COUNTY OF DELAWARE
LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

COUNTY OF DELAWARE
LOCAL DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
County of Delaware Local Development Corporation
Delhi, New York

We have audited the accompanying statements of net position of the County of Delaware Local Development Corporation (the "LDC"), as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and statements of cash flows and the related notes for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 LDC'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 LDC'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 respective financial position of the LDC as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 – 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017 on our consideration of the LDC'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 the LDC's internal control over financial reporting and compliance.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 30, 2017

COUNTY OF DELAWARE LOCAL DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended December 31, 2016

As financial management of the Delaware County Local Development Corporation (the "LDC"), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the LDC for the fiscal year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

Budget

The LDC depends on grants, with a minimal amount of operating income, to extend its programs. The LDC files for various grants and loans to provide economic development assistance in Delaware County, notably the United States Department of Housing and Urban Development, the United States Department of Agriculture, and NYS Office of Community Renewal. However, the funding of these grants is not assured at the beginning of the year. Because the LDC does not know how much funding will be received during any year, how many loan applications will be approved, or what programs can be made available, the LDC cannot project the amount that it can use for its programs to project an accurate budget. The LDC strictly adheres to financial procedures and requirements of New York State General Municipal Law, Article 18A, and its own bylaws, as audited by our accountants at Mostert, Manzanero & Scott, LLP.

Overview of the Financial Statements

This discussion and analysis accompanies the LDC's financial statements, notes to the financial statements and the reports on compliance and internal control to help the reader better understand the financials.

Financial Statements

The LDC's financial statements provide readers with a comprehensive reporting of the LDC's 2016 transactions and balances. The difference between the assets and liabilities are reported as the net position. Increases or decreases in the net position are an indicator of strengthened or weakened financial position.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Financial Analysis

The operating income for the LDC was $182,387 for fiscal year 2016. This was an increase of 101% over the prior year. Net income produced an increase in net position of $182,428. At the close of fiscal year 2016 the LDC had a net position of $1,337,295.

The operating income for the LDC was $30,575 for fiscal year 2015. This was an increase of 101% over the prior year. Net income produced an increase in net position of $30,660. At the close of fiscal year 2015, the LDC had a net position of $1,154,867.

The LDC's prime objective is to provide assistance to existing businesses and expansions and business startups with professional assistance, educational programs and loans. The LDC's loan funds are comprised of grants dedicated to this purpose and matching funds from the LDC's accumulated working capital. The revolving loan fund in the LDC's statements of net position is the major asset. For the LDC's loan funds, the financial statement shows an increase from $2,142,530 at year end 2015 to $2,404,688 at year end 2016, a net increase of $262,158.

Goals and Accomplishments

The primary goal of the LDC in 2016 is the continued management of the LDC's low interest loan funds to provide new and existing businesses with access to capital to support new investment resulting in job creation. In 2016, the LDC and Delaware County Industrial Development Agency (IDA) combined to provide nearly $700,000 in low cost financing to local businesses, with an additional $183,232 of financial assistance in the form of grant programs. Additionally, in 2016, the LDC received a $420,573 loan from USDA for the establishment of a new, low-interest loan fund to be mad available to businesses in Delaware County. The LDC contributed $63,086 of its own funds to help capitalize this program. Lastly, the LDC paid off a $258,560 loan from the Empire State Development, in relation to the Tractor Supply Project in Delhi, New York. The following is a 2016 – 2014 comparative summary of the LDC's financial statements showing the increase in net position:

COUNTY OF DELAWARE LOCAL DEVELOPMENT
CORPORATION'S NET POSITION

	2016	2015	2014
Current assets	$ 720,998	$ 1,385,398	$ 1,116,952
Non-current assets	2,096,310	1,605,399	1,511,248
Total assets	2,817,308	2,990,797	2,628,200
Current liabilities	69,632	365,231	72,886
Non-current liabilities	1,410,381	1,470,699	1,431,107
Total liabilities	1,480,013	1,835,930	1,503,993
Total net position	$ 1,337,295	$ 1,154,867	$ 1,124,207

COUNTY OF DELAWARE LOCAL DEVELOPMENT
CORPORATION'S CHANGES IN NET POSITION

	2016	2015	2014
Operating revenues	$ 396,761	$ 296,524	$ 153,031
Operating expenses	(214,374)	265,949	(137,818)
Operating income	182,387	30,575	15,213
Non-operating income:			
Investment income	41	85	84
Change in net position	182,428	30,660	15,297
Net position - Beginning of year	1,154,867	1,124,207	1,108,910
Net position - End of year	$ 1,337,295	$ 1,154,867	$ 1,124,207

Economic Factors

The management of the LDC is not aware of any changes in economic factors or conditions since December 31, 2016 that will have any significant effect on the LDC into the future.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Glenn Nealis, Executive Director, County of Delaware Local Development Corporation, 1 Courthouse Square, Suite 4, Delhi, New York 13753.

COUNTY OF DELAWARE LOCAL DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	$ 14,290	$ 123,737
Restricted cash	398,330	681,218
Accounts receivable	-	41,967
Due from Delaware County Industrial Development Agency (IDA)	-	1,600
Current portion of loans and capital lease receivables	308,378	536,876
Total current assets	720,998	1,385,398
Loans and capital lease receivables - Long term, net of allowance for bad debts of $51,240 and $69,000 for 2016 and 2015, respectively	2,096,310	1,605,399
Total assets	2,817,308	2,990,797
LIABILITIES		
Current liabilities:		
Accounts payable	7,059	42,034
Accrued interest	2,255	2,356
Current portion of debt	60,318	315,721
Total current liabilities	69,632	360,111
Long-term liabilities:		
Long-term debt	1,410,381	1,470,699
Total liabilities	1,480,013	1,830,810
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue	-	5,120
Total deferred inflows of resources	-	5,120
NET POSITION		
Restricted - Cash	398,330	681,218
Restricted - Loans receivable	916,343	335,156
Unrestricted	22,622	138,493
Total net position	$ 1,337,295	$ 1,154,867

See accompanying notes.

COUNTY OF DELAWARE LOCAL DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

Years ended December 31, 2016 and 2015

	2016	2015
Operating revenues:		
Grant income	$ 234,625	$ 238,947
Interest income and late fees	86,127	80,353
Grant from IDA	69,086	7,677
Parade income	7,168	4,450
Loss on leasing of Natural Gardens equipment	(245)	(34,903)
Total operating revenues	396,761	296,524
Operating expenses:		
Interest expense and bank charges	18,403	22,699
Grants and sponsorships	168,071	226,006
Miscellaneous	9,600	5,501
Professional fees	11,316	5,491
Parade expense	6,984	6,252
Total operating expenses	214,374	265,949
Operating income	182,387	30,575
Non-operating revenue and expenses:		
Investment interest	41	85
Net income	182,428	30,660
Net position - Beginning of year	1,154,867	1,124,207
NET POSITION - END OF YEAR	$ 1,337,295	$ 1,154,867

See accompanying notes.

COUNTY OF DELAWARE LOCAL DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from grants and donations	$ 342,158	$ 246,624
Payments received on loans	631,058	551,099
Other revenue received	7,168	4,450
Other operating payments	(81,379)	(115,917)
Issuance of loans	(807,589)	(897,000)
Grants issued	(168,071)	(226,006)
NET CASH USED IN OPERATING ACTIVITIES	(76,655)	(436,750)
Cash flows from non-capital financing activities:		
Proceeds from USDA loan	-	369,590
Payments on USDA loan	(59,721)	(60,006)
Payments on Empire State Development loan	(256,000)	-
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	(315,721)	309,584
Cash flows from investing activities:		
Investment income	41	85
NET CASH PROVIDED BY INVESTING ACTIVITIES	41	85
NET DECREASE IN CASH	(392,335)	(127,081)
Cash - Beginning of year	804,955	932,036
CASH - END OF YEAR	$ 412,620	$ 804,955
Reconciliation of operating income to net cash provided by operating activities:		
Net operating income	$ 182,387	$ 30,575
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	41,967	(41,967)
(Increase) decrease in due from IDA	1,600	(1,600)
(Increase) decrease in loans receivable	(262,413)	(446,366)
Increase (decrease) in accounts payable and other payables	(40,196)	22,608
NET CASH USED IN OPERATING ACTIVITIES	$ (76,655)	$ (436,750)

See accompanying notes.

NOTE 1 ORGANIZATION

The County of Delaware Local Development Corporation (the "LDC"), located in Delhi, New York, was incorporated in August 1998, and became active during the year ended December 31, 2000. The LDC is a non-profit organization and shares its constituency, membership and purpose with the County of Delaware Industrial Development Agency (the "IDA").

The LDC was established to attract new industry to the County, encourage plant modernization, create job opportunities for the citizens of Delaware County, and promote commerce and industry.

Management has evaluated the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *Financial Reporting Entity,* and GASB No. 39, *Determining Whether Certain Organization Are Component Units,* an amendment of GASB No. 14. Based on the provisions of these standards, management has determined that the LDC is not a component unit of the County of Delaware Industrial Development Agency (the "IDA").

Related Entity

The LDC has a related party relationship with the IDA. The IDA is a public benefit corporation and shares its constituency, membership and purpose with the LDC. The IDA was established June 17, 1971. There are separately issued financial statements for the IDA.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The LDC follows enterprise fund reporting. Enterprise funds are used to account for business like activities. These activities are financed primarily by user charges and the measurement of financial activity focuses on as net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting

The LDC's financial statements are reported using the economic resources measurement focus and the accrual method of accounting. Under this method, revenue is recognized when earned and expenses are recognized when incurred, fixed assets and land are recorded at cost. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The following is a summary of the significant accounting policies followed in the preparation of the LDC's financial statements. The accounting policies of the LDC are in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The LDC reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Cash and Cash Equivalents

For the purposes of presenting the statements of cash flows, the LDC considers all demand deposits, time and savings accounts and certificates of deposit with an original maturity of three months or less to be cash equivalents. Certificates of deposits are stated at cost plus accrued interest receivable. Such basis approximates market.

Allowance for Uncollectible Amounts

Notes receivable are recorded at full value. Uncollectible accounts are charged to expenditures using the reserve method. The allowance for uncollectible accounts was $51,240 and $69,000 as of December 31, 2016 and 2015, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 reported period. Actual results could differ from those estimates.

Income Taxes

The LDC is a tax-exempt organization under Section 501 (c)(3) of the Internal Revenue Code and similar New York State laws and, as such, is not subject to Federal or State income taxes. In addition, the LDC qualifies for the charitable contribution deduction under Section 170(b)(a)(2) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The LDC reviews the components of revenues, gains, and other support and analyzes whether the position that the LDC takes with regard to a particular item of income would meet the definition of an uncertain tax position under U.S. GAAP.

The LDC files information tax returns in the U.S. federal jurisdiction and New York State jurisdiction. The tax years that remain subject to examination by authorities are generally the previous three years.

Grant Accounting

Pass-through grants are recorded as receivables, revenues, liabilities, and expenses when awarded. All other grants are recorded as receivables and deferred revenues upon award of the contracts; revenues are recognized as the LDC meets performance requirements of the contracts.

Contributed Facilities and Services

The LDC, with the consent of the Board of Representatives of Delaware County, is authorized to use and has shared county employees, facilities, and equipment. The value of these facilities and services is not included within these financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Investment Policies

The LDC's investment policies are governed by State statutes. In addition, the LDC has its own written investment policy. LDC's monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The LDC is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State or its localities.

Operating Revenues and Expenses

The LDC distinguishes operating revenues and expenses from non-operating items in its financial statements. Operating revenues and expenses generally result from providing services in connection with the LDC's principal on-going operations. The LDC's operating expenses include project and program costs and related administration expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In addition, the LDC administers the Delaware County Rural Business Enterprise Revolving Loan Fund under a grant awarded by the United States Department of Agriculture. Funds are received by the LDC by request at the time of approval of the loan.

Net Position

The LDC reports its net position in two components. Restricted net positions are reported when assets (net of related debt) can only be used for a specified purpose that is established by grantors, contributors, laws or regulations governing the LDC. For this reason, all restricted net positions are considered expendable. Unrestricted net positions are all other LDC net assets that do not meet the definition of restricted net assets.

Events Occurring After Reporting Date

Subsequent events were evaluated through March 30, 2017, which is the date the financial statements were available to be issued.

NOTE 3 CASH AND CASH EQUIVALENTS

State statutes require that collateral be pledged for demand deposits, time deposits, and certificates of deposit at 100% of deposits not covered by the FDIC. Obligations that may be pledged as collateral are obligations of the U.S. Treasury and its agencies, obligations of the State and its municipalities, school district debt, irrevocable letters of credit and surety bonds issued by State authorized insurance companies.

The financial institutional balances, which aggregated $432,001 and $929,885 at December 31, 2016 and 2015, respectively, were covered by the FDIC or collateralized by securities.

NOTE 4 FEDERAL AND STATE AID CONTINGENCIES

The LDC has received Federal and State Aid and Grants that are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. The LDC believes disallowances, if any, will be immaterial.

NOTE 5 LOANS AND CAPITAL LEASE RECEIVABLES

Loans Receivable – Revolving Loan Funds (RLF)

Revolving loan funds allow the LDC to offer low interest loans to area businesses creating jobs in Delaware County. The proceeds of the loans are used to offer new loans once the outstanding loans have been paid in full. The activity for the year ended December 31, is as follows:

Borrower	01/01/2016 Principal	Advances	Write Offs/ Repayments	12/31/2016 Principal
Alpine Roofing	$ -	$ 120,000	$ (1,647)	$ 118,353
Catskill Country Furniture	23,988	-	(5,285)	18,703
Enviro Energy	37,760	-	(37,760)	-
Hobart Market	19,269	-	(5,022)	14,247
Lucky Dog - Hamden Inn	35,724	-	(35,724)	-
Feather and Stone	35,458	-	(3,800)	31,658
Masserson #2	33,256	-	(1,540)	31,716
Engel's Cabinets	132,472	119,276	(1,748)	250,000
Gravity Ciders	33,517	-	(3,279)	30,238
WB Delhi, LLC	255,975	-	(255,975)	-
Unadilla Fasteners	53,743	-	(4,348)	49,395
	$ 661,162	$ 239,276	$ (356,128)	544,310
Less: Current portion				(40,839)
Long-term receivable				$ 503,471

Loans Receivable – TIER Revolving Loan Fund

In 2008, the LDC was awarded the revolving loan funds from TIER Information & Enterprise Resources, Inc. of Binghamton, New York. The proceeds of the loans are used to offer new loans once the outstanding loans have been paid in full. The activity for the year ended December 31, is as follows:

Borrower	01/01/2016 Principal	Advances	Write Offs/ Repayments	12/31/2016 Principal
Masserson #2	$ 41,571	$ -	$ (1,925)	$ 39,646
Natural Gardens	-	40,000	(549)	39,451
Sprillian LLC	41,530	-	(4,113)	37,417
	$ 83,101	$ 40,000	$ (6,587)	116,514
Less: Current portion				(10,040)
Long term receivable				$ 106,474

NOTE 5 LOANS AND CAPITAL LEASE RECEIVABLES (Cont'd.)

Loans Receivable – Intermediary Relending Program (IRP)

The USDA Intermediary Relending Program (IRP) finances business facilities and community development projects. The LDC is a qualified intermediary that lends funds to beneficiaries and establishes revolving loan funds when the outstanding loans are paid back. The activity for the year ended December 31, is as follows:

Borrower	01/01/2016 Principal	Advances	Write Offs/ Repayments	12/31/2016 Principal
Catskill Country Furniture & Floor	$ 16,465	$ -	$ (2,413)	$ 14,052
Andrew Hinkley	59,740	-	(5,592)	54,148
John Finn	91,700	-	(7,906)	83,794
Lucky Dog - Hamden Inn	6,846	33,313	(4,497)	35,662
Masserson #2	24,943	-	(1,155)	23,788
New York State ARC	19,502	-	(5,514)	13,988
Northeast Fabricators	2,948	-	(2,948)	-
Renaissance Restorations	75,512	-	(14,335)	61,177
Natural Gardens	94,503	-	(7,080)	87,423
Table on Ten	7,288	-	(4,958)	2,330
Mile Hill Properties	206,563	-	(7,879)	198,684
Angus & Ale	30,872	-	(3,096)	27,776
Sanford Stone	38,122	-	(14,029)	24,093
Leatherstocking Timber	100,000	-	(21,527)	78,473
Leatherstocking Timber	150,000	-	(32,290)	117,710
US Custom Pad	108,000	-	(4,438)	103,562
It's Five O'Clock	121,947	-	(10,175)	111,772
Two Old Tarts	86,631	-	(7,016)	79,615
Vintage Valley Farm	46,903	-	(3,914)	42,989
Osmanli	148,214	-	(13,514)	134,700
DBRS	-	175,000	(10,840)	164,160
Sidney Flowers	9,614	-	(2,167)	7,447
K-Tooling	-	100,000	(2,044)	97,956
Natural Gardens	-	120,000	(1,647)	118,353
DBRS	-	100,000	(6,194)	93,806
	$ 1,446,313	$ 528,313	$ (197,168)	1,777,458
Less: Current portion				(257,500)
Long-term receivable				$ 1,519,958

Capital Lease Receivable

Natural Gardens	$ 20,699	$ -	$ (3,053)	$ 17,646
Less: Current portion				(3,309)
Long-term capital lease receivable				$ 14,337

NOTE 5 LOANS AND CAPITAL LEASE RECEIVABLES (Cont'd.)

The following is a summary of loans and capital lease receivables as of December 31:

	2016	2015
Revolving Loan Fund (RLF)	$ 544,310	$ 670,776
TIER Revolving Loan Fund	116,514	83,101
Intermediary Relending Program (IRP)	1,777,458	1,436,699
Capital lease receivable	17,646	20,699
Total loans receivable	2,455,928	2,211,275
Less: Current portion	(308,379)	(536,876)
Less: Allowance for bad debts	(51,240)	(69,000)
Long-term loans and capital lease receivables	$ 2,096,309	$1,605,399

NOTE 6 DEFERRED INFLOWS OF RESOURCES

Deferred revenue is recognized in the period in which the payment relates. As of December 31, 2016 and 2015, deferred revenue consisted of interest in the amount of $-0- and $5,120, respectively.

NOTE 7 LOANS PAYABLE

The LDC has a $750,000 loan with the United States Department of Agriculture for Intermediary/Microenterprise Development Lending Program. A balance of $700,187 and $724,777 was advanced on this line of credit as of December 31, 2016 and 2015, respectively. Interest only at 1% was paid for the first three years. Beginning on December 21, 2015, principal and interest payments are paid annually, with any remaining balance due is payable 30 years from the beginning date of repayment.

The LDC has a $300,000 loan all of which has been advanced with the United States Department of Agriculture for its Intermediary Relending Program. This loan has an interest rate of 1% annually. Annual loan payments of principal and interest in the amount of $12,339 to fully amortize the loan 30 years from the origination date are payable on September 19th of each year. The balance at December 31, 2016 and 2015 was $191,911 and $202,228, respectively.

The LDC has a $750,000 loan, all of which has been advanced with the United States Department of Agriculture for its Intermediary Relending Program. This loan has an interest rate of 1% annually. Annual loan payments of principal and interest in the amount of $30,848 to fully amortize the loan 30 years from the origination date are payable on September 26th of each year. The balance at December 31, 2016 and 2015 was $578,601 and $603,415, respectively.

Interest expense incurred on these three notes totaled $15,203 and $15,020 for the years ending December 31, 2016 and 2015, respectively.

NOTE 7 LOANS PAYABLE (Cont'd.)

Loan from NYS Office of Community Renewal

The LDC entered into a loan agreement with the NYS Office of Community Renewal for $320,000. This agreement requires the LDC to loan the funds to a business that will create jobs in Delaware County. The loan requires 60 monthly interest only payments, with the outstanding principal due on the 60th month. The loan principal may be subject to incremental reductions of 20% annually ($64,000 a year), over the 5 year term of the note, if job commitments and loan compliance is achieved for each respective year of the loan. As a result of compliance, the principal was reduced by $64,000 in 2013 to a principal balance due of $256,000. The outstanding loan balance remained unchanged at December 31, 2015. In 2016, the remaining outstanding loan balance of $256,000 was paid off at the close of the loan term. Interest expense incurred on this note was $3,200 and $7,040 for the years ending December 31, 2016 and 2015, respectively.

As of December 31, these loans can be summarized as follows:

	2016	2015
USDA $750,000 loan	$ 700,187	$ 724,777
USDA $300,000 loan	191,911	202,228
USDA $750,000 loan	578,601	603,415
NYS Office of Community Renewal	-	256,000
Total loans payable	1,470,699	1,786,420
Less: Current portion	(60,318)	(315,721)
Loans payable, long-term	$ 1,410,381	$ 1,470,699

NOTE 8 RESTRICTED NET POSITION

Restricted net position consists of restricted cash and net restricted loans receivable. The LDC maintains separate cash accounts for federal funds, revolving economic development funds and microenterprise development funds, as follows:

	2016	2015
IRP Funds	$ 377,702	$ 619,156
TIER Funds – USDA	15,422	41,542
Federal Funds	-	-
NYS Office of Community Renewal	5,206	20,520
Total restricted cash	$ 398,330	$ 681,218

NOTE 8 RESTRICTED NET POSITION (Cont'd.)

The LDC, per contractual requirements, maintains revolving economic development funds in which principal and interest repayments on current financing are a source for future financing for businesses. Such fund balances are therefore restricted as follows:

	2016	2015
IRP Loans	$ 1,777,458	$ 1,436,699
Revolving Loan Funds (RLF)	544,310	670,776
TIER RLF	116,514	83,101
Total	2,438,282	2,190,576
Less: Allowance for loan losses	(51,240)	(69,000)
Less: Loans payable – Lending programs	(1,470,699)	(1,786,420)
Total restricted loans receivable	$ 916,343	$ 335,156

As of December 31, 2016 and 2015, the LDC has a restricted net position in the amount of $1,314,673 and $1,016,374, respectively, which represents the net of loans receivable and restricted cash.

NOTE 9 RELATED PARTY TRANSACTIONS

The LDC has a related party relationship with the County of Delaware Industrial Development Agency (the IDA). The IDA is a public benefit corporation, established June 17, 1971, to improve the quality of life in Delaware County by assisting businesses and industry for the purpose of retaining and expanding existing job opportunities, attracting new jobs, and stimulating the investment of capital in the county.

For the year ended December 31, 2016, the IDA transferred $69,086 to the LDC.

For the year ended December 31, 2015, the IDA transferred $7,677 to the LDC and owed an additional $1,600 to the LDC.

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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*

To the Board of Directors
County of Delaware Local Development Corporation
Delhi, New York

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 County of Delaware Local Development Corporation (the "LDC") which comprise of the statements of net position as of and for the year ended December 31, 2016, and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the LDC'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the LDC'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LDC'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 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control that we consider to be a significant deficiency and is described in the accompanying schedule of findings and responses, as item 2016 – 1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LDC'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.*

County of Delaware LDC's Response to Findings

The LDC's response to the finding, identified in our audit, is described in the accompanying schedule of findings and responses. The LDC's response is not subject 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 LDC'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 LDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the County of Delaware Local Development Corporation audit committee, management, the State of New York, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mostert, Manzanero & Scott, LLP

Oneonta, New York
March 30, 2017

COUNTY OF DELAWARE LOCAL DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2016

CURRENT YEAR FINDINGS

2016 – 1: Unrecorded Balance Sheet Items

Condition:	Adjusting journal entries had to be made to adjust and record accounts receivable and accounts payable at year-end.
Criteria:	On an accrual basis of accounting at year-end, outstanding receivables, payables and prepaid items need to be analyzed and recorded to prevent misstatement of financial reports.
Effect:	Lack of controls over balance sheet items can lead to inaccurate reporting of income, expenses, assets and liabilities in the financial statements.
Recommendation:	In order to make the financial reports generated by the accounting system as meaningful as possible, we recommend that an individual periodically review the balance sheet accounts, along with other supporting records, and appropriately adjust the respecting accounts to actual amounts.
Management Response:	Management agrees with the need to address this issue and will seek assistance in creating a process to do so.