

**W**ATERTOWN LOCAL  
DEVELOPMENT CORPORATION

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*FINANCIAL STATEMENTS*

December 31, 2013

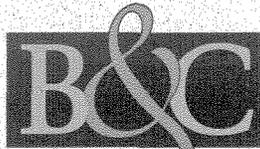


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**BOWERS & COMPANY  
CPAs, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

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**BOARD OF DIRECTORS  
WATERTOWN LOCAL DEVELOPMENT CORPORATION**

We have audited the accompanying financial statements of **WATERTOWN LOCAL DEVELOPMENT CORPORATION**, (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

1200 AXA Tower I, 100 Madison Street, Syracuse, NY 13202 Phone: 315.234.1100 • Fax 315.234.1111  
167 Polk Street, Suite 340, Watertown, NY 13601 Phone: 315.788.7690 • Fax 315.788.0966  
145 Clinton Street, Watertown, NY 13601 Phone: 315.788.5490 • Fax 315.788.7147

[www.bcpllc.com](http://www.bcpllc.com)

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

### **Opinion**

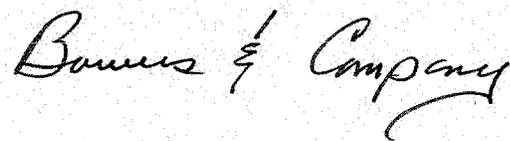
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Local Development Corporation as of December 31, 2013 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2014, on our consideration of Watertown Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watertown Local Development Corporation's internal control over financial reporting and compliance.

### **Prior Period Financial Statements and Report on Summarized Comparative Information**

The financial statements as of December 31, 2012, were audited by Poulsen & Podvin, CPA, P.C., who merged with Bowers & Company CPAs PLLC as of January 1, 2014, and whose report dated March 19, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Bowers & Company". The signature is written in dark ink and is positioned to the right of the printed name.

Watertown, New York  
March 5, 2014

**WATERTOWN LOCAL DEVELOPMENT CORPORATION****AUDITED FINANCIAL STATEMENTS****STATEMENT OF FINANCIAL POSITION**

December 31, 2013 with Comparative Totals for 2012

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,202,770	\$ 505,320
Restricted Cash	117,204	117,204
Cash in Escrow	250,000	0
Accrued Interest Receivable (Net of Uncollectible Amount of \$15,000 and \$11,250, Respectively)	12,197	11,595
Temporary Cash Investments	3,173,651	3,158,890
Investments	792,064	455,674
Notes Receivable (Net of Reserve for Bad Debts of \$351,563 and \$396,663, Respectively)	5,022,769	6,304,173
Investment In and Advances to Public Square Developers (Net of Reserve for Uncollectible Amounts of \$1,118,789)	0	0
Equipment and Leasehold Improvements, Less Accumulated Depreciation of \$55,790 and \$55,757, Respectively	<u>888</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 10,571,543</u></b>	<b><u>\$ 10,552,856</u></b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 10	\$ 11,873
Security Deposits	<u>3,929</u>	<u>2,649</u>
	<u>3,939</u>	<u>14,522</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	10,449,512	10,421,130
Fixed Assets	<u>888</u>	<u>0</u>
	10,450,400	10,421,130
Permanently Restricted	<u>117,204</u>	<u>117,204</u>
	<u>10,567,604</u>	<u>10,538,334</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 10,571,543</u></b>	<b><u>\$ 10,552,856</u></b>

See notes to financial statements.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	Unrestricted	Permanently Restricted	Totals	
			2013	2012 (Summarized)
Revenue and Other Support:				
Interest Income:				
Interest on Notes	\$ 292,297	\$ 0	\$ 292,297	\$ 277,532
Interest from Investments	71,605	0	71,605	87,587
Net Realized and Unrealized Gains (Losses) on Investments	(39,027)	0	(39,027)	57,148
Franklin Building Rental Income	36,103	0	36,103	45,956
Bad Debt Recovery	26,090	0	26,090	30,834
Other Income	10,400	0	10,400	18,166
Total Revenue and Other Support	<u>397,468</u>	<u>0</u>	<u>397,468</u>	<u>517,223</u>
Expenses and Losses:				
Program Services	221,690	0	221,690	408,723
Management and General	146,508	0	146,508	162,086
Total Expenses and Losses	<u>368,198</u>	<u>0</u>	<u>368,198</u>	<u>570,809</u>
Changes in Net Assets	29,270	0	29,270	(53,586)
Net Assets:				
Beginning of Year	<u>10,421,130</u>	<u>117,204</u>	<u>10,538,334</u>	<u>10,591,920</u>
End of Year	<u>\$ 10,450,400</u>	<u>\$ 117,204</u>	<u>\$ 10,567,604</u>	<u>\$ 10,538,334</u>

See notes to financial statements.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2013 with Summarized Totals at December 31, 2012

	<b>Program Services</b>	<b>Management and General</b>	<b>Totals 2013</b>	<b>Totals 2012 (Summarized)</b>
Management Leasing Fee	\$ 0	\$ 0	\$ 0	\$ 81,702
Leased Management Benefits	0	0	0	42,206
Salaries	82,178	82,178	164,356	58,359
Employee benefits	33,389	33,389	66,778	32,638
Filing Fees	775	0	775	775
Insurance	0	1,731	1,731	3,428
Office Expense	6,341	6,341	12,682	11,235
Audit Fees	3,250	3,250	6,500	5,700
Professional Fees	30,910	542	31,452	67,669
Occupancy Expense	6,960	6,959	13,919	13,867
Travel and Entertainment	1,870	1,870	3,740	2,333
Janitorial Expense	1,985	1,984	3,969	4,488
Advertising	1,491	1,490	2,981	2,848
Miscellaneous	4,169	6,741	10,910	17,683
Façade Program	0	0	0	47,840
Franklin Building Program	65,016	0	65,016	62,118
Bad Debt Expense (Recovery)	(16,644)	0	(16,644)	115,353
<b>Total Expenses Before Depreciation</b>	<b>221,690</b>	<b>146,475</b>	<b>368,165</b>	<b>570,242</b>
Depreciation	0	33	33	567
<b>TOTAL EXPENSES</b>	<b>\$ 221,690</b>	<b>\$ 146,508</b>	<b>\$ 368,198</b>	<b>\$ 570,809</b>

See notes to financial statements.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2013 with Comparative Totals for 2012

	<b>2013</b>	<b>2012</b>
Cash Flows from Operating Activities:		
Changes in Net Assets	\$ 29,270	\$ (53,586)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	33	567
Bad Debt Expense (Recovery)	(16,644)	115,353
Unrealized (Gain) Loss on Investments	39,027	(38,546)
Realized Gain on Sale of Investments	0	(18,602)
Interest Expense on Revolving Loan Fund	0	20
(Increase) Decrease in Assets:		
Accrued Interest Receivable	(602)	11,055
Increase (Decrease) in Liabilities:		
Security Deposits	1,280	630
Accounts Payable	(11,863)	11,844
Net Cash Provided by Operating Activities	40,501	28,735
Cash Flows from Investing Activities:		
Notes Receivable - Net	1,298,048	(1,671,079)
Net Investment in Fixed Assets	(921)	0
Investment In and Advances to Public Square Developers	0	331,277
Proceeds from Sales (Purchases of) Investments - Net	(390,178)	674,875
Net Cash Provided (Used) by Investing Activities	906,949	(664,927)
Cash Flows from Financing Activities:		
Interest Income Restricted for Revolving Loan Fund	0	(20)
Net Cash (Used) by Financing Activities	0	(20)
Net Increase (Decrease) in Cash	947,450	(636,212)
Cash and Cash Equivalents - Beginning of Year	622,524	1,258,736
Cash and Cash Equivalents - End of Year	\$ 1,569,974	\$ 622,524

See notes to financial statements.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 1 – NATURE OF ACTIVITIES**

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##### **Nature of Activities**

On March 23, 1981, the City of Watertown was awarded an Urban Development Action Grant (UDAG) by the U.S. Department of Housing and Urban Development to assist in the rehabilitation of a portion of the premises known as the New York Air Brake Company in the amount of \$6,500,000. Under the terms of the original application and final agreement, the recipient is required to repay this debt to a Not-for-Profit corporation who must administer the loan repayment and set-up a revolving loan program for other similar projects. The Watertown Local Development Corporation (the "LDC") and formerly known as "The Local Development Corporation of the City of Watertown, New York," was established by the City to satisfy this obligation. On November 14, 1982, the Watertown Local Development Corporation was formally incorporated under Section 1411 of the Not-for-Profit corporation law of the State of New York.

The primary purpose of the Watertown Local Development Corporation is to stimulate growth of private sector employment in the Watertown area by assisting the financing needs of:

- Companies already in the area that wish to expand or to build new facilities.
- Companies not presently in the area but seeking locations in the Watertown area for new plants or facilities.

Also, recognizing the need for a lending program for certain public and not-for-profit organizations, the LDC set aside \$500,000 to fund such requests.

In addition, the following programs were established:

- The Board granted the CEO authority to approve loans in the amount of \$10,000 or less.
- A loan assistance program to give loans to small businesses that were affected by road construction in the City of Watertown. The maximum loan is for \$10,000 at 3% interest and for a maximum of 5 years.
- The Public Square Historic District Façade Easement Program was established to provide grants to owners of downtown buildings wishing to upgrade the appearance and stability of their building exterior. The program is administered by Neighbors of Watertown, Inc. The LDC has set aside a total of \$576,000 to fund the program. As of December 31, 2013, there is \$129,150 remaining of program funds.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 1 – NATURE OF ACTIVITIES - Continued**

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The LDC functions as a lending institution, making low interest loans for real estate, machinery and equipment purchases, working capital and housing.

- Repayment terms for real estate range from 10 to 20 years.
- Repayment terms for machinery and equipment purchases and working capital range from 7 to 10 years.

Maximum loan amounts are limited to 40% of project costs or 10% of the total LDC assets, whichever is lower. Interest rates on the LDC loans will be determined by the Board of Directors and will be on a fixed rate basis. The loans are made to businesses and industries which have an economic impact on the Watertown area. Any commitment by the LDC for a project located outside the corporate limits of the City of Watertown must be made subject to a majority approval of the City Council. Exceptions to loan policy terms and loan amounts may be approved at the discretion of the Board of Directors.

#### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

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##### **Financial Statement Presentation**

*Basis of Presentation* – Financial statement presentation as required by FASB Accounting Standards Codification No. 958, *Not-for-Profit Entities: Presentation of Financial Statements* requires the LDC to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

##### **Income Taxes**

The LDC is exempt from income taxes of Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2013, 2012, 2011, and 2010 are subject to examination by the IRS, generally for 3 years after they were filed.

##### **Cash and Cash Equivalents**

The LDC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued**

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##### **Restricted Cash**

Restricted cash of \$117,204 for both years ended December 31, 2013 and 2012, represents repayments on a loan disbursed through the Small Cities CDBG grant. The cash is restricted for future loans in accordance with the terms of the grant sub-recipient agreement with the City of Watertown.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Fair Value of Financial Instruments**

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of those financial instruments. Refer to Notes 6 and 16 for fair value of investments.

##### **Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

##### **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.

##### **Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued**

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##### **Notes Receivable and Allowance for Loan Losses**

Notes receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The LDC uses a loan rating system as a method for calculating their required reserve. Loan rating classifications are 1) Satisfactory, 2) Watch, and 3) Substandard. A percentage of each loan is allocated to the reserve calculation based on its classification. Management's periodic evaluation of the loan risk ratings is based on specific criteria such as past loan loss experience, known and other risks inherent in the portfolio, cash flows, and estimated value of any underlying collateral. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries) as deemed appropriate by the LDC's internal loan review and risk rating process.

##### **Equipment and Leasehold Improvements**

Equipment and leasehold improvements have been recorded at cost. Repairs and maintenance not prolonging the useful life of the asset are charged to expense in the year incurred and improvements, which extend the useful life of the assets, are capitalized. Assets are depreciated over their estimated useful lives of five years using the straight-line depreciation method. Generally, equipment, which has a cost of \$500 or more at the date of acquisition and has an expected useful life of greater than one year, is capitalized.

##### **Concentrations of Credit Risk**

The LDC typically maintains cash deposits in local federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. At December 31, 2013, there were no deposits in excess of FDIC coverage.

The LDC has investments which consist of investments in governmental fixed income instruments, certificates of deposits and money market funds. Certificates of deposit held are covered by FDIC limits at each banking institution. Other investments are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. The investments are held at RBC Wealth Management, a division of RBC Capital Markets Corporation. RBC has purchased an additional policy to physically protect assets in excess of the coverage provided by the SIPC.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

**NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES - Continued**

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**Statement of Cash Flows**

There were no noncash investing and financing activities during 2013 and 2012.

**Date of Management’s Review**

Management has evaluated subsequent events through March 5, 2014, the date which the financial statements were available to be issued.

**NOTE 3 – ALLOWANCE FOR LOAN LOSSES**

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The allowance for loan losses is based off of management’s loan risk ratings. The funding of the reserve accounts is adjusted based on the loan risk rating calculation. The reserve for bad debts at December 31, 2013 and 2012 consists of the following:

	<b>2013</b>	<b>2012</b>
General Reserve	\$ 350,109	\$ 391,710
Specific Reserve: Loan Asst. Program	<u>1,454</u>	<u>4,953</u>
Total	<u>\$ 351,563</u>	<u>\$ 396,663</u>

Activity in the Reserve for Bad Debts is as follows:

Balance - January 01, 2012	\$ 313,441
Bad Debt Expense	115,353
Recovery	0
Write-offs	<u>(32,131)</u>
Balance - December 31, 2012	396,663
Bad Debt Expense	0
Recovery	(16,644)
Write-offs	<u>(28,456)</u>
Balance - December 31, 2013	<u>\$ 351,563</u>

## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

#### NOTE 4 – COMMITMENTS

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##### Loan

The LDC had approximately \$250,000 and \$1,165,608 of outstanding loan commitments at December 31, 2013 and 2012, respectively.

##### Other

The LDC signed an agreement with Neighbors of Watertown, Inc. in June 2003 to make an equity contribution up to \$250,000 for the purpose of funding loans in the City of Watertown under the “Grow Watertown Fund.” The LDC will fund its equity contribution on a project-by-project basis. There were no funding requirements at December 31, 2013 and 2012.

#### NOTE 5 – LINE-OF-CREDIT

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The LDC has a \$500,000 line-of-credit with Key Bank. Interest charged would be at the prime rate less 1%. Any borrowings would be secured by accounts receivable. Borrowings on the line were \$0 for each year ended December 31, 2013 and 2012.

#### NOTE 6 – TEMPORARY CASH INVESTMENTS

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The LDC invests in certificates of deposit. These investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements). Fair values and unrealized appreciation at December 31, 2013 and 2012 are summarized as follows:

	Cost	Fair Values	Unrealized Appreciation
<b>2013</b>			
Certificates of Deposit with Maturities Greater than Three Months	<u>\$ 3,152,718</u>	<u>\$ 3,173,651</u>	<u>\$ 20,933</u>
<b>2012</b>			
Certificates of Deposit with Maturities Greater than Three Months	<u>\$ 3,114,000</u>	<u>\$ 3,158,890</u>	<u>\$ 44,890</u>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

**NOTE 7 – INVESTMENTS**

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The LDC invests in governmental fixed income instruments. Investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements). Fair values and unrealized (depreciation) at December 31, 2013 and 2012 are summarized as follows:

	<b>Cost</b>	<b>Fair Values</b>	<b>Unrealized (Depreciation)</b>
<b>2013</b>			
Mortgage-Backed Securities - GNMA			
Mortgage Pool	\$ 8,257	\$ 3,089	\$ (5,168)
Bonds - Government - Various	<u>807,808</u>	<u>788,975</u>	<u>(18,833)</u>
Investments	<u>\$ 816,065</u>	<u>\$ 792,064</u>	<u>\$ (24,001)</u>
<b>2012</b>			
Mortgage-Backed Securities - GNMA			
Mortgage Pool	\$ 8,706	\$ 3,558	\$ (5,148)
Bonds - Government - Various	<u>455,899</u>	<u>452,116</u>	<u>(3,783)</u>
Investments	<u>\$ 464,605</u>	<u>\$ 455,674</u>	<u>\$ (8,931)</u>

**NOTE 8 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

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Equipment and leasehold improvements at December 31, 2013 and 2012 consist of the following:

	<b>2013</b>	<b>2012</b>
Equipment	\$ 21,522	\$ 20,601
Leasehold Improvements	<u>35,156</u>	<u>35,156</u>
	56,678	55,757
Less: Accumulated Depreciation	<u>(55,790)</u>	<u>(55,757)</u>
Total	<u>\$ 888</u>	<u>\$ 0</u>

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2013 with Comparative Totals for 2012

#### NOTE 9 – OPERATING LEASES

In August 2005, the LDC began leasing its office space from BYNOW, Inc. for one year with an option to renew the lease for an additional year, which the LDC exercised. As of December 31, 2013, a new lease agreement has not been done. The LDC is operating under the terms of the expired agreement. Lease rent expense amounted to \$10,800 for each year ended December 31, 2013 and 2012.

In February 2010, the LDC entered into a five-year lease for a copier. The lease calls for monthly payments of \$121. Equipment rent expense for the years ended December 31, 2013 and 2012 was \$1,457.

Future minimum payments as of December 31 are as follows:

2014	\$	1,457
2015		<u>243</u>
Total	\$	<u>1,700</u>

#### NOTE 10 – NOTES RECEIVABLE

The LDC had 76 outstanding loans to various businesses in the aggregate amount of \$5,374,332 at December 31, 2013. The allowance for bad debts is \$351,563 at December 31, 2013. There were 3 loans over 90-days delinquent to the LDC as of December 31, 2013 in the amount of \$111,429.

The LDC had 91 outstanding loans to various businesses in the aggregate amount of \$6,700,836 at December 31, 2012. The allowance for bad debts is \$396,663 at December 31, 2012. There were 5 loans over 90-days delinquent to the LDC as of December 31, 2012 in the amount of \$175,769.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 11 – INVESTMENT IN AND ADVANCES TO PUBLIC SQUARE DEVELOPERS, L.P.**

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Beginning June 2002, Watertown Local Development Corporation, as the sole member of Public Square Developers, L.P., began to acquire, hold, improve and develop a parcel of real property in Watertown, NY known as the Franklin Building. Effective December 1, 2009, the LDC transferred 100% of their ownership interest in Public Square Developers, L.P. to Neighbors of Watertown, Inc. Upon transfer of ownership, the development costs incurred by Watertown Local Development Corporation became a loan receivable from Public Square Developers, L.P. Repayment terms for the loan are as follows; \$636,507 to be paid using funds from closing of construction financing, \$331,277 to be paid at the completion of the Franklin Building project once permanent funding is obtained, and the remaining \$743,789 will be a mortgage loan with the LDC at 1% interest deferred until 2027. In 2010, the LDC also loaned the \$375,000 CDBG grant they received to Public Square Developers at 1% interest until 2027. As the deferred mortgage loan portion of the LDC's initial investment in the project and the \$375,000 loan of CDBG monies have been deemed uncollectible, a reserve has been established in the full amounts of \$743,789 and \$375,000, respectively. At December 31, 2013 and 2012, the investment in and advances to Public Square Developers, L.P. was \$0, net of the reserve for uncollectible amounts at December 31, 2013 and 2012 of \$1,118,789.

#### **NOTE 12 – COMMITMENTS AND CONTINGENCIES**

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The LDC has guaranteed the following borrowing as of December 31, 2013:

- JCIDA - \$8,800,000 term loan with M&T Bank where the LDC guarantees 50% of the loan balance. The loan balance was \$0 and \$790,234 at December 31, 2013 and 2012, respectively.

This guarantee was made during 2002 and no new guarantees were made during 2013 or 2012.

#### **NOTE 13 – RELATED PARTY TRANSACTIONS**

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The LDC had a management leasing agreement with JCIDA to provide professional staffing and support services to the LDC. JCIDA charged the LDC for the cost of compensating the leased employees plus the costs of all related taxes and benefits. The management leasing agreement was terminated as of August 1, 2012 and all leased employees became employees of the LDC.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

**NOTE 14 – GOVERNMENTAL GRANTS**

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**HUD - CDBG Grant / Revolving Loan Fund**

The LDC entered into a sub-recipient agreement with the City of Watertown dated February 5, 2003 to administer a \$100,000 HUD-Small Cities Community Development Block Grant for a working capital loan to Current Applications, Inc., and the subsequent creation of a revolving loan fund which will be used to provide loans for the support of economic development in the City of Watertown.

The LDC shall use program income (loan repayments) on the Current Applications, Inc.'s loan to create a revolving loan fund. As of the years ended December 31, 2013 and 2012, the loan is paid off.

**NOTE 15 – PERMANENTLY RESTRICTED NET ASSETS**

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Net assets were permanently restricted for the following purposes at December 31, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
HUD – CDBG Revolving Loan Fund	<u>\$ 117,204</u>	<u>\$ 117,204</u>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

**NOTE 16 – FAIR VALUE MEASUREMENTS**

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FASB Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Certificates of deposit are not subject to withdrawal limitations although withdrawal before maturity usually results in a loss of a portion of the interest earned. As penalties for early withdrawal are not significant, the carrying amount of certificates of deposit approximates fair value. All investments held by the LDC are deemed to be observable in active markets and are therefore considered to be Level 1.

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2013</b>				
Temporary Cash Investments	<u>\$ 3,173,651</u>	<u>\$ 3,173,651</u>	<u>\$ 0</u>	<u>\$ 0</u>
Investments	<u>\$ 792,064</u>	<u>\$ 792,064</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>December 31, 2012</b>				
Temporary Cash Investments	<u>\$ 3,158,890</u>	<u>\$ 3,158,890</u>	<u>\$ 0</u>	<u>\$ 0</u>
Investments	<u>\$ 455,674</u>	<u>\$ 455,674</u>	<u>\$ 0</u>	<u>\$ 0</u>

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2013 with Comparative Totals for 2012

#### **NOTE 17 – FRANKLIN BUILDING PROGRAM**

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On February 1, 2011, the LDC entered into a Master Lease Agreement with Public Square Developers, L.P. for the commercial space located on the ground floor of the Franklin Building. The space houses 6-12 commercial units. The term of the lease is 30 years. Monthly payments for the term of the lease are \$3,964.75. The lease expense for both years ended December 31, 2013 and 2012 was \$47,577.

The LDC rents the commercial space to other businesses. At December 31, 2013, 7 commercial spaces had been leased out. For the years ended December 31, 2013 and 2012, the LDC received \$36,103 and \$45,956, respectively, in rental income and incurred utility expenses on vacant commercial space of \$17,439 and \$14,541, respectively. Once a space is leased, utilities are the responsibility of the tenant.

#### **NOTE 18 – RETIREMENT PLAN**

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On March 7, 2013, the LDC established a 401K Profit Sharing Pension Plan. A 2012 contribution was made by the LDC retroactive to August 1, 2012. The Plan is administered by RBC Wealth Management. The employer contribution was set at 25% of the employees' annual salary. For the years ended December 31, 2013 and 2012, the LDC made contributions in the amount of \$33,227 and \$11,863, respectively.



**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS \* BUSINESS CONSULTANTS

**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**

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**BOARD OF DIRECTORS  
WATERTOWN LOCAL 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 Watertown Local Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 5, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Watertown Local Development 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 Watertown Local Development Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, 2013-1.

### **Compliance and Other Matters**

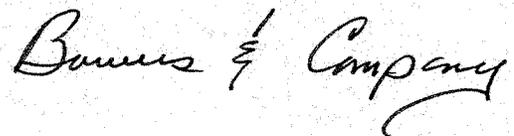
As part of obtaining reasonable assurance about whether Watertown Local Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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*.

### **Watertown Local Development Corporation's Response to Findings**

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



Watertown, New York  
March 5, 2014

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**SCHEDULE OF FINDINGS AND RESPONSES**

December 31, 2013

**Internal Control Over Financial Reporting**

**Significant Deficiency**

**2013-1 Preparation of Financial Statements**

**Condition:** Management is unable to prepare the financial statements in accordance with GAAP and relies on external auditor to prepare the financial statements, which also includes preparation of various journal entries.

**Criteria:** Management needs to exercise control over the preparation of its financial statements. To exercise control, management must possess the necessary accounting expertise to prevent, detect and correct a potential misstatement in its financial statements.

**Effect:** Management may not be able to detect and correct potential misstatements in its financial statements.

**Recommendation:** The Board of Directors should be aware that this condition is a significant deficiency and will be in future years unless management is able to prepare their financial statements in accordance with the cash basis of accounting.

**Management's Response:** The Organization currently has its staff perform day-to-day bookkeeping duties and prepare financial statements using QuickBooks software. At year-end, the Organization contracts with an outside auditing firm to prepare its audited financial statements. The Organization recognizes that this is viewed as a significant deficiency; however, it is not financially feasible at this time to hire someone with the expertise to prepare the financial statements.