CLAYTON LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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CLAYTON LOCAL DEVELOPMENT CORPORATION

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, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from Clayton Local Development Corporation's 2011 financial statements, and in our report dated April 16, 2012, we expressed an unqualified opinion on those 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; 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 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 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.

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, 2012 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.

Other Matter

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013 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* and should be considered in assessing the results of our audit.

Bowers & Company

Watertown, New York
February 15, 2013

STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
Cash	$ 6,633	$ 5,116
Accounts Receivable	9,569	1,026
Grants Receivable	0	261,809
Utility Deposit	100	100
Due From Town	210,150	0
Land Held for Sale	188,674	188,674
Land Improvements	243,033	243,033
Equipment, Net	52	157
TOTAL ASSETS	$ 658,211	$ 699,915

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts Payable	$ 2,558	$ 2,923
Grants Payable	0	248,280
Refundable Deposits	210,150	0
Short-Term Debt	15,000	15,000
Long-Term Debt	181,000	181,000
Total Liabilities	408,708	447,203
NET ASSETS		
Unrestricted	249,503	252,712
Total Net Assets	249,503	252,712
TOTAL LIABILITIES AND NET ASSETS	$ 658,211	$ 699,915

See notes to financial statements.

STATEMENTS OF ACTIVITIES
Years Ended December 31, 2012 and 2011

	2012	2011 (As Restated)
SUPPORT AND REVENUE		
Grant Revenue	$ 161,157	$ 373,017
Contracted Services	18,544	4,553
In-Kind Donations	14,230	14,230
Total Support and Revenue	193,931	391,800
EXPENSES		
Program Service:		
Local Development	161,722	362,680
Supporting Service:		
Management and General	35,418	27,841
Total Expenses	197,140	390,521
Change in Net Assets	(3,209)	1,279
Net Assets, Beginning of Year	252,712	251,433
Net Assets, End of Year	$ 249,503	$ 252,712

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012 with Comparative Totals
For Year Ended December 31, 2011

	Program Service Local Development	Management and General	2012 Total	2011 Total
Grants Paid	$ 136,686	$ 0	$ 136,686	$ 333,314
Management Fee	16,101	23,259	39,360	35,525
Legal and Accounting Fees	0	0	0	84
Meals	0	0	0	336
Fees and Permits	0	125	125	288
Office Supplies	0	574	574	61
Office Expense	5,931	8,568	14,499	14,230
Printing and Advertising	0	234	234	195
Travel and Training	0	0	0	784
Professional Fees	2,925	2,492	5,417	5,070
Other Administrative Expense	39	101	140	126
Total Expenses Before Depreciation	161,682	35,353	197,035	390,013
Depreciation Expense	40	65	105	508
TOTAL FUNCTIONAL EXPENSES	$ 161,722	$ 35,418	$ 197,140	$ 390,521

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program Service Local Development	Management and General	2011 Total
Grants Paid	$ 333,314	$ 0	$ 333,314
Management Fee	18,220	17,305	35,525
Legal and Accounting Fees	31	53	84
Meals	336	0	336
Fees and Permits	128	160	288
Office Supplies	36	25	61
Office Expense	7,293	6,937	14,230
Printing and Advertising	0	195	195
Travel and Training	784	0	784
Professional Fees	2,255	2,815	5,070
Other Administrative Expense	24	102	126
Total Expenses Before Depreciation	362,421	27,592	390,013
Depreciation Expense	259	249	508
TOTAL FUNCTIONAL EXPENSES	$ 362,680	$ 27,841	$ 390,521

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets (Deficit)	$ (3,209)	$ 1,279
Adjustments to Reconcile Change in Net Income to Net Cash Provided By (Used In) Operating Activities:		
Depreciation Expense	105	508
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(8,543)	(1,026)
Grants Receivable	261,809	(261,425)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(365)	893
Grants Payable	(248,280)	248,280
Deferred Revenue	0	(6,174)
Net Cash Provided By (Used In) Operating Activities	1,517	(17,665)
CASH FLOWS FROM INVESTING ACTIVITIES		
Due From Town	(210,150)	0
Refundable Deposits	210,150	0
Net Cash Provided By Investing Activities	0	0
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term loan	0	10,000
Net Cash Provided By Financing Activities	0	10,000
Net Increase (Decrease) in Cash	1,517	(7,665)
Cash, Beginning of Year	5,116	12,781
Cash, End of Year	$ 6,633	$ 5,116

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 in accordance with accounting principles generally accepted in the United States of America using 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 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.

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 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 Statements of Cash Flows, the Corporation considers all unrestricted highly liquid investments with an initial 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 land improvements associated with the Frink Property 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES – Continued

Tax Status - Continued

The Corporation has adopted the provisions of Financial Accounting Standards Board Codification, "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.

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 2009, 2010, and 2011. Based on our 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.

NOTE 3 – CASH

Cash held by the Corporation at December 31, 2012 and 2011 was adequately insured and collateralized.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2012	2011
Land and Improvements	$ 431,707	$ 431,707
Equipment	1,824	1,824
Less: Accumulated Depreciation	(1,772)	(1,667)
Total	$ 431,759	$ 431,864

NOTE 5 – DONATED FACILITIES

The Corporation receives support in the form of the use of an office, office equipment such as scanners, faxes, and telephones, as well as ancillary services such as trash removal and heat from the Town of Clayton, New York. The estimated value of this contribution is broken down by type as follows:

Utility Service	$ 100/Month		$	1,200
Phone Service	$ 100/Month			1,200
Copying Service	$ 140/Month			1,680
Computer/IT Service	$ 65/Month			780
Rent	$ 600/Month			7,200
Trash Service	$ 10/Month			120
Sewer/Water Service	$ 40/Month			480
Heat	$ 131/Month			1,570
		Total	$	14,230

NOTE 6 – LONG-TERM DEBT

The Corporation entered into a shared interest free liability with the Town of Clayton, New York in the amount of $362,000 dated June 8, 2004 for the purchase of the Frink Property located in Clayton, New York.

The Corporation is responsible for half of the loan, $181,000, which is due in full to the County of Jefferson, New York at the time of sale of the property or December 31, 2009, whichever shall occur first.

In July 2009 an extension agreement was made with the County of Jefferson, New York extending the due date of the interest free loan to as late as December 31, 2011. In January 2012, a second extension agreement was made with the County of Jefferson, New York extending the due date of the interest free loan to as late as December 31, 2014.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 – LONG-TERM DEBT – Continued

Maturities of long-term debt over the next five years are estimated as follows:

2013	$ 181,000
	$ 181,000

NOTE 7 – SHORT-TERM DEBT

The Corporation received advances from the Town of Clayton, New York in August 2011 in the amount of $5,000 and November 2011 in the amount of $10,000. These amounts represent an interest free short-term loan to the Corporation. There is no written agreement associated with this loan; however, the Corporation will repay the loan as funding becomes available.

NOTE 8 – GRANTS

The Corporation entered into a grant agreement with the New York State Housing Trust Fund Corporation on August 31, 2010 effective for twenty-four months ending on August 31, 2012.

Under this agreement the Corporation assisted qualified local Main Street property owners in meeting the requirements of the New York Main Street Project. The Corporation acted as an intermediary for the transfer of funds from the New York State Housing Trust Fund Corporation to the property owners and acted as a grant administrator at the local level.

The New York Main Street Project was completed during the year ended December 31, 2012. The agreement requires the Corporation to take all necessary steps to ensure that owners of properties improved under the program maintain the structures and facades in good condition up to five years from the final disbursement of funds. The Corporation must also take all necessary steps to ensure the streetscape enhancements are maintained in good condition during the same period. Owners of assisted properties were required to execute a declaration that the owner will at all times maintain the assisted property in good condition as well as market any residential units improved to person defined as low income under Article XXVI of the New York Private Housing Finance Law during the regulatory period.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 8 – GRANTS - Continued

The Corporation was required to submit to the New York State Housing Trust Fund Corporation requests for disbursements in an appropriate manner established by the New York State Housing Trust Fund Corporation. Additionally, the Corporation could not request disbursement of funds under the agreement until the funds were needed for payment of incurred eligible costs.

During the years ended December 31, 2012 and 2011, the Corporation was required to maintain a separate bank account to receive reimbursements for property owners as well as administrative funds. All funds designated as reimbursable to property owners were maintained in this separate bank account and paid directly to the property owners. No such restrictions were placed on administrative funds.

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 – EXCHANGES LACKING COMMERCIAL SUBSTANCE

During the year ended December 31, 2012, the Corporation entered into two bargain land sale agreements with the Town of Clayton, New York. The Corporation exchanged a portion of the land held for sale and land improvements associated with the Frink Property located in Clayton, New York for one dollar and likewise exchanged one dollar for a different portion of land and land improvements associated with the Frink Property.

This exchange does not change the terms of the Corporation’s agreements with the Town of Clayton, New York or the County of Jefferson, New York with regard to the anticipated cash flows from the ultimate sale of the Frink Property to a third party developer. The fair value of the assets given up in consideration for the fair value of the assets received is not determinable at this time, therefore no gain or loss has been recognized for this exchange.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 – MEMORANDA OF UNDERSTANDING

The Corporation has entered into two Memoranda of Understanding with the Town of Clayton, New York with respect to the Riverwalk 2 and Riverwalk 2.5 Grants. The Corporation is responsible for performing grant administration under the memoranda, which is defined as involving the preparation of project status reports and delivery of products. Each Memorandum provides for reimbursement for the Corporation's time not to exceed the amount of $6,000. The Town of Clayton, New York remains responsible for funding both projects. In November 2011, the Corporation entered into an agreement with the Village of Clayton, New York to perform grant writing efforts reimbursable up to $10,000 during the period June 1, 2011 through May 31, 2012.

NOTE 12 – CONTINGENT LIABILITIES

The Corporation classifies the Executive Director as an independent contractor for payroll tax purposes, 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 $15,000.

NOTE 13 – RELATED PARTY TRANSACTIONS

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 13 – RELATED PARTY TRANSACTIONS - Continued

For the years ended December 31, 2012 and 2011, the Corporation received cash payments of $10,000 and $10,000 as grants, $0 and $15,000 as short-term loans, and $0 and $2,918 for grant administration services from the Town of Clayton, New York, respectively. For the years ended December 31, 2012 and 2011, the Corporation received $14,230 and $14,230 of revenue in the form of donated use of facilities from the Town of Clayton, New York, respectively. For the years ended December 31, 2012 and 2011, the Corporation made cash payments of $574 and $5,000 to the Town of Clayton, New York, respectively, for miscellaneous office supplies and the repayment of a short-term loan received during the year ended December 31, 2010. As of December 31, 2012 and 2011, the Corporation owed $15,000 and $15,000 as a short-term loan, had receivables of $6,248 and $105 for grant administration services provided and had a deposit from the potential sale of property of $210,150 and $0 held by and due from the Town of Clayton, New York, respectively.

For the years ended December 31, 2012 and 2011, the Corporation received $10,000 and $10,000 as grants and $10,000 and $997 for grant writing and administration services from the Village of Clayton, New York, respectively. As of December 31, 2012 and 2011, the Corporation had receivables of $921 and $3,322 for grant administration services provided from the Village of Clayton, New York, respectively.

During the year ended December 31, 2012 and 2011, the Corporation paid Riverside Media Group $195 and $195, respectively, for website maintenance. Riverside Media Group is owned by Board Member Christopher Bogenschutz.

During the years ended December 31, 2012 and 2011, the Corporation made paid John Durand $50,000 and $0, respectively, as a subrecipient under the New York Main Street Project grant. John Durand is the spouse of Board Member Lori Durand. A separate committee was charged with reviewing and approving all grant applications under the New York Main Street Project and this committee did not include Lori Durand.

NOTE 14 – RESTATED FINANCIALS

The prior year financial statements were restated to report revenues from contracted services to perform grant administration, separately from grant revenues. For the year ended December 31, 2011 contracted service revenue was $4,553. There is no change to net assets as a result of this reclassification.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 15 – SUBSEQUENT EVENTS

In December 2012 the Corporation entered in to a Land Disposition Agreement with Clayton Harbor Hotel LLC to sell a portion of the rehabilitated brownfield site located in Clayton, New York known as the Frink Property. The closing date for the sale is expected to be February 25, 2013. The property being sold was appraised for a value of $1,170,000 and the impact fee (sales price) agreed to in the Land Disposition Agreement is $2,101,500.

Subsequent events were evaluated through February 15, 2013, the date the financial statements were available to be issued.

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 the financial statements of Clayton Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated February 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Clayton Local Development Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Clayton Local Development Corporation’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

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.

Preparation of Financial Statements

In accordance with accounting standard SAS 115, should management choose to allow the auditors to prepare the Corporation's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare financial statements outweighs the benefit that could be gained. 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.

Management has decided the cost of implementing this control outweighs the benefit to be gained.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clayton Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Clayton Local Development Corporation's response to the finding identified in our audit is described in this letter. We did not audit Clayton Local Development Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Bowers & Company

Watertown, New York
February 15, 2013

February 15, 2013

To the Board of Directors
Clayton Local Development Corporation

We have audited the financial statements of Clayton Local Development Corporation for the year ended December 31, 2012, and have issued our report thereon dated February 15, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Clayton Local Development Corporation are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the value of donated facilities is based on the donor's estimated fair value. We evaluated the key factors and assumptions used to develop the value of donated facilities in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule of material misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 15, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Clayton Local Development Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bowers & Company

Client: ***04000218.100 - Clayton Local Development Corporation***
Engagement: ***2012 - Clayton Local Development Corporation***
Trial Balance: ***RP 02.01 - TB Database***
Workpaper: ***RP 03.01 - Adjusting Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		**N01**		
To correct accounts payable for an invoice accrued during prior audit, but recorded again in current year by client, to reverse cash transfer recorded as revenue and accounts				
1000	Miscellaneous Income		1,837.00	
2103	Boating Infrastructure Grant Pr:Officer Compensation		175.00	
0402	Accounts Payable			1,469.00
2303	CLDC:Officer Compensation			298.00
2403	Frink Park/Riverwalk Monument P:Officer Compensation			35.00
2903	Riverwalk 2.0 NYDOS C006914:Officer Compensation			210.00
Total			**2,012.00**	**2,012.00**
Adjusting Journal Entries JE # 2		**X03**		
To reclassify the annual Town stipend from Due to Other Governments to Town Income.				
0403	Due To Other Governments		10,000.00	
1012	Town Income			10,000.00
Total			**10,000.00**	**10,000.00**
Adjusting Journal Entries JE # 3		**X01**		
To reclassify grant funds received against grants receivable for the New York Main Street Grant.				
0205	Grant Receivable:NYMS		18,000.00	
2703	NY Main Street Project:Officer Compensation			18,000.00
Total			**18,000.00**	**18,000.00**
Adjusting Journal Entries JE # 4		**C01**		
To reverse client made improper billings that classified program expenses as accounts receivable:NYMS grant by client.				
2105	Boating Infrastructure Grant Pr:postage/delivery		88.00	
2903	Riverwalk 2.0 NYDOS C006914:Officer Compensation		2,451.00	
0201	Accounts Receivable			2,539.00
Total			**2,539.00**	**2,539.00**
Adjusting Journal Entries JE # 5		**C01**		
To reclassify revenues for contracted services provided from Riverwalk 2.0 NYDOS Income to each individual grant program for which services are provided.				
1009	Riverwalk 2.0 NYDOS Income		7,646.00	
1002	BIGP			4,599.00
1003	Frink Planning Income			248.00
1004	Frink Prk/Rvrwalk Mon. P Income			2,153.00
1014	CDBG Income			453.00
1015	Northern Board Regional Commiss			193.00
Total			**7,646.00**	**7,646.00**
Adjusting Journal Entries JE # 6		**X01**		
To remove the balance of grants receivable and payable for the NYMS grant, adjust grant revenues and expenses to actual, reclassify receivables for other programs from				
0201	Accounts Receivable		3,753.00	
0404	NY Main Street NYHCR		26,500.00	
0406	Grants Payable:NY Main Street		288,280.00	
1006	NY Main Street		144,594.00	
1009	Riverwalk 2.0 NYDOS Income		12,794.00	
0102	NYMS Account3- Watertown Saving			90.00
0202	Accounts Receivable:NYMS			6,790.00
0207	Grants Receivable:NY Main Street			261,809.00
2716	NY Main Street Project:Program Delivery			207,232.00
Total			**475,921.00**	**475,921.00**

Client: ***04000218.100 - Clayton Local Development Corporation***
Engagement: ***2012 - Clayton Local Development Corporation***
Trial Balance: ***RP 02.01 - TB Database***
Workpaper: ***RP 03.01 - Adjusting Journal Entries Report***

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 7		**I01**		
To record current year depreciaiton expense.				
2100	Boating Infrastructure Grant Pr:Depreciation Expense		9.00	
2300	CLDC:Depreciation Expense		65.00	
2400	Frink Park/Riverwalk Monument P:Depreciation Expense		6.00	
2700	NY Main Street Project:Depreciation Expense		23.00	
2900	Riverwalk 2.0 NYDOS C006914:Depreciation Expense		2.00	
0302	Equipment:Accumulated Depreciation			105.00
Total			**105.00**	**105.00**
Adjusting Journal Entries JE # 8		**Y02**		
To record donated use of facilities and office expense from the Town of Clayton, New York and the related office expense.				
2102	Boating Infrastructure Grant Pr:Office expense		1,251.00	
2202	CDBG:Office Expense		167.00	
2302	CLDC:Office Expense		8,304.00	
2402	Frink Park/Riverwalk Monument P:Office Expense		793.00	
2502	Frink Planning:Office Expense		90.00	
2602	Northern Border Regional Commis:Office Expense		71.00	
2702	NY Main Street Project:Office Expense		3,230.00	
2902	Riverwalk 2.0 NYDOS C006914:Office Expense		324.00	
1005	In-Kind Contributions			14,230.00
Total			**14,230.00**	**14,230.00**
Adjusting Journal Entries JE # 9		**X06**		
To separate the Village revenue for the annual grant (stipend) and for contracted services (grant writing).				
1013	Village Income		10,000.00	
1016	Village Income - Contracted Services			10,000.00
Total			**10,000.00**	**10,000.00**
Adjusting Journal Entries JE # 10		**Q01**		
To record refundable deposit to Clayton Harbor Hotel LLC for Land Disposition Agreement and the due from Town of Clayton, New York for the deposit being held by				
0208	Due From Town		210,150.00	
0409	Refundable Deposit			210,150.00
Total			**210,150.00**	**210,150.00**
Adjusting Journal Entries JE # 11		**Y02**		
To reclassify audit fees from office expense to professional fees expense.				
2111	Boating Infrastructure Grant Pr:Professional Fees		364.00	
2211	CDBG:Professional Fees		49.00	
2311	CLDC:Professional Fees		2,492.00	
2411	Frink Park/Riverwalk Monument P:Professional Fees		231.00	
2511	Frink Planning:Professional Fees		26.00	
2611	Northern Border Regional Commis:Professional Fees		20.00	
2711	NY Main Street Project:Professional fees		939.00	
2911	Riverwalk 2.0 NYDOS C006914:Professional Fees		96.00	
2302	CLDC:Office Expense			4,217.00
Total			**4,217.00**	**4,217.00**

February 15, 2013

To the Board of Directors and Management of
Clayton Local Development Corporation

In planning and performing our audit of the financial statements of Clayton Local Development Corporation for the year ended December 31, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. A separate letter dated February 15, 2013 contains our communication of significant deficiencies in the Corporation's internal control. This letter does not affect our report dated February 15, 2013, on the financial statements of Clayton Local Development Corporation.

We will review the status of these comments during out next audit engagement. We have already discussed many of these comments and suggestions with the Corporation's management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Classification of Employees

We noted that the Executive Director is the only individual paid by the Corporation; however no designated employee exists, nor are any applicable federal or state employment taxes accrued or remitted. According to IRC §3121(d)(1) "any officer of a corporation" is deemed an employee. We recommend the Corporation adopt a human resource policy to require consideration of whether payments made to individuals constitute an employer relationship. This policy should include a reference to the section of the internal revenue code mention above and any necessary payroll benefit as required by law. Furthermore we recommend the Corporation classify the Executive Director as an employee going forward and begin withholding and remitting the appropriate payroll taxes. The Voluntary Classification Settlement Program is currently available to provide organizations with some relief from prior year taxes in classifying individuals as employees prospectively.

Organizational Structure

The size of the Corporation's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Corporation to provide enough oversight and independent review functions.

We wish to thank the Executive Director and Board of Directors for their support and assistance during our audit.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Bowers & Company

Watertown, New York
February 15, 2013