

**WATERTOWN LOCAL DEVELOPMENT  
CORPORATION**

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**REPORT ON AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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DECEMBER 31, 2012 AND 2011**

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# POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Watertown Local Development Corporation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Watertown Local Development Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, 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 of 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***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, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 19, 2013, 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.

*Poulsen & Podvin, CPA, P.C.*

Watertown, NY

March 19, 2013

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 505,320	\$ 1,141,512
Restricted cash	117,204	117,224
Accrued interest receivable (net of uncollectible amount of \$11,250 and \$7,500, respectively)	11,595	22,650
Temporary cash investments	3,158,890	3,567,659
Investments	455,674	664,632
Notes receivable (net of reserve for bad debts of \$396,663 and \$313,441, respectively)	6,304,173	4,748,447
Investment in and advances to Public Square Developers (net of reserve for uncollectible amounts of \$1,118,789)	-	331,277
Equipment and leasehold improvements, less accumulated depreciation of \$55,757 and \$55,190, respectively	-	567
<b>TOTAL ASSETS</b>	<u><u>\$ 10,552,856</u></u>	<u><u>\$ 10,593,968</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 11,873	\$ 29
Security Deposits	2,649	2,019
Total Liabilities	<u>14,522</u>	<u>2,048</u>
Net Assets:		
Unrestricted:		
Undesignated	10,421,130	10,474,129
Fixed assets	-	567
Total Unrestricted	<u>10,421,130</u>	<u>10,474,696</u>
Permanently Restricted	117,204	117,224
Total Net Assets	<u>10,538,334</u>	<u>10,591,920</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 10,552,856</u></u>	<u><u>\$ 10,593,968</u></u>

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

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENTS OF ACTIVITIES**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	.....2 0 1 2.....		
	Unrestricted	Permanently Restricted	Total
Revenue and Other Support:			
Interest income:			
Interest on notes	\$ 277,532	\$ -	\$ 277,532
Interest from investments	87,607	(20)	87,587
Net realized and unrealized gains (losses) on investments	57,148	-	57,148
Gain on sale of spec. building	-	-	-
Rental income	-	-	-
Frankling building rental income	45,956		45,956
Bad debt recovery	30,834	-	30,834
Other income	18,166	-	18,166
	517,243	(20)	517,223
Total Revenue and Other Support			
Expenses and Losses:			
Program services	408,723	-	408,723
Management and general	162,086	-	162,086
	570,809	-	570,809
Total Expenses and Losses			
Changes in Net Assets	(53,566)	(20)	(53,586)
Net Assets:			
Beginning of Year	10,474,696	117,224	10,591,920
End of Year	\$ 10,421,130	\$ 117,204	\$ 10,538,334

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

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.....2011.....		
Unrestricted	Permanently Restricted	Total
\$ 244,732	\$ -	\$ 244,732
80,256	-	80,256
(29,274)	-	(29,274)
36,066	-	36,066
73,326	-	73,326
21,846	-	21,846
26,090	-	26,090
9,424	-	9,424
<hr/>	<hr/>	<hr/>
462,466	-	462,466
<hr/>	<hr/>	<hr/>
412,155	-	412,155
160,848	-	160,848
<hr/>	<hr/>	<hr/>
573,003	-	573,003
<hr/>	<hr/>	<hr/>
(110,537)	-	(110,537)
<hr/>	<hr/>	<hr/>
10,585,233	117,224	10,702,457
<hr/>	<hr/>	<hr/>
<u>\$ 10,474,696</u>	<u>\$ 117,224</u>	<u>\$ 10,591,920</u>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>Program Services</b>	<b>Management and General</b>	<b>2012</b>	<b>2011</b>
Management leasing fee	\$ 40,851	\$ 40,851	\$ 81,702	\$ 134,173
Leased management benefits	21,103	21,103	42,206	55,591
Salaries	29,180	29,179	58,359	-
Employee benefits	16,319	16,319	32,638	-
Filing fees	775	-	775	750
Insurance	-	3,428	3,428	3,221
Office expense	5,618	5,617	11,235	11,695
Audit fees	2,850	2,850	5,700	5,400
Professional fees	41,105	26,564	67,669	36,833
Occupancy expense	6,934	6,933	13,867	14,362
Travel and entertainment	1,167	1,166	2,333	4,127
Janitorial expense	2,244	2,244	4,488	4,219
Advertising	1,424	1,424	2,848	2,528
Miscellaneous	13,842	3,841	17,683	17,400
Façade program	47,840	-	47,840	121,482
Franklin building program	62,118	-	62,118	59,946
Loss on Infill housing project	-	-	-	8,203
Bad debt expense	115,353	-	115,353	63,703
Total Expenses before Depreciation	\$ 408,723	\$ 161,519	\$ 570,242	\$ 543,633
Depreciation	-	567	567	29,370
<b>TOTAL EXPENSES</b>	<b>\$ 408,723</b>	<b>\$ 162,086</b>	<b>\$ 570,809</b>	<b>\$ 573,003</b>

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

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (53,586)	\$ (110,537)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	567	29,370
Bad debt expense	115,353	63,703
Gain on sale of spec. building	-	(36,066)
Loss on Infill housing project	-	8,203
Net unrealized (gain) loss on investments	(38,546)	29,274
Realized gain on sale of investments	(18,602)	-
Interest expense on revolving loan fund	20	-
(Increase) decrease in assets:		
Accrued interest receivable	11,055	(10,418)
Increase in liabilities:		
Security Deposits	630	2,019
Accounts payable	11,844	-
Net Cash Provided (Used) by Operating Activities	<u>28,735</u>	<u>(24,452)</u>
<b>Cash Flows from Investing Activities:</b>		
Notes receivable - net	(1,671,079)	411,865
Notes receivable - infill house	-	74,455
Proceeds from sale of other real estate	-	1,040,815
Investment in and advances to Public Square Developers	331,277	-
Proceeds from sales (purchases of) investments - net	674,875	(2,218,697)
Net Cash (Used) by Investing Activities	<u>(664,927)</u>	<u>(691,562)</u>
<b>Cash Flows from Financing Activities:</b>		
Interest income restricted for revolving loan fund	(20)	-
Net Cash (Used) by Financing Activities	<u>(20)</u>	<u>-</u>
Net (Decrease) in Cash	(636,212)	(716,014)
Cash and Cash Equivalents - Beginning of Year	<u>1,258,736</u>	<u>1,974,750</u>
Cash and Cash Equivalents - End of Year	<u>\$ 622,524</u>	<u>\$ 1,258,736</u>
<b>Supplementary Cash Flow Disclosures:</b>		
Cash Paid for:		
Interest	\$ -	\$ -
Income taxes	-	-

There were no noncash investing and financing activities during 2012 and 2011.

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

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**Note A – Summary of Significant Accounting Policies:**

**Organization**

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.

**Nature of Activities**

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 \$456,000 to fund the program. As of December 31, 2012, there is \$129,150 remaining of program funds.

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

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011

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- 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.

**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 federal income tax as an organization other than a private foundation described in Section 501(c)(3) of the Internal Revenue Code.

**Open Tax Years**

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2011, 2010, and 2009 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.

**Restricted Cash**

Restricted cash of \$117,204 and \$117,224 for the years ended December 31, 2012 and 2011, respectively, 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.

**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 E and Q for fair value of investments.

## WATERTOWN LOCAL DEVELOPMENT CORPORATION

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012 AND 2011

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#### **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.

#### **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. Leasehold improvements are amortized over the lease term. Generally, equipment, which has a cost of \$500 or more at the date of acquisition and has an expected useful life of 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, 2012, 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, 2012 AND 2011**

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**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.

**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.

**Donated Services**

A portion of the LDC's functions is conducted by unpaid officers and board members. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition.

**Date of Management's Review**

Management has evaluated subsequent events through March 19, 2013, the date which the financial statements were available to be issued.

**Note B – Allowance for Loan Losses:**

The allowance for loan losses is based off of management's loan risk ratings. The Board of Directors will adjust the funding of the reserve account based on their loan risk calculation. The reserve for bad debts at December 31, 2012 and 2011 consists of the following:

	2012	2011
General reserve	\$ 391,710	\$ 301,283
Specific reserve: Loan Asst. Program	<u>4,953</u>	<u>12,158</u>
	<u>\$ 396,663</u>	<u>\$ 313,441</u>

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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Activity in the Reserve for Bad Debts is as follows:

Balance - January 1, 2011	\$ 329,773
Bad debt expense	-
Recoveries	-
Write-offs	<u>(16,332)</u>
Balance - December 31, 2011	313,441
Bad debt expense	115,353
Recoveries	-
Write-offs	<u>(32,131)</u>
Balance - December 31, 2012	<u><u>\$ 396,663</u></u>

**Note C – Commitments:**

**Loan**

The LDC had approximately \$1,165,608 and \$2,027,147 of outstanding loan commitments at December 31, 2012 and 2011, 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, 2012 and 2011.

**Note D – Line-of-Credit:**

The LDC has a \$500,000 line-of-credit with Key Bank, which was extended on May 17, 2012. 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, 2012 and 2011.

**Note E – Temporary Cash Investments:**

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, 2012 and 2011 are summarized as follows:

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

	<b>Cost</b>	<b>Fair Values</b>	<b>Unrealized Appreciation</b>
<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>
<b>2011</b>			
Certificates of deposit with maturities greater than three months	<u>\$ 3,546,000</u>	<u>\$ 3,567,659</u>	<u>\$ 21,659</u>

**Note F – Investments:**

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, 2012 and 2011 are summarized as follows:

	<b>Cost</b>	<b>Fair Values</b>	<b>Unrealized Appreciation (Depreciation)</b>
<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>
<b>2011</b>			
Mortgage-backed securities - GNMA mortgage pool	\$ 9,230	\$ 4,060	\$ (5,170)
Bonds - Government - various	<u>679,648</u>	<u>660,572</u>	<u>(19,076)</u>
Investments	<u>\$ 688,878</u>	<u>\$ 664,632</u>	<u>\$ (24,246)</u>

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**Note G – Equipment and Leasehold Improvements:**

Equipment and leasehold improvements at December 31, 2012 and 2011 consist of the following:

	<b>2012</b>	<b>2011</b>
Equipment	\$ 20,601	\$ 20,601
Leasehold improvements	35,156	35,156
	<u>\$ 55,757</u>	<u>\$ 55,757</u>
Less - accumulated depreciation	<u>(55,757)</u>	<u>(55,190)</u>
Net Equipment and Leasehold Improvements	<u>\$ -</u>	<u>\$ 567</u>

**Note H – 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, 2012, 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, 2012 and 2011.

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, 2012 and 2011 was \$1,457.

Future minimum payments are as follows:

<b>Year Ended</b>	
<b>December 31</b>	<b>Amount</b>
2013	1,457
2014	1,457
2015	243
	<u>\$ 3,157</u>

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
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**Note I – Other Real Estate:**

- **Spec Building**

The LDC approved construction of a facility in the City Center Industrial Park. The building will be used as an economic development tool to attract a new business to the City of Watertown. Construction was completed in 2008. The LDC's investment towards the construction of this building amounted to \$1,097,369 for the year ended December 31, 2011. Accumulated depreciation on the Spec Building was \$92,620 for the year ended December 31, 2011. On December 14, 2011, the spec building was sold to Current Applications, Inc. who had been leasing the building since September of 2008. The building was sold for \$1,040,815, resulting in a gain of \$36,066. Rental income amounted to \$73,326 for the year ended December 31, 2011.

**Note J – Notes Receivable:**

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.

The LDC had 91 outstanding loans to various businesses in the aggregate amount of \$5,065,097 at December 31, 2011. The allowance for bad debts is \$313,441 at December 31, 2011. There were 3 loans over 90-days delinquent to the LDC as of December 31, 2011 in the amount of \$215,069.

**Note K – Investment in and Advances to Public Square Developers, L.P.:**

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, 2012 and 2011, the investment in and advances to Public Square Developers, L.P. was \$0- and \$331,277, respectively, net of the reserve for uncollectible amounts at December 31, 2012 and 2011 of \$1,118,789.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

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**Note L - Receivable-Infill Housing Project:**

During 2005, the LDC committed \$500,000 towards the Single Family Housing Infill Program administered by the Development Authority of the North Country. According to the cooperation agreement with DANC, the LDC pays one-half of expenses of construction and associated costs for the constructions of single family homes designated. Net proceeds from the sale of the homes are divided equally between the LDC and DANC. An Infill house was sold December 21, 2011. The LDC received their portion of the proceeds of \$74,455, resulting in a loss of \$8,203.

**Note M – Commitments and Contingencies:**

The LDC has guaranteed the following borrowing as of December 31, 2012:

- JCIDA - \$8,800,000 term loan with M&T Bank where the LDC guarantees 50% of the loan balance. The loan balance was \$790,234 and \$1,788,049 at December 31, 2012 and 2011, respectively.

Guarantee was made during 2002 and no new guarantees were made during 2012 or 2011.

**Note N – Related Party Transactions:**

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.

**Note O – Governmental Grants:**

- **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, 2012 and 2011, the loan is paid off.

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**Note P – Permanently Restricted Net Assets:**

Net assets were permanently restricted for the following purposes at December 31, 2012 and 2011:

	2012	2011
HUD-CDBG Revolving Loan Fund	<u>\$ 117,204</u>	<u>\$ 117,224</u>

**Note Q – Fair Value Measurements:**

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.

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2012</b>	<b>Fair Value</b>			
Temporary cash investments	<u>\$ 3,158,890</u>	<u>\$ 3,158,890</u>	<u>\$ -</u>	<u>\$ -</u>
Investments	<u>\$ 455,674</u>	<u>\$ 455,674</u>	<u>\$ -</u>	<u>\$ -</u>
<b>December 31, 2011</b>				
Temporary cash investments	<u>\$ 3,567,659</u>	<u>\$ 3,567,659</u>	<u>\$ -</u>	<u>\$ -</u>
Investments	<u>\$ 664,632</u>	<u>\$ 664,632</u>	<u>\$ -</u>	<u>\$ -</u>

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

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**Note R – Franklin Building Program:**

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 the years ended December 31, 2012 and 2011 was \$47,577 and \$43,612, respectively.

The LDC rents the commercial space to other businesses. At December 31, 2012, 5 commercial spaces had been leased out. For the years ended December 31, 2012 and 2011, the LDC received \$45,956 and \$21,845, respectively, in rental income and incurred utility expenses on vacant commercial space of \$14,541 and \$16,334, respectively. Once a space is leased, utilities are the responsibility of the tenant.

**Note S – Subsequent Event:**

On March 7, 2013, the Board approved establishing a 401K Profit Sharing Pension Plan. The Plan will be administered by RBC Wealth Management. The employer contribution was set at 25% of the employees' annual salary. A 2012 contribution was made by the LDC retroactive to August 1, 2012 in the amount of \$11,863. This amount is included in accounts payable as of December 31, 2012.

# POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

## 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*

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Watertown Local Development Corporation  
Watertown, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Watertown Local Development Corporation as of and for the year ended December, 31 2012, and the related notes to the financial statements, which collectively comprise Watertown Local Development Corporation's basic financial statements, and have issued our report thereon dated March 19, 2013.

#### 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 Watertown Local development Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

## 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*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Poulsen & Podvin, CPA, P.C.*

Watertown, NY

March 19, 2013

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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**Internal Control Over Financial Reporting**

**Significant Deficiency**

**2012-1 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.

