

**LIVINGSTON COUNTY
DEVELOPMENT CORPORATION**

**Financial Statements
as of December 31, 2017
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	3 - 7
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position.....	8
Statement of Revenues, Expenses, and Change in Net Position.....	9
Statement of Cash Flows	10
Notes to Financial Statements.....	11 - 15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	16 - 17

INDEPENDENT AUDITOR'S REPORT

March 20, 2018

To the Board of Directors of
Livingston County Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Livingston County Development Corporation (the Corporation), a New York Public Benefit Corporation and a discretely presented component unit of the County of Livingston, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of December 31, 2017, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Correction of an Error

As described in Note 3 to the financial statements, the Corporation corrected errors related to the recognition of grant income and deferred revenue in the prior year. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–7 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, or 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 methods 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 20, 2018, on our consideration of the 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 solely 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 the effectiveness of the Corporation's 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 Corporation's internal control over financial reporting and compliance.

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2017

The following Management's Discussion and Analysis (MD&A) of Livingston County Development Corporation's (the Corporation) financial statements provides an overview of the Corporation's financial activities for the years ended December 31, 2017 and 2016. The MD&A should be read in conjunction with the Corporation's financial statements and related notes, which follow the MD&A.

The purpose of the Corporation is to provide financial assistance to small job creating businesses that demonstrate a need for financing which cannot be met entirely from conventional financing sources.

FINANCIAL HIGHLIGHTS

- The Corporation's net position increased by \$229,903 and \$24,692 in 2017 and 2016, respectively, as a result of each year's operations.
- The assets of the Corporation exceeded its liabilities by \$1,749,538 and \$1,293,564 at December 31, 2017 and 2016, respectively.
- The Corporation's activities did not fundamentally change in 2017. However, as the result of an accounting adjustment, the Corporation's staff worked with our auditing firm to restate the prior year's financial position to account for deferred revenues which should have been recognized as revenue in prior years. The deferred revenues were derived from grant income that had been submitted for reimbursement but not yet received.
- In 2017, the Corporation closed out two (2) grant contracts that it had been administering: Community Development Block Grant (CDBG) for Evening Star Coffee Roasters and NY Main Street Renovations in Dansville, Geneseo and Mt. Morris. Four (4) new contracts were entered into: Housing Trust Fund Corporation for a New York Main Street Program in Avon and Leicester, two (2) CDBG contracts for Bristol ID and Rising Storm Brewing and New York Main District Assessment. Administration on four (4) remaining grants in-progress continues and should be closed out by mid-2018: NY Main Street for Caledonia and Livonia, Empire State Development for the Public Market Feasibility Study, CDBG for Western New York Cheese and CDBG for Brew IN Livingston.
- The Corporation is the lead agency among Livingston County's three (3) economic development corporations for small business growth and downtown development. It operates loan and grant programs to carry out these purposes as well as funds other non-county entities that further small business growth and entrepreneurship.

OVERVIEW OF THE FINANCIAL STATEMENTS

The statements of net position and the statements of revenues, expenses, and change in net position report information about the Corporation as a whole and about its activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Revenue and expenses are recorded when earned and incurred, respectively, regardless of when cash is received or paid.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

These two statements report the Corporation's net position and changes in them from one year to the next. The Corporation's net position, the difference between assets and liabilities, is one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation's net position is one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other factors, such as changes in the Corporation's income and the fluctuation of the Corporation's expenses, to assess the overall health of the Corporation.

Additionally, the statement of cash flows provides information about the Corporation's cash receipts, cash disbursements, and net changes in cash resulting from operating, financing and investing activities.

NOTES TO THE FINANCIAL STATEMENTS

The financial statements also include the notes to the financial statements, which explain certain information in the financial statements. They are essential to a full understanding of the information provided in the financial statements

THE CORPORATION

The analysis below summarizes the statements of net position (Table 1) and change in net position (Table 2) of the Corporation as of and for the years ended December 31, 2017 and 2016.

Table 1 - Statements of Net Position

	<u>2017</u>	<u>2016 (a)</u>
Assets:		
Current assets	\$ 890,559	\$ 1,009,452
Non-current assets	<u>860,414</u>	<u>486,804</u>
Total assets	<u>1,750,973</u>	<u>1,496,256</u>
Liabilities:		
Other liabilities	1,435	918
Deferred revenue	<u>-</u>	<u>201,774</u>
Total liabilities	<u>1,435</u>	<u>202,692</u>
Net position:		
Restricted	483,349	573,477
Unrestricted	<u>1,266,189</u>	<u>720,087</u>
Total net position	<u>1,749,538</u>	<u>1,293,564</u>
Total liabilities and net position	<u>\$ 1,750,973</u>	<u>\$ 1,496,256</u>

The Corporation is the lead agency among Livingston County's three economic development corporations for small business growth and downtown development. It operates loan and grant programs to carry out these purposes as well as funds other non-county entities that further small business growth and entrepreneurship.

THE CORPORATION (Continued)

Current assets, primarily cash, decreased 12.2% between 2017 and 2016 due to the fact that the Corporation funded 8 new loans in 2017. This resulted in a significant increase in loans receivable under non-current assets as well.

During 2017, the Corporation recorded a prior period adjustment which eliminated deferred revenue that had been previously recorded. A determination was made that all criteria for recognition as revenue had been met, and therefore deferred revenue was reduced and net position was increased accordingly.

(a) 2016 information has not been restated in the MD&A to reflect the changes in presentation made in connection with the 2017 audit.

Table 2 - Statements of Revenues, Expenses, and Change in Net Position

	<u>2017</u>	<u>2016 (a)</u>
REVENUES:		
Grant income	\$ 674,391	\$ 597,843
Grant income - GAIN	248,000	-
Livingston county support	120,000	120,000
Village support	28,000	36,000
Interest income - loans	18,523	10,706
Administrative income	<u>16,334</u>	<u>16,729</u>
Total revenues	<u>1,105,248</u>	<u>781,278</u>
EXPENSES:		
Grant expense	651,269	500,968
Professional fees	81,633	119,226
Payroll expense	64,440	62,710
General expenses	58,993	77,243
Bad debt expense	<u>20,185</u>	<u>-</u>
Total expenses	<u>876,520</u>	<u>760,147</u>
Operating income	228,728	21,131
Non-operating revenue	<u>1,175</u>	<u>3,561</u>
Change in net position	<u>229,903</u>	<u>24,692</u>
Net position - beginning of year, as previously reported	1,293,564	1,268,872
Prior period adjustment (Note 3)	<u>226,071</u>	<u>-</u>
Net position - beginning of year, as restated	<u>1,519,635</u>	<u>1,268,872</u>
Net position - end of year	<u>\$ 1,749,538</u>	<u>\$ 1,293,564</u>

THE CORPORATION (Continued)

Financial Analysis of the Corporation's Financial Position and Results of Operations

In 2012, the Corporation entered into an agreement with the Livingston County Industrial Development Agency (LCIDA), in which the LCIDA provided the Corporation with funds for the facilitation of the creation and growth of small businesses within Livingston County. The contract is renewable annually and continued in 2017 and 2016 in the amount of approximately \$50,000 and \$68,000, respectively.

The Corporation received GAIN (Growing Agriculture Initiative Now) loan income and issued loans to 3 awardees with this money in the current year.

The Corporation operates with few fixed expenses and little overhead. Variable expenditures are principally related to the Corporation's level of activity. By recognition of the variable nature of the Corporation's revenues, the Corporation minimizes fixed and recurring expenditures and budgets a low level of support services in legal and engineering.

The Corporation believes these are sound practices that are reflected in the Corporation's strong net assets and liquidity both this year and historically.

Factors Bearing on the Future of the Corporation

The Corporation has entered into an agreement with the County of Livingston (the County) to provide services to prospective and start-up businesses, existing operating businesses, or businesses seeking to operate within the County including in-depth business assessments, entrepreneurship education and training, business plan development, market development, technical assistance that includes financing, accounting, merchandising, advertising, promotion and business management.

During 2017, the Corporation awarded \$44,083 for 13 Sign and Façade matching grants, which are paid by the Corporation on a reimbursement basis to building and/or business owners. The total grant awards vary from year to year, and decreased from 2016 to 2017. One less village elected to participate in the Downtown Partnership Program, bringing the total to 8. Villages have been requested to budget continued support to the Corporation for the 2017-2018 Program. These increased activities are expected to increase revenues as well as expenses to the Program in 2018.

The County has continued the Buy Local Program. The partnership between the County, the Corporation and the Chamber of Commerce continued in 2017 with a Memorandum of Understanding and new program activities were implemented.

Revolving Loan Funds continue to remain available for small business loans. Ten (10) new loans were made in 2017 bringing the total number of loans to 15. One (1) loan was written-off as bad-debt.

The Brew IN Livingston program continues to progress and the four (4) breweries awarded through the competition are expected to be open by mid-2018. An additional brewery awarded separately is expected to be open in Q3 2018. As well, two (2) other breweries are expected to come online in 2018 that were created outside the Brew IN program.

REQUEST FOR INFORMATION

This financial report is designed to provide financial statement users with a general overview of the Corporation's finances and to show the accountability for the money received. If you have questions about this report or need additional financial information, please contact:

Phil Brooks, Chairman
Gary Moore, Vice Chairman
Livingston County Government Center
6 Court Street, Room 306
Geneseo, New York, 14454
(585) 243-7124

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

STATEMENT OF NET POSITION DECEMBER 31, 2017

ASSETS

CURRENT ASSETS:

Cash and equivalents-unrestricted	\$	180,001
Cash and equivalents-restricted		483,349
Prepaid expenses		4,051
Grants receivable		71,931
Current portion of loans receivable - net		<u>151,227</u>

Total current assets 890,559

NON-CURRENT ASSETS:

Loans receivable - net of allowance and current portion 860,414

Total non-current assets 860,414

Total assets 1,750,973

LIABILITIES AND NET POSITION

CURRENT LIABILITIES:

Other liabilities 1,435

Total current liabilities 1,435

NET POSITION:

Restricted net position - loans 483,349

Unrestricted net position 1,266,189

Total net position 1,749,538

Total liabilities and net position \$ 1,750,973

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION FOR THE YEAR ENDED DECEMBER 31, 2017

REVENUES:

Grant income - economic development	\$ 674,391
Grant income - GAIN	248,000
Livingston County support	120,000
Village support	28,000
Interest income	18,523
Administrative income	<u>16,334</u>
Total revenues	<u>1,105,248</u>

OPERATING EXPENSES:

Grant expense	651,269
Consulting fees	74,963
Payroll expense	64,440
Advertising and marketing	40,159
Bad debt expense	20,185
Accounting and audit fees	3,600
Office expense and supplies	4,068
Travel expense	1,840
Memberships	3,266
Legal and professional fees	3,070
Conferences and seminars	7,929
Website development	901
Registration and filing fees	400
Insurance expense	<u>430</u>
Total operating expenses	<u>876,520</u>

Operating income 228,728

Non-operating revenue

Interest income - bank 1,175

Total non-operating revenue 1,175

CHANGE IN NET POSITION 229,903

NET POSITION - beginning of year, as previously reported 1,293,564

PRIOR PERIOD ADJUSTMENTS (NOTE 3) 226,071

NET POSITION - beginning of year, as restated 1,519,635

NET POSITION - end of year \$ 1,749,538

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOW FROM OPERATING ACTIVITIES:	
Receipts from grants	\$ 1,074,455
Payments of grants	(651,269)
Receipts from loan collections	94,112
Issuance of loans	(544,100)
Interest income - loans	18,523
Receipts from providing services	16,334
Payments to service providers and suppliers	(140,109)
Payments for employee services	<u>(68,491)</u>
Net cash flow from operating activities	<u>(200,545)</u>
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest income - bank	<u>1,175</u>
Net cash flow from investing activities	<u>1,175</u>
NET CHANGE IN CASH AND EQUIVALENTS	(199,370)
CASH AND EQUIVALENTS - beginning of year	<u>862,720</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 663,350</u>
CASH AND EQUIVALENTS - unrestricted	180,001
CASH AND EQUIVALENTS - restricted	<u>483,349</u>
CASH AND EQUIVALENTS - end of year	<u>\$ 663,350</u>
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH FLOW FROM OPERATING ACTIVITIES:	
Operating income	\$ 228,728
Adjustments to reconcile operating income to net cash flow from operating activities -	
Bad debt	20,185
Changes in assets and liabilities	
Prepaid expenses	(4,051)
Loans receivable	(449,988)
Grants receivable	4,064
Other current liabilities	<u>517</u>
Net cash flow from operating activities	<u>\$ (200,545)</u>

The accompanying notes are an integral part of these statements.

LIVINGSTON COUNTY DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

1. THE CORPORATION

The Livingston County Development Corporation (the Corporation) is a not-for-profit local development corporation created in 1987 by the Livingston County (the County) Board of Supervisors and a special act of the New York State Legislature to facilitate economic development in the County. The Corporation was organized under the Public Authorities Laws of the State of New York.

The Corporation is a discretely presented component unit of the County.

The Corporation's mission is to relieve and reduce unemployment, to promote and provide for additional employment, to maintain job opportunities and to better said job opportunities, to instruct and train individuals to improve or to develop their capabilities for jobs, to carry on scientific research for the purpose of adding to the County by attracting business and industry to the area, or by encouraging the development of, or retention of business in the area and to lessen the burden of government and to act in the public interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board (GASB) for proprietary funds.

Basis of Presentation

GASB requires net position be reported in three classifications defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. At December 31, 2017, the Corporation had no net investment in capital assets.
- Restricted net position - This component of net position consists of amounts which have external constraints placed on their use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2017, the Corporation had restricted net position related to loans.
- Unrestricted net position - This component of net position consists of net position that does not meet the definition of "net investment in capital assets," or "restricted".

When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, and then unrestricted resources as they are needed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are carried at unpaid principal balances. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Corporation reviews outstanding loans receivable for uncollectibility and records an allowance for uncollectible accounts based on that review. The allowance for uncollectible loans consists of the provision for loan losses charged to operations based upon management's evaluation of the loan portfolio considering such factors as historical loan experience, review of specific loans, current economic conditions and such other factors as management considers appropriate to estimate loan losses. Loan losses and the recovery of loans previously charged off are charged or credited to the allowance as incurred or realized respectively. The allowance for uncollectible loans was \$32,841 at December 31, 2017.

Related Party

The Corporation is related through common management and Board of Directors membership with the Livingston County Industrial Development Agency (IDA) and the Livingston County Capital Resource Corporation (CRC), which also promotes economic development in the County.

Income Taxes

The Corporation is a New York not-for-profit corporation qualified under Section 501(c)(6) of the Internal Revenue Code.

The Corporation has applied for exemption from Federal reporting requirements under Internal Revenue Service (IRS) Revenue Procedure 95-48, 1992 C.B.418 as a governmental unit or affiliate of a governmental unit as described in the procedure. As of the date of issuance, final determination from the IRS has not been received.

Advertising

The Corporation expenses all advertising costs as they are incurred.

Cash and Equivalents

Cash and equivalents includes demand deposits, money markets, and certificates of deposit with original maturities of twelve months or less. The Corporation maintains its cash and equivalents in bank accounts. Interest and dividend income from cash and equivalents is reported in non-operating revenue in the statements of revenues, expenses, and change in net position.

Grants Receivable

Grants receivable consists of grant revenues earned but not collected at year end and is stated at the amount management expects to collect.

Revenue Recognition

Village Program income related to the Downtown Partnership is recognized at the beginning of the contract period. Grant income is recognized when the grant expenditures have been incurred. The Corporation defines non-operating income as interest earned.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insurance

The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgements and claims are recorded when it is probably that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years.

3. PRIOR PERIOD ADJUSTMENT

The Corporation restated its December 31, 2016 net position by \$201,774 to account for deferred revenue that should have been recognized as revenue in prior years.

The Corporation also restated its December 31, 2016 net position by \$24,297 to account for income related to an Empire State Development grant and a New York Main Street grant that should have been recorded as grants receivable. In addition, the Corporation reduced net position by \$8,698 to reflect the fact that amounts recorded as accounts receivable had already been received.

To correct these errors, the beginning net position of \$1,293,564, as originally reported, has been increased by \$226,071 to \$1,519,635. This adjustment also increased the prior year change in net position by \$226,071.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Policies

The Corporation follows an investment and deposit policy, the overall objective of which is to adequately safeguard the funds of the Corporation and funds under the control of the Corporation; to provide sufficient liquidity of invested funds in order to meet obligations as they become due; and to earn the maximum yield possible given the objectives previously listed. Oversight of investment activity is the responsibility of the Executive Director. The Corporation's monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within and authorized to do business in New York State. Permissible investments include special time deposit accounts, certificates of deposit and obligations of the United States or of federal agencies whose principal and interest payments are fully guaranteed by the federal government, or of New York State or in general obligations of the State's political subdivisions.

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Restricted Cash and Cash Equivalents

The Corporation provides low interest loans to businesses located in Livingston County in order to encourage economic development. Certain assets related to the loan fund are classified as restricted assets because their use is limited to this purpose.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (Continued)

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits.

At December 31, 2017, the Corporation's cash was covered by FDIC insurance, or by eligible securities held in the Corporation's name by a third-party custodial bank or by the bank's trust department. The Corporation's deposits consisted of the following at December 31:

	<u>2017</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and equivalents	<u>\$ 663,350</u>	<u>\$ 668,227</u>
Covered by FDIC Insurance		\$ 434,861
Pledged collateral		<u>238,046</u>
Total deposits		<u>\$ 672,907</u>

5. LOANS RECEIVABLE

The following is a summary of the Corporation's balance of outstanding loans receivable at December 31, 2017:

<u>Borrower</u>	<u>Date of Issue</u>	<u>Maturity Date</u>	<u>Original Loan</u>	<u>Rate of Interest</u>	<u>Balance at 12/31/17</u>
Eli-N-Wood Flowers & Gardens, Inc.	Jun-11	Nov-19	\$ 44,391	5.00%	\$ 20,181
Harmony Station, Inc.	Feb-13	May-18	\$ 75,000	5.00%	7,169
Twisted Stitches	Jan-14	Feb-19	\$ 25,000	5.00%	5,367
Coast Professionals, Inc.	May-09	Aug-19	\$ 250,000	3.00%	58,878
Coast Professionals, Inc.	May-09	Apr-19	\$ 270,000	3.00%	241,772
Rich's Power Equipment	Oct-09	Dec-19	\$ 50,000	5.00%	12,303
Onlinegunsales, Corp.	Mar-15	Apr-20	\$ 100,000	5.00%	81,748
William Schuster Agency LLC	Oct-13	Nov-20	\$ 50,000	5.00%	24,946
C&J Transport	Oct-16	Nov-23	\$ 75,000	5.00%	65,136
Wendy's Pantry	Apr-17	May-22	\$ 50,000	5.00%	48,317
Paul Didas	Jun-17	Oct-22	\$ 44,100	1.00%	41,942
Mortalis Brewing Company	Nov-17	Mar-23	\$ 100,000	1.00%	100,000
OSB Ciderworks	May-17	Jun-24	\$ 100,000	1.00%	94,246
Evening Star Coffee Roasters	May-17	Jul-24	\$ 75,000	3.25%	72,212
Dublin Corners	Jun-17	Jul-24	\$ 60,000	1.00%	56,545
CB's Bar & Grill	May-17	Sep-24	\$ 40,000	5.00%	38,720
Battle Street Brewery	Aug-17	Mar-25	\$ 75,000	1.00%	<u>75,000</u>
					Total loans receivable 1,044,482
					Less: allowance for uncollectible loans <u>(32,841)</u>
					Loans receivable - net 1,011,641
					Less, current portion <u>(151,227)</u>
					Loans receivable - non-current portion <u>\$ 860,414</u>

5. LOANS RECEIVABLE (Continued)

The following represents the loan receivable activity for 2017:

Loans Receivable 12/31/2016	Loan Issuances	Loan Repayments	Loans Receivable 12/31/2017
<u>\$ 594,494</u>	<u>\$ 544,100</u>	<u>\$ (94,112)</u>	<u>\$ 1,044,482</u>

<u>Principal Repayment Schedule</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023-2025</u>	<u>Total</u>
Eli-N-Wood Flowers & Gardens, Inc.	\$ 5,971	\$ 14,210	\$ -	\$ -	\$ -	\$ -	\$ 20,181
Harmony Station, Inc.	7,169	-	-	-	-	-	7,169
Twisted Stitches	5,367	-	-	-	-	-	5,367
Coast Professionals, Inc.	27,524	31,354	-	-	-	-	58,878
Coast Professionals, Inc.	-	241,772	-	-	-	-	241,772
Rich's Power Equipment	4,394	7,909	-	-	-	-	12,303
Onlinegunsales, Corp.	9,033	9,495	63,220	-	-	-	81,748
William Schuster Agency LLC	7,502	7,886	9,558	-	-	-	24,946
C&J Transport	9,678	10,172	10,693	11,240	11,815	11,538	65,136
Wendy's Pantry	9,725	10,223	10,746	11,296	6,327	-	48,317
Paul Didas	8,659	8,746	8,834	8,923	6,780	-	41,942
Mortalis Brewing Company	14,683	19,750	19,948	20,148	20,351	5,120	100,000
OSB Ciderworks	13,930	14,070	14,212	14,354	14,499	23,181	94,246
Evening Star Coffee Roasters	6,540	6,193	6,979	7,210	7,447	37,843	72,212
Dublin Corners	8,358	8,442	8,527	8,613	8,699	13,906	56,545
CB's Bar & Grill	4,957	5,211	5,477	5,757	6,052	11,266	38,720
Battle Street Brewery	7,787	10,474	10,579	10,685	10,793	24,682	75,000
Total	<u>\$ 151,277</u>	<u>\$ 405,907</u>	<u>\$ 168,773</u>	<u>\$ 98,226</u>	<u>\$ 92,763</u>	<u>\$ 127,536</u>	<u>\$ 1,044,482</u>

6. RELATED PARTIES

The Corporation receives some of its equipment and office space resources from Livingston County. The Corporation makes no payments to the County for these services, and the value of the services has not been reflected in the assets, liabilities, revenues or expenses of the Corporation for the year ended December 31, 2017.

The Corporation received \$120,000 from Livingston County during 2017 to facilitate the creation and growth of small business within Livingston County communities in which they are located.

In 2017, the Corporation received \$50,584 as a contribution to be used for economic development purposes from the IDA. This amount is recorded as grant income in the accompanying statement of revenues, expenses, and change in net position.

INDEPENDENT AUDITOR'S 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

March 20, 2018

To the Board of Directors of
Livingston County Development Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Livingston County Development Corporation (the Corporation) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 20, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control that we consider to be a material weakness (Finding 2017-001).

INDEPENDENT AUDITOR'S 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

(Continued)

Finding 2017-001: Material Audit Adjustments

Condition/Criteria: The Corporation's financial statements required significant current period and prior period adjustments in order to properly state the results of operations. Generally accepted accounting principles require revenue to be recorded in the period earned and expenses to be recorded in the period that they are incurred.

Cause: The internal controls of the Corporation did not catch the material errors.

Effect: The current period adjustments resulted in a decrease in net position of \$24,297. The prior period adjustments resulted in an increase to net position as of December 31, 2016 totaling \$226,071.

Recommendation: We recommend that the Corporation develop a process to ensure the year-end activity is properly closed and representative of the true assets, liabilities, revenues and expenses of the Corporation.

Management Response: Management concurs and will work with the auditor to develop a process to mitigate the potential for future audit adjustments.

Compliance and Other Matters

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

Corporation's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.