

**AUDITED
BASIC FINANCIAL STATEMENTS**

**ROCHESTER ECONOMIC DEVELOPMENT
CORPORATION**

SEPTEMBER 30, 2013

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Rochester Economic Development Corporation
City of Rochester, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Rochester Economic Development Corporation, (the Corporation) which comprise the statements of net position as of September 30, 2013 and 2012, and the related statements of revenue, expenses and changes in net position and cash flows, for the years 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.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of September 30, 2013 and 2012, and the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 December 4, 2013 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Rochester, New York
December 4, 2013

As management of the Rochester Economic Development Corporation, we offer readers of the Rochester Economic Development Corporation's financial statements this narrative overview and analysis of the financial activities of the Rochester Economic Development Corporation for the fiscal year ended September 30, 2013.

Financial Highlights

- + The assets of the Rochester Economic Development Corporation exceeded its liabilities at the close of the most recent fiscal year by \$14,341,252 (*net position*). Of this amount, \$2,426,746 (*unrestricted net position*) may be used to meet the Rochester Economic Development Corporation's ongoing obligations to creditors.
- + The Rochester Economic Development Corporation's total assets decreased by \$315,356 primarily due normal operations of the Corporation.
- + As of the close of the current fiscal year, the Rochester Economic Development Corporation's funds reported combined ending balances of \$14,341,252 an increase of \$30,645, in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Rochester Economic Development Corporation's basic financial statements. The Rochester Economic Development Corporation's basic financial statements comprise two components: 1) corporation financial statements and 2) notes to the financial statements.

Corporation-wide financial statements. The *corporation-wide financial statements* are designed to provide readers with a broad overview of the Rochester Economic Development Corporation's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Rochester Economic Development Corporation's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Rochester Economic Development Corporation is improving or deteriorating.

The *statement of revenues, expenses, and changes in net position* presents information showing how the corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The corporation financial statements can be found on pages immediately following this section.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the corporation financial statements. The notes to the financial statements can be found following the Basic Financial Statements section of this report.

Corporation Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Rochester Economic Development Corporation, assets exceed liabilities by \$14,341,252 at the close of the most recent fiscal year.

Currently, of the Rochester Economic Development Corporation's net position, 7 percent reflects its investment in capital assets. The Rochester Economic Development Corporation uses these capital assets to provide additional revenue for future spending.

Rochester Economic Development Corporation's Net Position

			Variance
	2013	2012	Increase/(Decrease)
Current and other assets	\$ 11,691,086	\$ 9,250,540	\$ 2,440,546
Capital assets and notes receivable	3,125,702	5,881,604	(2,755,902)
Total assets	14,816,788	15,132,144	(315,356)
Long-term liabilities outstanding	-	420,000	(420,000)
Other liabilities	475,536	401,537	73,999
Total liabilities	475,536	821,537	(346,001)
Net position:			
Invested in capital	940,298	1,051,841	(111,543)
Unrestricted	2,426,746	2,335,538	91,208
Restricted	10,974,208	10,923,228	50,980
Total net position	\$ 14,341,252	\$ 14,310,607	\$ 30,645

Rochester Economic Development Corporation's Changes in Net Position

			Variance
	2013	2012	Increase (Decrease)
Operating revenues			
Rental income	178,056	207,207	(29,151)
Other revenues	49,712	28,814	20,898
Total operating revenue	227,768	236,021	(8,253)
Operating expenses	333,409	406,906	(73,497)
Operating income (loss)	(105,641)	(170,885)	65,244
Nonoperating revenues (expenses)			
Interest revenues	202,650	236,750	(34,100)
Interest expenses	(66,364)	(98,840)	32,476
Total nonoperating revenue	136,286	137,910	(1,624)
Change in net position	30,645	(32,975)	63,620
Net Position - beginning of year	14,310,607	14,343,582	(32,975)
Net Position - end of year	14,341,252	14,310,607	\$ 30,645

The Rochester Economic Development Corporation's total net position increased \$30,645 due mainly to ongoing operations of the Corporation.

Financial Analysis of the Corporation's Funds

Restricted Funds. The following programs comprise the majority of the Rochester Economic Development Corporation's restricted funds; Revolving Loan Program, Investment Program, Enterprise Community Zone, Kodak/City Economic Development Fund, Midtown Relocation, the Smith Street Acquisition and the Phillip J. Banks Small Business Assistance Program.

As of the end of the current fiscal year, the Rochester Economic Development Corporation's restricted funds (including restricted capital assets) reported combined ending fund balances of \$10,974,208, an increase of \$50,980 in comparison with the prior year. The Revolving Loan Program had a net increase of \$129,082 due mainly to ongoing collections and interest and a onetime transfer of funds from the Upper Falls Mall account. The Investment Program had a net increase of \$9,800 due mainly to ongoing collections and interest. The Enterprise Community Zone had a net increase of \$27,361 due mainly to collections of loans and interest. The Kodak/City Economic Development Fund had a net increase of \$229 due to collections of loans and interest. The Phillip J. Banks Small Business Assistance Program had a decrease of \$40,000 due to grants given to small businesses. The Business Ownership Training School and Upper Falls Mall Operation decreased by \$26,077 and \$49,415, respectively, due to a one time transfer of funds into the Revolving Loan Program.

Unrestricted Funds. The unrestricted funds include the day-to-day operations of the Rochester Economic Development Corporation. At the end of the current fiscal year, the unrestricted fund balance was \$2,426,746 which was an increase of \$91,208 from the prior year.

Budgetary Highlights

The Rochester Economic Development Corporation budgets funds on a project-by-project basis. The projects are approved by the Rochester Economic Development Corporation's Board of Directors.

Capital Assets and Debt Administration

Capital Assets. In accordance with Governmental Accounting Standards Board Statement number 34, the Rochester Economic Development Corporation has recorded depreciation expense associated with all of its capital assets. The Rochester Economic Development Corporation's investment in capital assets as of September 30, 2013, amounted to \$940,298 (net of accumulated depreciation). The total decrease in the Rochester Economic Development Corporation's investment in capital assets for the current fiscal year was \$111,543.

More detailed information on the Rochester Economic Development Corporation's capital assets is provided in the Notes to the Financial Statements.

Economic Factors

Non-farm employment in New York State increased by 1.4% from August 2012 to August 2013. New York State added 126,800 private sector jobs (+1.7%) from August 2012 to August 2013. Private sector employment in the Rochester metropolitan area declined slightly by 0.2% from August 2012 to August 2013, with non-farm employment remaining unchanged for the same period. Education/health services employment remained essentially flat, while business and professional services employment rose modestly by 1.6%. For the same period, manufacturing employment showed a 6.6% decline, primarily due to job losses Eastman Kodak Company, while government jobs increased by 1.4%. As of August 2013, the labor force segment of the Rochester Metropolitan area's civilian labor force continued to be in the educational and health services (20.6%), followed by trade/transportation/utilities (15.8%), government (14%), and business/professional services (12.8%). Manufacturing jobs constituted 10.7%.

The unemployment rate for the Rochester metro area was 6.9% as of August 2013 (down from 7.5% as of August 2012). This compares to the unemployment rate for New York State of 7.5% as of August 2013 (down from 8.5% at August 2012) and for the nation of 7.3% as of August 2013 (down from 8.2% as of August 2012).

The top five largest employers in the Rochester area are University of Rochester/Strong Medical Center (UR/SMC), Wegman's Food Markets, Rochester General Health, Xerox Corporation, and Unity Health System. UR/SMC continues to be the largest employer, as the Rochester region economy continues to transition from an economy which was heavily based on manufacturing decades ago to one with a greater emphasis on education, health services, and business/professional services. UR's total economic impact on the greater Rochester metropolitan statistical area (MSA) is significant, with \$1.35 billion in wages paid and \$144 million in goods and services purchased in 2011. Eastman Kodak Company is now the sixth largest employer in the Rochester area. The company recently emerged from bankruptcy court protection and is expected to be a profitable, although smaller, business enterprise.

Interest rates increased in 2013 as the US economy showed improvement and the Federal Reserve indicated that it would scale back its bond-buying programs. The prime rate of interest remained unchanged at 3.25% from October 2012 to October 2013, while medium and long-term interest rates increased on average approximately 90 basis points. Local bank lending is now only marginally impacted by the impact of the 2008/2009 financial crisis. Bank lending has increased in 2013 as area banks continued to loosen previously tightened lending practices. The Corporation experienced steady demand for SBA 504 loans in FYE 9/30/13 and expects that this trend will continue into fiscal 2014.

Requests for Information

This financial report is designed to provide a general overview of the Rochester Economic Development Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Director of Finance, City Hall – Room 109A, 30 Church Street, Rochester, NY 14614.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION
For the Years Ended September 30,

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	\$ 7,502,422	\$ 8,577,099
Accounts receivable	110,356	20,890
Notes receivable - current portion	4,078,308	652,551
Total current assets	<u>11,691,086</u>	<u>9,250,540</u>
Property and equipment:		
Land and buildings, net	940,298	1,051,841
Other assets:		
Notes receivable - net of current portion	<u>2,185,404</u>	<u>4,829,763</u>
Total assets	<u>\$ 14,816,788</u>	<u>\$ 15,132,144</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	\$ 2,038	\$ 4,241
Accrued liabilities	12,642	17,296
Unearned revenue	40,856	-
Notes payable - current portion	420,000	380,000
Total current liabilities	<u>475,536</u>	<u>401,537</u>
Other liabilities:		
Notes payable - net of current portion	<u>-</u>	<u>420,000</u>
Total liabilities	475,536	821,537
Net position:		
Net investment in capital assets	940,298	1,051,841
Restricted	10,974,208	10,923,228
Unrestricted	<u>2,426,746</u>	<u>2,335,538</u>
Total net position	<u>14,341,252</u>	<u>14,310,607</u>
Total liabilities and net position	<u>\$ 14,816,788</u>	<u>\$ 15,132,144</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended September 30,

	2013	2012
Operating revenues:		
Interest on loans receivable	\$ 196,190	\$ 228,210
Rental income	178,056	207,207
Other revenues	49,712	28,814
Total operating revenues	<u>423,958</u>	<u>464,231</u>
Operating expenses:		
Salary & benefits	55,338	48,307
Insurance	11,107	11,436
Professional services	16,973	16,669
Management fee	75,000	75,000
Grant expense	40,000	99,550
Other expenses	23,448	44,401
Depreciation	111,543	111,543
Total operating expenses	<u>333,409</u>	<u>406,906</u>
Operating income	90,549	57,325
Non-operating revenues (expenses):		
Interest revenues	6,460	8,540
Interest expenses	(66,364)	(98,840)
Total non-operating revenues (expenses)	<u>(59,904)</u>	<u>(90,300)</u>
Change in net position	30,645	(32,975)
Net position - beginning of year	<u>14,310,607</u>	<u>14,343,582</u>
Net position - end of year	<u>\$ 14,341,252</u>	<u>\$ 14,310,607</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended September 30,

	2013	2012
Cash flows from operating activities:		
Cash received from customers	\$ 284,780	\$ 580,445
Payments to service providers	(132,529)	(309,517)
Payments for employee services	(55,338)	(48,448)
Other revenues	49,712	28,814
Net cash provided by operating activities	146,625	251,294
Cash flows from financing activities:		
Principal payments on long-term debt	(380,000)	(360,000)
Interest payments on long-term debt	(66,364)	(104,198)
Net cash used by financing activities	(446,364)	(464,198)
Cash flows from investing activities:		
Interest revenues	6,460	8,540
Issuance of notes receivable	(2,250,000)	-
Repayments of notes receivable	1,468,602	593,928
Net cash provided (used) by investing activities	(774,938)	602,468
Net increase (decrease) in cash and cash equivalents	(1,074,677)	389,564
Cash and cash equivalents - beginning of year	8,577,099	8,187,535
Cash and cash equivalents - end of year	\$ 7,502,422	\$ 8,577,099
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 90,549	\$ 57,325
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	111,543	111,543
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(89,466)	145,028
Increase (decrease) in:		
Accounts payable	(2,203)	(62,461)
Accrued liabilities	(4,654)	(141)
Unearned revenue	40,856	-
Net cash provided by operating activities	\$ 146,625	\$ 251,294

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Rochester Economic Development Corporation (the "Corporation") was formed under the Not-for-Profit Corporation Law of the State of New York for the purpose of creating employment opportunities, particularly for low and moderate income persons, thereby improving the quality and condition of life in the City of Rochester, New York (the "City"). This is accomplished by encouraging and affecting the retention of existing business and industry, as well as encouraging the location and expansion of residential, commercial, industrial, and manufacturing facilities in the City. The Corporation is subject to the provisions of the New York State Public Authorities Law. As a local authority under this law, the Corporation is required to make certain information available to the public.

New York State Empire Zones, formerly known as the Economic Development Zones, are designated geographic areas that offer special incentives to encourage economic development, business investment, and job creation. Certified businesses in the zone that are eligible could qualify for significant New York State income tax credits, property tax abatements, sales tax benefits, as well as utility discounts.

The City of Rochester provides certain administrative services to the Corporation. During the years ended September 30, 2013 and 2012, the Corporation made a payment of \$75,000 and \$75,000, respectively, for these services to the City of Rochester.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Revenues, expenses, gains, and losses are classified into three classes of net position - restricted, unrestricted and net investment in capital assets - which are displayed in the statement of net position.

B. NET POSITION

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net position - Consists of net position with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

C. ACCOUNTS RECEIVABLE

Accounts receivable are reported at their net realizable value. Generally accepted accounting principles in the United States of America require the establishment of an allowance for doubtful accounts, however, no allowance for uncollectible accounts has been provided since management believes that such allowance would not be necessary.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. PROPERTY AND EQUIPMENT

Property and equipment is recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements is expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. As of September 30, 2013 and 2012 depreciation expense amounted to \$111,543. The estimated useful life for buildings is 25 years.

E. INCOME TAXES

The Corporation is a Public Benefit Corporation of the State of New York and is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been made on the accompanying financial statements.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certificates of deposit which mature within 90 days of issuance.

G. UNEARNED REVENUE

The Corporation reports unearned revenue on its balance sheet. Unearned revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Corporation before it has legal claim to them. In subsequent periods, when both recognition criteria are met, or when the Corporation has legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized. As of September 30, 2013, the Corporation recognized a liability for unearned revenue in the amount of \$40,856. There was no unearned revenue as of September 30, 2012.

H. USE OF ESTIMATES

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

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

I. NEW ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended September 30, 2013, the Corporation adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Corporation did not have any assets or liabilities that were required to be reclassified to either deferred outflows or inflows of resources. The Corporation adopted the provisions of the statement by renaming certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Corporation's financial statements.

Additionally, during the year ended September 30, 2013, the Corporation completed the process of evaluating the impact that will result from adopting GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending September 30, 2013. GASB Statements No. 62 and 64 did not have a material impact on the Corporation's financial position or results from operations.

The GASB has issued the following new statements:

- Statement No. 66, *Technical Corrections—2012*—an amendment of GASB Statements No. 10 and 62, which will be effective for the year ending September 30, 2014.
- Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which will be effective for the year ending September 30, 2014;
- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which will be effective for the year ending September 30, 2015;
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which will be effective for the year ending September 30, 2015; and
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending September 30, 2015.

The Corporation is currently studying these statements and plans on adoption of these policies as deemed appropriate.

J. SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after December 4, 2013 which is the date these financial statements were available to be issued.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS

A. ASSETS

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing accounts and certificates of deposit totaling \$7,502,422 and \$8,577,099 at September 30, 2013 and 2012, respectively. The Corporation's investment policies are governed by State statutes. The Corporation adopted an investment policy during 2011. The Corporation's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit 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 municipalities and school districts.

Investment and Deposit Policy

The Corporation currently follows an investment and deposit policy as directed by State statutes, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Board of Directors.

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.

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. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits.

Statement of Cash Flows

For the purpose of this statement, cash includes both the restricted and unrestricted portions.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. RECEIVABLES

Major revenues accrued by the Corporation at September 30, include the following:

	<u>2013</u>	<u>2012</u>
Rents	\$ -	\$ 17,267
Loan collections from the City	108,792	-
Other miscellaneous receivables	<u>1,564</u>	<u>3,623</u>
Total accounts receivable	<u>\$ 110,356</u>	<u>\$ 20,890</u>

NOTE 5. NOTES RECEIVABLE

The Corporation maintains a revolving loan fund, which is intended to provide loans to existing and new businesses located in the City. No allowance has been provided as all loans are deemed collectable by management.

Notes receivable at September 30, is as follows:

	<u>2013</u>	<u>2012</u>
Note receivable, relating to a Upper Falls Mall business, with principal due and payable on December 31, 2013. The agreement includes a base interest of 1% per annum until December 31, 2013, plus additional interest ranging from 1% to 2% per annum that is contingent upon gross sales of the borrower. The note is collateralized by all trade fixtures and equipment owned by the borrower located at Upper Falls Mall.	2,000,000	2,000,000
Note receivable, relating to the Whitney Baird Associates loan, due in monthly installments of \$9,198, including interest at 1% through December 1, 2022. The note is guaranteed by the owners of the borrowing company.	1,931,993	-
Note receivable, relating to the Enterprise Community Zone program, due in interest-only payments at 1% of the outstanding balance until December 31, 2013, after which the outstanding balance is due in a lump sum payment. The note is guaranteed by the owners of the burrowing company.	1,500,000	1,500,000
Note receivable, relating to a capital lease of a constructed building, with annual principal payments beginning at \$60,000 and increasing to \$420,000 through 2014 (principal payments of \$383,333 and \$309,951 in 2013 and 2012, respectively) with semi-annual interest payments calculated at blended rate of 8.57%.	\$ 307,548	\$ 690,881
Note receivable, relating to the Monroe School Transportation loan, due in monthly installments of \$4,273, including interest at 1% through November 1, 2017. The note is collateralized by a letter of credit.	209,196	-
Note receivable, relating to the Mamasans Monroe loan, due in monthly installments of \$1,752, including interest at 1% through April 1, 2021. The note is collateralized by a letter of credit.	153,482	172,868

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. NOTES RECEIVABLE (Continued)

	<u>2013</u>	<u>2012</u>
Note receivable, relating to the Acro Industries loan, due in monthly installments of \$4,359, including interest at 1% through January 15, 2015. The note is collateralized by a letter of credit.	69,251	120,587
Note receivable, relating to the Enterprise Community Zone program, with monthly installments of \$2,814, including interest at 3% are due through June 30, 2015. The note is guaranteed by the owners of the borrowing company.	54,838	86,450
Note receivable, relating to the Adflex loan, due in monthly installments of \$840 through November 1, 2015, including interest at 3%. The note is guaranteed by a third-party corporation and collateralized by a first lien on equipment of the borrower.	21,111	30,401
Note receivable, relating to the Kodak/Economic Development Fund Loan Program, due in monthly installments of \$1,709, including interest at 1%, through April 1, 2014. The note is collateralized by a letter of credit.	11,926	32,209
Note receivable, relating to Flower City loan, due in monthly installments of \$884, including interest at 5%, through February 1, 2014. The note is collateralized by a building, the assets of the borrower, and a second mortgage on the building. The note is guaranteed by the owners of the borrowing company.	4,367	14,485
Note receivable, relating to the 61 Commercial St. loan, paid off in May 2013.	-	800,374
Note receivable, relating to the Mercury Print loan, paid off in May 2013.	-	<u>34,059</u>
Total notes receivable	6,263,712	5,482,314
Less current portion	<u>4,078,308</u>	<u>652,551</u>
Long term portion	<u>\$ 2,185,404</u>	<u>\$ 4,829,763</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LAND AND BUILDINGS

A summary of land and buildings at September 30, respectively, is as follows:

	<u>2013</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated - land	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets being depreciated - buildings	<u>2,788,587</u>	-	-	<u>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation - buildings	<u>(1,996,746)</u>	<u>(111,543)</u>	-	<u>(2,108,289)</u>
Capital assets, net of depreciation	<u>\$ 1,051,841</u>	<u>\$ (111,543)</u>	<u>\$ -</u>	<u>\$ 940,298</u>

	<u>2012</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated land	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets being depreciated - buildings	<u>2,788,587</u>	-	-	<u>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation - buildings	<u>(1,885,203)</u>	<u>(111,543)</u>	-	<u>(1,996,746)</u>
Capital assets, net of depreciation	<u>\$ 1,163,384</u>	<u>\$ (111,543)</u>	<u>\$ -</u>	<u>\$ 1,051,841</u>

This property is rented to independent third parties (see Note 8).

NOTE 7. NOTES PAYABLE

Notes payable as of September 30, are as follows:

	<u>2013</u>	<u>2012</u>
Note payable to the City with interest at an annual blended rate of 8.57%. Semi-annual interest payments and annual principal payments due pursuant to 20 promissory notes maturing August 1 of each year through 2014.	\$ 210,000	\$ 395,000

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7. NOTES PAYABLE (Continued)

	<u>2013</u>	<u>2012</u>
Note payable to the County of Monroe with interest at an annual blended rate of 8.57%. Semi-annual interest payments and annual principal payments due pursuant to 20 promissory notes maturing August 1 of each year through 2014.	<u>210,000</u>	<u>405,000</u>
Total notes payable	420,000	800,000
Less current portion	<u>420,000</u>	<u>380,000</u>
Long term portion	<u>\$ -</u>	<u>\$ 420,000</u>

NOTE 8. LEASES

During fiscal year 1995, the Corporation entered into an operating lease, which expires in 2014, for land and a warehouse with monthly payments of approximately \$4,286. The Corporation in turn subleases the land and warehouse to an independent third party for terms that mirror their original lease agreement. The Corporation had an additional building constructed during fiscal 1995 and entered into a separate capital lease agreement with the independent third party. Total rent payments due under the leases amount to \$51,430 for the year ending September 30, 2014.

The Corporation received an annual rent amount of \$178,056 and \$207,207 for the years ended September 30, 2013 and 2012, respectively, from an independent third party for certain of the Corporation's land and buildings. The prior lease expired in November 2012 and was subsequently modified and extended through November 2013.

NOTE 9. RESTRICTED NET POSITION

Restricted net position (including capital assets) available as of September 30, are as follows:

	<u>2013</u>	<u>2012</u>
Revolving Loan Program	\$ 5,874,911	\$ 5,745,829
Investment Program	1,296,796	1,286,996
Enterprise Community Zone	3,192,165	3,164,804
Kodak/Economic Development Department Loan Program	311,479	311,250
Business Ownership Training School	-	26,077
Upper Falls Mall Operation	-	49,415
Midtown Relocation	8,500	8,500
Phillip J. Banks SBAP	<u>290,357</u>	<u>330,357</u>
	<u>\$ 10,974,208</u>	<u>\$ 10,923,228</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10. KODAK/ECONOMIC DEVELOPMENT FUND

The primary goal and objective of the Kodak/Economic Development Fund is to supply capital in the form of below-market interest rate loans to finance certain qualified businesses that retain and/or create jobs in the City. Kodak agreed to provide a one-time funding of up to \$300,000 to fund the program and the Corporation administers the program. All proceeds collected in repayment of loans will go to fund additional loans. The maximum amount of any given loan shall be \$100,000.