

**WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION**



REPORT ON AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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POULSEN & PODVIN, CPA, P.C.
Certified Public Accountants
145 Clinton St.
Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Watertown Industrial Center
Local Development Corporation

We have audited the accompanying statements of financial position of Watertown Industrial Center Local Development Corporation (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years 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 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Watertown Industrial Center Local Development Corporation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, on our consideration of Watertown Industrial Center Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of functional expenses on page 13 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Poulsen & Podvin, CPA, P.C.

September 6, 2012
Watertown, New York

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 411,029	\$ 732,227
Accounts receivable	17,130	22,855
Rents receivable	65,996	63,085
Grant receivable	250,000	-
Prepaid insurance	14,198	13,483
Total Current Assets	758,353	831,650
Receivable - leasehold improvement (Note 7)	52,521	81,776
Fixed assets - net of accumulated depreciation (Notes 1 and 2)	2,628,340	2,234,950
TOTAL ASSETS	\$ 3,439,214	\$ 3,148,376
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 13,876	\$ 87,653
Other payables	44	2,794
Deferred revenue:		
Prepaid rent	5,618	6,775
Other	-	5,462
Leasehold improvement (Note 7)	52,521	81,776
Demand notes	250,000	-
Current maturities of long-term debt (Note 3)	15,466	15,010
Total Current Liabilities	337,525	199,470
Long-term debt (Note 3)	363,402	378,868
TOTAL LIABILITIES	700,927	578,338
Net Assets:		
Unrestricted Net Assets:		
Operating	472,377	524,470
Board designated	266,438	204,496
Fixed assets	1,999,472	1,841,072
Total Unrestricted Net Assets/Total Net Assets	2,738,287	2,570,038
TOTAL LIABILITIES AND NET ASSETS	\$ 3,439,214	\$ 3,148,376

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Revenues and Support:		
Rental income	\$ 492,916	\$ 506,338
Grant income	250,000	200,000
Investment income	382	1,148
Insurance settlement	83,514	-
Miscellaneous	19,624	9,633
Total Revenues and Support	<u>846,436</u>	<u>717,119</u>
Expenses:		
Program Services - Development of Industrial Center	630,373	568,526
Support Services - General and administrative	47,814	47,728
Total Expenses	<u>678,187</u>	<u>616,254</u>
Changes in Net Assets	168,249	100,865
Net Assets - Beginning of Year	<u>2,570,038</u>	<u>2,469,173</u>
Net Assets - End of Year	<u>\$ 2,738,287</u>	<u>\$ 2,570,038</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating Activities:		
Change in net assets	\$ 168,249	\$ 100,865
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	200,912	179,076
(Increase) decrease in:		
Accounts receivable	5,725	2,435
Rents receivable	(2,911)	(51,747)
Grant receivable	(250,000)	-
Prepaid insurance	(715)	(192)
Receivable - leasehold improvement	29,255	39,222
Increase (decrease) in:		
Accounts payable	(73,777)	56,480
Other payables	(2,750)	2,761
Deferred revenue - rent	(1,157)	(7,105)
Deferred revenue - other	(5,462)	5,462
Deferred revenue - leasehold improvement	(29,255)	(39,222)
Net Cash Provided by Operating Activities	38,114	288,035
Investing Activities:		
Investment in fixed assets	(594,302)	(867,752)
Net Cash (Used) by Investing Activities	(594,302)	(867,752)
Financing Activities:		
Long-term debt proceeds	250,000	400,000
Repayment of principal on long-term debt	(15,010)	(6,122)
Net Cash Provided by Financing Activities	234,990	393,878
Net (Decrease) in Cash and Cash Equivalents	(321,198)	(185,839)
Cash and Cash Equivalents - Beginning of Year	732,227	918,066
Cash and Cash Equivalents - End of Year	\$ 411,029	\$ 732,227
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 11,611	\$ 5,970
Cash paid for income taxes	-	-

There were no noncash investing or financing activities in 2012 or 2011.

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 1 – Summary of Significant Accounting Policies:

Business Description

Watertown Industrial Center Local Development Corporation is a non-profit organization, which was incorporated in New York State on June 7, 1994. The Organization is involved in developing an industrial center in the City of Watertown, NY by providing low cost rental space to industry.

The mission of the Watertown Industrial Center Local Development Corporation is to facilitate job creation and retention in the community by providing eligible businesses with suitable leased facilities at rents and under conditions that help them succeed.

Basis of Accounting

The financial statements of Watertown Industrial Center Local Development 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 recommendation of FASB Accounting Standards Codification No. 958, *Not-for-Profit Entities: Presentation of Financial Statements*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Income Tax Status

The Organization is a not-for-profit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Use of Estimates

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

Accounts Receivable

Management believes that all accounts receivable as of June 30, 2012 and 2011 are fully collectible. Accordingly, no provision for doubtful accounts has been established as management considers all accounts to be collectible based upon a favorable history over a substantial period of time.

Support and Revenue

Watertown Industrial Center Local Development Corporation receives substantially all its revenue from the leasing of office and manufacturing space in four buildings owned by the Organization.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. Watertown Industrial Center Local Development Corporation had no temporarily or permanently restricted net assets at June 30, 2012 and 2011.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Property and Equipment

Property and equipment are recorded at cost or fair value at the date of acquisition. Watertown Industrial Center Local Development Corporation follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Category	Recovery Period Years
Buildings and improvements	5-30
Furniture, fixtures and equipment	5-10

Unrestricted Net Assets

Undesignated net assets include revenue and support to develop and maintain the industrial center and for general operating purposes.

Board-designated net assets have been appropriated by the Board from undesignated net assets for specific future needs as follows:

	June 30,	
	2012	2011
Leasehold improvement	\$ 161,477	\$ 132,880
Capital improvement fund	<u>104,961</u>	<u>71,616</u>
	<u>\$ 266,438</u>	<u>\$ 204,496</u>

The net investment in property and equipment consists of property and equipment, net of accumulated depreciation, and any other resources dedicated to property and equipment, net of related liabilities.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Fair Value of Financial Instruments

The carrying value of the note payable approximates fair value because it bears interest at a rate that approximates current market rates for notes with similar maturities and credit quality. Refer to Note 3.

Date of Management's Review

Management has evaluated subsequent events through September 6, 2012, the date which the financial statements were available to be issued.

Note 2 – Fixed Assets:

The major categories of fixed assets as of June 30, 2012 and 2011 are as follows:

	June 30,	
	2012	2011
Land	\$ 205,000	\$ 205,000
Buildings and improvements	4,723,848	4,039,190
Furniture, fixtures and equipment	48,106	48,106
Work-in-progress	-	90,356
Total	<u>4,976,954</u>	<u>4,382,652</u>
Less - accumulated depreciation	<u>(2,348,614)</u>	<u>(2,147,702)</u>
Net	<u>\$ 2,628,340</u>	<u>\$ 2,234,950</u>

Note 3 – Related Party Agreements and Transactions:

- An agreement executed yearly between the Organization and Jefferson County Industrial Development Agency (JCIDA) exists where the Corporation agrees to pay JCIDA for administrative support. The amount paid for the service agreement for the years ended June 30, 2012 and 2011 was \$50,000 in each year.

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- Jefferson County Job Development Corporation rents office space from the Organization under a five-year lease agreement. The current lease was executed for the period July 1, 2010 through June 30, 2015. At June 30, 2012, current monthly rental payments are \$1,175.61. Rental income, including rent surcharges, received during the years ended June 30, 2012 and 2011 was \$14,107 and \$19,213, respectively.
- In December 2010, the Organization entered into a participation loan with Watertown Local Development Corporation and Jefferson County Local Development Corporation in the amount of \$400,000. The loan was obtained in order to finance the replacement of the Building A roof. The note is for a twenty-year term, with payments beginning January 1, 2011 through January 1, 2031 at an interest rate of 3.00%. During the year ended June 30, 2012 and 2011, the Organization made principal and interest payments totaling \$26,621 and \$12,092, respectively. The following is outstanding at year end:

Note Payable	Interest Rate	June 30, 2012		June 30, 2011	
		Current	Long-Term	Current	Long-Term
WLDC /JCLDC	3.00%	<u>\$ 15,466</u>	<u>\$ 363,402</u>	<u>\$ 15,010</u>	<u>\$ 378,868</u>

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:	
2013	15,466
2014	15,937
2015	16,421
2016	16,921
2017	17,435
Thereafter	296,688
	<u>\$ 378,868</u>

- In January 2012, the Organization obtained demands notes in the amount of \$125,000 each from Watertown Local Development Corporation and Jefferson County Industrial Development Agency. The notes were obtained as operating loans to be used by the Organization until the Empire State Development Grant is received. See Note 8.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

Note 4 – Property on Operating Leases:

The following schedule provides an analysis of the Organization’s investment in property on operating leases as of June 30, 2012:

	Land				\$ 205,000
	Buildings and improvements				4,723,848
	Total				4,928,848
	Less - accumulated depreciation				(2,303,737)
	Net				<u>\$ 2,625,111</u>
	(SEE NOTE 5)				

Note 5 – Rentals under Operating Leases:

The Organization leases office space to tenants under non-cancelable operating leases with terms of one to ten years. The following is a schedule of years of future minimum rentals under the leases after June 30, 2012:

2013		360,310
2014		276,450
2015		271,626
2016		261,692
2017		264,818
2018-2020		773,187
		<u>\$ 2,208,083</u>

Note 6 – Concentrations of Credit Risk:

The Organization maintains its cash balances in financial institutions located in Watertown, NY. Interest-bearing deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. Non-interest bearing deposits are fully insured by the FDIC. All deposits are fully insured as of June 30, 2012.

Note 7 – Receivable Leasehold Improvements/ Deferred Revenue Leasehold Improvements:

At June 30, 2012 and 2011, the receivable and corresponding deferred revenue were recorded in the amount of \$52,521 and \$81,776, respectively, on the Statements of Financial Position. The amount represents the additional rent surcharge to be collected from tenants over their lease terms. The additional rent surcharges were the result of building additions completed, as requested by

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

tenants. The Organization has consistently recorded all building improvements done for tenants as an addition to the Organization's fixed assets and charged rent surcharges to the tenants to cover the cost of the improvements.

The Organization decided to record the rent surcharge amount as receivable and deferred revenue on the Statements of Financial Position to better track the status of additional rent surcharges. There is no effect on the Statements of Activities as a result of recording the receivable and related deferred revenue. The additional rent surcharge payments received from tenants has been consistently recorded as rental income on the Statements of Activities.

Note 8 – Grant Receivable:

In 2010, Watertown Industrial Center Local Development Corporation was awarded a \$250,000 grant from Empire State Development (ESD). The grant monies are to be used as reimbursement for a portion of the roof replacement costs incurred by the Organization. The grant is to be paid upon completion of the project. The project was completed in April 2012 and documentation to verify compliance with the grant agreement were submitted to ESD.

Note 8 – Subsequent Events:

On July 6, 2012, the Empire State Development Grant for \$250,000 was received and subsequently, the demand notes payable with Watertown Local Development Corporation and Jefferson County Industrial Development Agency were paid in full.

On July 25, 2012, in a Special Meeting held by the Board of Directors of Watertown Industrial Center Local Development Corporation, a Memorandum of Understanding was entered into between the Organization and Jefferson County Industrial Development Agency (JCIDA) which allows JCIDA to operate the Watertown Center for Business and Industry property effective August 1, 2012. It was decided that the Organization will go through dissolution and all of its debt and property will be transferred to JCIDA upon approval of the appropriate New York State authorities.

ADDITIONAL INFORMATION

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

 2 0 1 2		
	Program Services Development of Industrial Center	Support Services General and Administrative	Total Expenses
Administrative services	\$ 25,000	\$ 25,000	\$ 50,000
Management leasing fee	97,101	-	97,101
Depreciation	200,912	-	200,912
Professional services	455	10,848	11,303
Repairs and maintenance	93,248	-	93,248
Insurance	56,159	1,842	58,001
Office expense	-	6,535	6,535
Payroll taxes	7,635	-	7,635
Miscellaneous	-	694	694
Travel and entertainment	1,891	-	1,891
Telephone and utilities	59,290	-	59,290
Leased management benefits	37,311	-	37,311
Real property taxes	28,663	-	28,663
Interest expense	11,611	-	11,611
Materials, equipment and advertisement	11,097	-	11,097
Bad debt expense	-	2,895	2,895
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 630,373</u>	<u>\$ 47,814</u>	<u>\$ 678,187</u>

 2 0 1 1		
	Program Services Development of Industrial Center	Support Services General and Administrative	Total Expenses
Administrative services	\$ 25,000	\$ 25,000	\$ 50,000
Management leasing fee	77,032	-	77,032
Depreciation	179,076	-	179,076
Professional services	781	15,980	16,761
Repairs and maintenance	79,083	-	79,083
Insurance	53,822	1,842	55,664
Office expense	-	4,249	4,249
Payroll taxes	5,624	-	5,624
Miscellaneous	-	657	657
Travel and entertainment	1,800	-	1,800
Telephone and utilities	77,168	-	77,168
Leased management benefits	33,199	-	33,199
Real property taxes	22,564	-	22,564
Interest expense	5,970	-	5,970
Materials, equipment and advertisement	7,407	-	7,407
Bad debt expense	-	-	-
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 568,526</u>	<u>\$ 47,728</u>	<u>\$ 616,254</u>

See Paragraph on Supplementary Schedules Included in Auditor's Report.
