CLAYTON LOCAL DEVELOPMENT CORPORATION

- DECEMBER 31, 2009 -

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

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
CLAYTON LOCAL DEVELOPMENT CORPORATION
CLAYTON, NEW YORK

We have audited the accompanying statement of financial position of

CLAYTON LOCAL DEVELOPMENT CORPORATION

(a non-profit organization) as of December 31, 2009 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Local Development Corporation as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2008 financial statements were reviewed by us and our report thereon, dated November 13, 2009, stated that we were unaware of any material modifications that should be made to those statements for them to be in conformity with generally accepted accounting principles. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

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

June 30, 2010

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009 AND 2008

ASSETS

	2009	2008 (as reviewed)
Cash	$ 7,465	$ 17,332
Grants Receivable	12,631	2,749
Utility Deposit	100	100
Land held for sale	188,674	188,674
Land Improvements	243,033	243,033
Property and equipment, less accumulated depreciation of $949 and $365, respectively	875	1,459
Total Assets	$ 452,778	$ 453,347

LIABILITIES AND NET DEFICIT

	2009	2008 (as reviewed)
Liabilities:		
Accounts payable	10,620	-
Notes payable	181,000	181,000
Total Liabilities	191,620	181,000
Net Assets (Deficit):		
Unrestricted	261,158	272,347
Total Net Assets	261,158	272,347
Total Liabilities and Net Assets	$ 452,778	$ 453,347

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2008

	2009	2008 (as reviewed)
Support and Revenue:		
Grant revenue	$ 59,769	$ 238,474
Gain on sale of property	2,801	-
Total Support and Revenue	62,570	238,474
Expenses:		
Program Service:		
Local Development	38,650	114,968
Supporting Service:		
Management and general	35,109	27,899
Total Expenses	73,759	142,867
Change in net assets (deficit)	(11,189)	95,607
Net assets at beginning of year	272,347	176,740
Net assets at end of year	$ 261,158	$ 272,347

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009
WITH COMPARATIVE TOTALS AT DECEMBER 31, 2008

	Program Service Local Development	Management and General	Totals 2009	Totals 2008 (as reviewed)
Riverwalk project expense	2,300	-	2,300	7,811
NYSDOS project expense	-	-	-	5,028
Other operating expenses	133	-	133	482
Utilities	103	-	103	751
Management fee	7,031	24,371	31,402	57,270
Administrative/Clerical Fee	5,765	5,239	11,004	18,475
Project planning expense	-	-	-	8,485
Legal and accounting fees	1,978	-	1,978	215
Consulting fees	8,500	-	8,500	18,684
Grant administration	451	-	451	22,703
Office supplies	-	2,401	2,401	1,138
Printing and advertising	12,138	2,063	14,201	1,314
Travel and training	251	-	251	-
Other administrative expense	-	451	451	146
Depreciation and amortization	-	584	584	365
Total	$ 38,650	$ 35,109	$ 73,759	$ 142,867

STATEMENTS OF CASH FLOWS
DECEMBER 31, 2009 AND 2008

	2009	2008 (as reviewed)
Operating Activities:		
Change in net assets (deficit)	$ (11,189)	$ 95,607
Reconciliation of change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	584	365
(Increase) decrease in assets:		
Grants Receivable	(9,882)	8,454
Increase in liabilities:		
Accounts payable	10,620	-
Net cash provided by operating activities	(9,867)	104,426
Investing Activities:		
Purchase of property and equipment	-	(1,824)
Property improvements	-	(98,217)
Net cash used by investing activities	-	(100,041)
Increase (decrease) in cash	(9,867)	4,385
Cash at beginning of year	17,332	12,947
Cash at end of year	$ 7,465	$ 17,332

Additional Cash Flow Information:

Cash paid for interest at December 31, 2009 and 2008:

	2009	2008
Interest	$0	$0

There were no non-cash investing or financing activities during the year ended December 31, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Nature of Activities and Significant Accounting Policies:

Nature of Activities

Clayton Local Development Corporation operates to relieve and reduce unemployment, to promote and provide for additional and maximum employment, to better and to maintain job opportunities, to carry on research for the purpose of aiding the communities of the Town and Village of Clayton by attracting industry to said communities or encouraging the development of, retention of, new industry in the communities and lessening the burdens of government and to act in the public interest including promoting re-use of Brownfield Sties within the Town and Village of Clayton.

The territory in which the operations of the Corporation are principally conducted is the Town of Clayton and the Village of Clayton, Jefferson County, New York, and such territory in proximity to those municipalities in which the use of the Corporation's funds will have a substantial positive impact on the economic welfare and prosperity of the Town of Clayton and the Village of Clayton, New York and its inhabitants.

Basis of Accounting

The financial statements of the 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 follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations.* Under SFAS No. 117, 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.

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 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.

Grants Receivable

Grants receivable represents amounts due from the grant or funding source for expenditures incurred prior to year-end but not received by year-end. Amounts are recorded when the income has been earned.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. Nature of Activities and Significant Accounting Policies – contd.:

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 and land improvements associated with the Frink property are capitalized at cost, but as they have yet to be placed in service, depreciation has not been recorded on these assets.

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.

Income Tax Status

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Corporation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

2. Cash:

The Organization maintains cash balances at one local financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to $250,000.

3. Property and Equipment:

Property and equipment consists of the following:

	2009	2008
Equipment	$ 1,824	$ 1,824
Accumulated depreciation	(949)	(365)
	$ 875	$ 1,459

The Corporation does not have a written capitalization policy.

4. Long-Term Debt:

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

4. Long-Term Debt –contd.:

Clayton Local Development is responsible for half of the loan, $181,000, which is due in full to Jefferson County 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 Jefferson County extending the due date of the interest free loan to as late as December 31, 2011.

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

December 31, 2010	$ ---
2011	181,000
	$181,000

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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 as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Clayton Local Development 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in Clayton Local Development Corporation's internal control to be a significant deficiency:

<u>Preparation of Financial Statements</u>

In accordance with accounting standard SAS112, should management choose to allow the auditors to prepare the Organization'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 new 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 the 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.

Preparation of Financial Statements cont'd

Management has determined the cost of implementing an appropriate control outweighs the benefit that could be gained.

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

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

June 30, 2010

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June 30, 2010

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, 2009, and have issued our report thereon dated June 30, 2010. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and the Government 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 January 14, 2010. 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 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. 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 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 depreciation of fixed assets is based on estimated useful lives. We evaluated the key factors and assumptions used to develop the estimated useful lives 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the 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 June 30, 2010.

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,

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

June 30, 2010

Sovie & Bowie C.P.A., P.C.
167 Polk Street, Suite 340
Watertown, NY 13601

We are providing this letter in connection with your audit of the statement of financial position of Clayton Local Development Corporation as of December 31, 2009 and the related statements of activities, functional expenses, and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets and cash flows of Clayton Local Development Corporation as of December 31, 2009 in conformity with U.S. generally accepted accounting principles. We also are providing this letter in connection with your review of the statement of financial position of Clayton Local Development Corporation as of December 31, 2008 and the related statements of activities, functional expenses, and cash flows for the year then ended for the purpose of expressing limited assurance that there are no material modifications that should be made to the statements in order for them to be in conformity with generally accepted accounting principles. In connection with the audit of the December 31, 2009 financial statements, we also confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of June 30, 2010, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the Organization's control.

2. We have made available to you all -

   a. Financial records and related data.

   b. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the Organization involving -

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.

8. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

9. The following, if any, have been properly recorded or disclosed in the financial statements:

   a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

   b. Guarantees, whether written or oral, under which the Organization is contingently liable.

   c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

10. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near-term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.

12. Clayton Local Development Corporation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

13. There are no -

   a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on non compliance.

   b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification 450 (formerly Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*).

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Accounting Standards Codification 450 (formerly Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*).

d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.

14. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

15. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

16. In connection with your review of the 2008 financial statements, we also confirm that we have responded fully and truthfully to all inquiries made to us by the prior accountants during their review.

No events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Signature ______________________________ Title ______________________

Signature ______________________________ Title ______________________