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Certified Public Accountants

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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**

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.