203
Fees and Permits	0	35	35	60
Office Supplies	0	0	0	129
Office Expense	218	7	225	10,549
Printing and Advertising	1,353	42	1,395	715
Travel and Training	0	0	0	268
Professional Fees	0	4,950	4,950	4,790
Other Administrative Expense	0	50	50	158
Bad Debt	0	5,000	5,000	6,034
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Total Expenses Before Depreciation	284,535	10,999	295,534	306,427
Depreciation Expense	0	0	0	52
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 284,535</u>	<u>\$ 10,999</u>	<u>\$ 295,534</u>	<u>\$ 306,479</u>

See notes to financial statements.

CLAYTON LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2014 with Comparative Totals for 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (11,369)	\$ (227,328)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation Expense	0	52
Loss on Disposal of Property and Equipment	0	208,716
(Increase) Decrease in Operating Assets:		
Accounts Receivable	5,000	4,569
Grants Receivable	9,424	(9,424)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(2,484)	2,410
Grants Payable	(18,848)	18,848
Deferred Revenue	(126,640)	126,640
Net Cash (Used In) Provided By Operating Activities	<u>(144,917)</u>	<u>124,483</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property and Equipment, Net	0	222,991
Due From Town	0	210,150
Refundable Deposits	0	(210,150)
Net Cash Provided By Investing Activities	<u>0</u>	<u>222,991</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-Term Debt	0	(15,000)
Long-Term Debt	0	(181,000)
Net Cash Used In Financing Activities	<u>0</u>	<u>(196,000)</u>
Net (Decrease) Increase in Cash	(144,917)	151,474
Cash, Beginning of Year	<u>158,107</u>	<u>6,633</u>
Cash, End of Year	<u>\$ 13,190</u>	<u>\$ 158,107</u>

See notes to financial statements.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 1 – NATURE OF OPERATIONS

Clayton Local Development Corporation, (the “Corporation”), operates to relieve and reduce unemployment; to promote and provide for additional and maximum employment; to better and maintain job opportunities; to carry on research for the purpose of aiding the communities of the Town and Village of Clayton, New York by attracting business opportunities to said communities or encouraging the development of new, or retention of existing, business opportunities in the communities; lessening the burdens of government; and to act in the public interest including, promoting reuse of brownfield sites within the Town and Village of Clayton, New York.

The Corporation generates revenue primarily from grants and by providing grant administrative services through partnerships with the Town and Village of Clayton, New York.

The Corporation’s operations are concentrated in the Town and Village of Clayton, New York and such territory in proximity to these municipalities in which the use of the Corporation’s funds will have substantial positive impact on the economic welfare and prosperity of the Town and Village of Clayton, New York and its inhabitants.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation’s financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned rather than received, and expenses are recognized when incurred, rather than when the obligation is paid.

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 Corporation 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.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Equipment purchases are capitalized at cost and depreciated using the straight-line method over a useful life of five or seven years. Land held for sale and associated land improvements are capitalized at cost. Depreciation is not recorded on these assets since they have not been placed into service. The Corporation does not have a formal capitalization policy.

Bad Debts

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

Tax Status

The Corporation 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 Corporation has adopted the provisions of FASB ASC 740, *Income Taxes*. In determining the recognition of uncertain tax positions, the Corporation 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.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Tax Status - Continued

The Corporation 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 Corporation analyzed its tax positions taken on their Federal and State tax returns for the open tax years 2011, 2012, and 2013. Based on this analysis, the Corporation determined that there were no uncertain tax positions and that the Corporation should prevail upon examination by the taxing authorities.

Donated Facilities

Donated use of the Corporation's facility is recorded at the donor's estimated fair market value at the time of the donation.

Revenue Recognition on Real Estate Activities

The Corporation recognizes revenue from real estate activities under the full accrual method.

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 Corporation's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

NOTE 3 – CASH

Cash held by the Corporation at December 31, 2014 and 2013 was adequately insured and collateralized.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2014	2013
Land and Improvements	\$ 0	\$ 0
Equipment	0	1,824
Less: Accumulated Depreciation	0	(1,824)
Total	<u>\$ 0</u>	<u>\$ 0</u>

In February 2013, the Corporation sold its share of the rehabilitated brownfield site, known as the Frink Property, located in Clayton, New York to Clayton Harbor Hotel, LLC. Gross proceeds from the sale totaled \$2,101,500 and were divided between the Town of Clayton, New York and the Corporation in accordance with the agreement to share costs associated with the Frink Property dated August 10, 2005. The sale resulted in a net loss of \$208,716 for the Corporation after the repayment of long-term debt associated with the initial purchase of the property totaling \$181,000 and other closing costs.

NOTE 5 – LONG-TERM DEBT

During the year ended December 31, 2013 the Corporation extinguished all of its long-term debt. Please refer to Note 4 for more details.

NOTE 6 – MEMORANDA OF UNDERSTANDING

The Corporation entered into agreements with the Village of Clayton, New York to perform grant writing efforts reimbursable up to \$10,000 during the periods June 1, 2013 through May 31, 2014 and June 1, 2014 through May 31, 2015.

NOTE 7 – CONCENTRATIONS

During the year ended December 31, 2014, the Corporation recognized \$126,640 as a grant and \$126,640 as a local matching donation from the Northern Borders Regional Commission and the Clayton Harbor Hotel, LLC, respectively. These amounts were used to perform infrastructure improvements in the Village of Clayton, New York, and together represent 89% of the Corporation's total support and revenue.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 7 – CONCENTRATIONS - Continued

The Village and Town of Clayton, New York provide annual stipends to the Corporation totaling \$30,000, which account for the remaining 11% of the Corporation's total support and revenue. Although there are no current indications that the Village or Town of Clayton, New York intends to discontinue these stipends, if this funding is discontinued in the future, the Corporation would have difficulty continuing as a going concern.

NOTE 8 – CONTINGENT LIABILITIES

The Corporation classified the Executive Director as an independent contractor for payroll tax purposes until July 1, 2013, however, according to IRC §3121(d)(1), "any officer of a corporation" is considered an employee. If the Corporation were subject to a payroll audit it is possible that the Internal Revenue Service could require the Corporation to retroactively reclassify the Executive Director as an employee and remit any payroll taxes due, including interest and penalties. The Corporation has not recorded a contingent liability in the financial statements, but estimates the resultant liability to be approximately \$19,000.

The Corporation has been notified by the United States Department of Environmental Conservation (DEC) that the Corporation, along with the Town of Clayton, New York, is potentially liable to reimburse the DEC approximately \$250,000 in relation to the remediation and sale of the Frink Property. Although the Corporation is jointly liable, it lacks the resources necessary to reimburse the DEC. The Corporation anticipates the Town of Clayton, New York will pay any related amounts and therefore has not recorded any liability.

NOTE 9 – ADVERTISING

The Corporation uses advertising to notify the public of grant opportunities and to make public announcements. Advertising costs are expensed as incurred.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Corporation's Board of Directors includes officials from the Town and Village of Clayton, New York. Any agreements and arrangements the Corporation maintains with these entities are considered related party transactions.

CLAYTON LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 with Comparative Totals For 2013

NOTE 10 – RELATED PARTY TRANSACTIONS - Continued

The Corporation had the following transactions with related parties during the years ended December 31:

	2014	2013
Town of Clayton, New York		
Grant Revenue	\$ 10,000	\$ 10,000
Donated Use of Facilities	0	9,547
Reimbursement for Sale Proceeds Collected on Behalf of Town	0	1,874,546
Office Supplies Expense	0	1,093
Repayment of Short-Term Loan	0	15,000
Village of Clayton, New York		
Grant Revenue	10,000	10,000
Contracted Services Revenue	10,000	11,067
Grants Paid Expense	253,280	246,720
Utilities Expense	0	244
Riverside Media Group		
Donated Logo	0	521
Printing and Advertising Expense	395	715

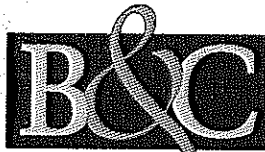
The Corporation had the following balances with related parties at December 31:

	2014	2013
Village of Clayton, New York		
Accounts Receivable	0	5,000
Grants Payable	0	18,848

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events were evaluated through February 11, 2015, the date the financial statements were available to be issued.

The Corporation was awarded a Rural Business Enterprise Grant in the amount of \$85,000. Work under this grant is expected to begin in 2015.



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INDEPENDENT AUDITORS' 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
CLAYTON LOCAL DEVELOPMENT CORPORATION

We have audited, in accordance with the 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, the financial statements of Clayton Local Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clayton Local Development Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clayton Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Clayton Local Development Corporation's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, 2014-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clayton Local Development Corporation's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Clayton Local Development Corporation's Response to Findings

Clayton Local Development Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Clayton Local Development Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bowers & Company

Watertown, New York
February 11, 2015

CLAYTON LOCAL DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2014

Significant Deficiencies

2014-01 Preparation of Financial Statements

Condition: Management chooses to have the auditor prepare the financial statements, including full footnote disclosures, instead of preparing the financial statements themselves.

Criteria: The preparation of the financial statements by an auditor may be considered an internal control deficiency.

Cause: The Corporation does not have an employee on staff that has the qualifications and training to apply nonprofit generally accepted accounting principles in preparing the financial statements.

Effect: While it is a common practice for the auditor to prepare the financial statements; management's choice to have the auditor prepare the financial statements is a significant deficiency.

Recommendation: An appropriate control could be hiring additional staff with the knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

Response: The Corporation will continue to have the CPA firm prepare the financial statements. There would be no benefit to preparing the statements internally, and the cost would be prohibitive.