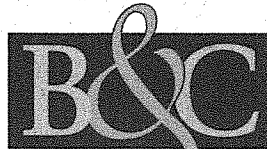


WATERTOWN LOCAL
DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2016



BOWERS & COMPANY
CPAS PLLC

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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, 2016, 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 auditors' 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.

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WATERTOWN LOCAL DEVELOPMENT CORPORATION

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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, 2016, 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.

Report on Summarized Comparative Information

We have previously audited Watertown Local Development Corporation's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, 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.

Bowers & Company

Watertown, New York
February 17, 2017

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

December 31, 2016 with Comparative Totals for 2015

| | ASSETS | |
|---|-----------------------------|-----------------------------|
| | 2016 | 2015 |
| Cash and Cash Equivalents | \$ 463,343 | \$ 576,597 |
| Restricted Cash | - | 117,269 |
| Temporary Cash Investments | 3,301,883 | 3,424,165 |
| Investments | 1,352,887 | 1,366,268 |
| Accrued Interest Receivable, Net | 20,496 | 21,464 |
| Rents Receivable - Franklin Building | 7,615 | 2,759 |
| Notes Receivable, Net | 5,326,038 | 4,909,819 |
| Equipment and Leasehold Improvements, Net | 3,134 | 4,239 |
| Investment In and Advances to Public Square Developers, Net | - | - |
| TOTAL ASSETS | <u>\$ 10,475,396</u> | <u>\$ 10,422,580</u> |
| | LIABILITIES | |
| Accounts Payable | \$ 7,238 | \$ 75 |
| Security Deposits | 6,086 | 5,501 |
| | <u>13,324</u> | <u>5,576</u> |
| | NET ASSETS | |
| Unrestricted: | | |
| Undesignated | 10,458,938 | 10,295,569 |
| Fixed Assets | 3,134 | 4,239 |
| | <u>10,462,072</u> | <u>10,299,808</u> |
| Permanently Restricted | - | 117,196 |
| | <u>10,462,072</u> | <u>10,417,004</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 10,475,396</u> | <u>\$ 10,422,580</u> |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016 with Summarized Totals for December 31, 2015

| | Unrestricted | Permanently Restricted | Totals 2016 | Totals 2015 (Summarized) |
|---|----------------------|-----------------------------------|------------------------|---|
| SUPPORT AND REVENUE: | | | | |
| Interest Income: | | | | |
| Interest on Notes | \$ 233,144 | \$ - | \$ 233,144 | \$ 224,606 |
| Interest from Investments, Net | 106,238 | - | 106,238 | 109,842 |
| Realized and Unrealized Gains (Losses) on Investments, Net | 77,154 | - | 77,154 | (58,842) |
| Franklin Building Rental Income | 69,483 | - | 69,483 | 74,212 |
| Bad Debt Recovery | 51,399 | - | 51,399 | 32,638 |
| Other Income | 7,546 | - | 7,546 | 12,700 |
| Net Assets Released From Restriction | 117,196 | (117,196) | - | - |
| Total Support and Revenue | <u>662,160</u> | <u>(117,196)</u> | <u>544,964</u> | <u>395,156</u> |
| EXPENSES: | | | | |
| Program Services | 237,225 | - | 237,225 | 495,946 |
| Management and General | 145,475 | - | 145,475 | 146,245 |
| Total Expenses | <u>382,700</u> | <u>-</u> | <u>382,700</u> | <u>642,191</u> |
| NON OPERATING EXPENSES: | | | | |
| Transfer of CDBG Monies To City of Watertown | 117,196 | - | 117,196 | - |
| Total Non Operating Expenses | <u>117,196</u> | <u>-</u> | <u>117,196</u> | <u>-</u> |
| Changes in Net Assets | 162,264 | (117,196) | 45,068 | (247,035) |
| Net Assets, Beginning of Year | <u>10,299,808</u> | <u>117,196</u> | <u>10,417,004</u> | <u>10,664,039</u> |
| Net Assets, End of Year | <u>\$ 10,462,072</u> | <u>\$ -</u> | <u>\$ 10,462,072</u> | <u>\$ 10,417,004</u> |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016 with Summarized Totals for December 31, 2015

| | Program Services | Management and General | Totals | |
|---------------------------------------|-----------------------------|-----------------------------------|-------------------|------------------------------|
| | | | 2016 | 2015 (Summarized) |
| Salaries | \$ 76,850 | \$ 76,850 | \$ 153,700 | \$ 151,927 |
| Employee Benefits | 36,901 | 36,901 | 73,802 | 75,870 |
| Advertising | 145 | 144 | 289 | 809 |
| Audit Fees | 3,550 | 3,550 | 7,100 | 6,900 |
| Filing Fees | 775 | - | 775 | 775 |
| Insurance | - | 3,336 | 3,336 | 3,136 |
| Janitorial Expense | 2,167 | 2,167 | 4,334 | 5,013 |
| Miscellaneous | 4,460 | 4,459 | 8,919 | 10,563 |
| Occupancy Expense | 7,146 | 7,146 | 14,292 | 13,727 |
| Office Expense | 6,581 | 6,581 | 13,162 | 13,576 |
| Professional Fees | 34,871 | 415 | 35,286 | 40,672 |
| Travel and Entertainment | 1,822 | 1,823 | 3,645 | 3,517 |
| Franklin Building Program | 61,957 | - | 61,957 | 62,167 |
| Façade Program Expense | - | - | - | 216,000 |
| Bad Debt Expense | - | - | - | 35,503 |
| Total Expenses Before Depreciation | 237,225 | 143,372 | 380,597 | 640,155 |
| Depreciation | - | 2,103 | 2,103 | 2,036 |
| TOTAL EXPENSES | \$ 237,225 | \$ 145,475 | \$ 382,700 | \$ 642,191 |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2016 with Comparative Totals for 2015

| | 2016 | 2015 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 45,068 | \$ (247,035) |
| Adjustments to Reconcile Changes in Net Assets to Net Cash Used In Operating Activities: | | |
| Depreciation | 2,103 | 2,036 |
| Bad Debt Expense | - | 35,503 |
| Unrealized (Gain) Loss on Investments | (67,679) | 43,452 |
| Realized (Gain) Loss on Sale of Investments | (9,475) | 15,390 |
| (Increase) Decrease in Assets: | | |
| Accrued Interest Receivable | 968 | (4,947) |
| Rents Receivable | (4,856) | (1,239) |
| Increase in Liabilities: | | |
| Security Deposits | 585 | 974 |
| Accounts Payable | 7,163 | 72 |
| Net Cash Used In Operating Activities | <u>(26,123)</u> | <u>(155,794)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net Change in Notes Receivable | (416,218) | 242,217 |
| Net Investment in Fixed Assets | (998) | - |
| Net (Purchases) Sales of Investments | 212,817 | (255,039) |
| Net Cash Used In Investing Activities | <u>(204,399)</u> | <u>(12,822)</u> |
| | | |
| Net Decrease in Cash | (230,522) | (168,616) |
| | | |
| Cash and Cash Equivalents, Beginning of Year | <u>693,866</u> | <u>862,482</u> |
| | | |
| Cash and Cash Equivalents, End of Year | <u>\$ 463,343</u> | <u>\$ 693,866</u> |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 1 – NATURE OF ACTIVITIES

The Watertown Local Development Corporation (the “LDC”) was incorporated under Section 1411 of the Not-For-Profit corporation law on November 14 1982. Their mission is to foster an environment of cooperation between City Government, Economic Development Agencies and the private sector with the goal of promoting economic expansion and prosperity in the City of Watertown. Moreover, the LDC uses financial resources to leverage other investments, with the goal of job creation, retention and elimination of blight.

500 Newell Street LLC, a New York Limited Liability Company, was organized on June 29, 2004. The LDC is 100% owner of 500 Newell Street LLC. The primary purpose of the LLC is to hold real estate acquired as a result of foreclosure sales and judgments against borrowers that have defaulted on their loans with the LDC. For the year ended December 31, 2016, the LLC acquired property which was subsequently sold to partially settle the debts of a borrower of the LDC. The land sale resulted in bad debt recovery income of \$17,136. At December 31, 2016, the LLC held no property.

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 Factory Street Loan 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 over the last 15 years granted approximately \$1,000,000 for downtown facades. The program was terminated during the current year. Remaining commitments of \$250,000 to be disbursed on or before December 31, 2017. Façade expense had a \$-0- balance at year end.
- A Façade Program designated for businesses in the downtown boundaries. The maximum loan is for \$25,000 at 0% interest for a maximum of 3 years.
- A Public Square Rent Assistance Program for new businesses to be located within the Program Boundary or for existing businesses planning to relocate within the Program Boundary. Lease payments in year one will be subsidized at 50% or \$1,000 per month, whichever is less. Subsidy decreases in year two to 25% or \$500 per month, whichever is less.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 1 – NATURE OF ACTIVITIES - Continued

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

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation is in accordance with FASB Accounting Standards Codification (ASC) 958, *Non-Profit Organizations*. Under (ASC) 958-205, the Organization is required 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 under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2015, 2014, and 2013 are subject to examination by the IRS, generally for 3 years after they were filed. Based on its analysis, the Organization determined that there were no uncertain tax positions and that the Organization should prevail upon examination by the taxing authorities.

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 \$- and \$117,269 for the years ending December 31, 2016 and 2015, represented repayments on a loan disbursed through the Small Cities CDBG grant. Interest earned on the account for the years ended December 31, 2016 and 2015 totaled \$74 and \$143, respectively. The cash was restricted for future loans in accordance with the terms of the grant sub-recipient agreement with the City of Watertown. The Organization returned the CDBG grant monies during the fiscal year 2016 to the City of Watertown as the funds were sitting idle.

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 5 and 12 for fair value of temporary cash investments and investments.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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, 2015, 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 Statement 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.

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.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES - Continued

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. As of December 31, 2016 and 2015, the Organization's deposits in excess of FDIC limits totaled approximately \$-0- and \$38,000, respectively.

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.

Statement of Cash Flows

There were no noncash investing and financing activities during 2016 and 2015.

Date of Management's Review

Management has evaluated subsequent events through February 17, 2017, the date which the financial statements were available to be issued.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 3 – NOTES RECEIVABLE

The aging of the notes receivables portfolio by classes as of December 31, 2016, is summarized as follows:

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>Greater Than 90 Days</u> | <u>Current</u> | <u>Total Financing Receivable</u> |
|--|--------------------------------|--------------------------------|---------------------------------|---------------------|---------------------------------------|
| Real Estate, Machine and Equipment Notes Receivable | \$ 631,936 | \$ 267,561 | \$ 173,789 | \$ 4,542,042 | \$ 5,615,328 |
| Factory Street Program Notes Receivable | 8,577 | - | - | 62,422 | 70,999 |
| | <u>\$ 640,513</u> | <u>\$ 267,561</u> | <u>\$ 173,789</u> | <u>\$ 4,604,464</u> | <u>\$ 5,686,327</u> |

The aging of the notes receivables portfolio by classes as of December 31, 2015, is summarized as follows:

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>Greater Than 90 Days</u> | <u>Current</u> | <u>Total Financing Receivable</u> |
|--|--------------------------------|--------------------------------|---------------------------------|---------------------|---------------------------------------|
| Real Estate, Machine and Equipment Notes Receivable | \$ 284,137 | \$ 8,818 | \$ 298,455 | \$ 4,656,355 | \$ 5,247,765 |
| Factory Street Program Notes Receivable | - | - | - | 27,557 | 27,557 |
| | <u>\$ 284,137</u> | <u>\$ 8,818</u> | <u>\$ 298,455</u> | <u>\$ 4,683,912</u> | <u>\$ 5,275,322</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 3 – NOTES RECEIVABLE - Continued

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 allowance for loan losses at December 31, 2016 and 2015 consists of the following:

| | 2016 | 2015 |
|---|-------------------|-------------------|
| General Reserve | \$ 356,739 | \$ 363,655 |
| Specific Reserve: Factory Street Loan Program | 3,550 | 1,848 |
| Total | <u>\$ 360,289</u> | <u>\$ 365,503</u> |

Activity in the Allowance for Loan Losses is as follows:

| | |
|-----------------------------|-------------------|
| Balance - January 01, 2015 | \$ 330,000 |
| Bad Debt Expense | 35,503 |
| Recovery | - |
| Write-offs | - |
| Balance - December 31, 2015 | <u>365,503</u> |
| Bad Debt Expense | - |
| Recovery | - |
| Write-offs | (5,214) |
| Balance - December 31, 2016 | <u>\$ 360,289</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 4 – COMMITMENTS

Loan

The LDC had approximately \$-0- and \$780,000 of outstanding loan commitments at December 31, 2016 and 2015, 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, 2016 and 2015.

NOTE 5 – 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, 2016 and 2015 are summarized as follows:

| | Cost | Fair Values | Unrealized Appreciation (Depreciation) |
|--|---------------------|---------------------|--|
| 2016 | | | |
| Certificates of Deposit with Maturities Greater than Three Months | <u>\$ 3,293,348</u> | <u>\$ 3,301,883</u> | <u>\$ 8,535</u> |
| 2015 | | | |
| Certificates of Deposit with Maturities Greater than Three Months | <u>\$ 3,426,612</u> | <u>\$ 3,424,165</u> | <u>\$ (2,447)</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 6 – 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 appreciation (depreciation) at December 31, 2016 and 2015 are summarized as follows:

| | Cost | Fair Values | Unrealized Appreciation (Depreciation) |
|------------------------------|---------------------|---------------------|---|
| 2016 | | | |
| Equities | \$ 327,811 | \$ 376,510 | \$ 48,699 |
| Bonds - Government - Various | <u>982,718</u> | <u>976,377</u> | <u>(6,341)</u> |
| Investments | <u>\$ 1,310,529</u> | <u>\$ 1,352,887</u> | <u>\$ 42,358</u> |
| 2015 | | | |
| Equities | \$ 188,780 | \$ 199,650 | \$ 10,870 |
| Bonds - Government - Various | <u>1,191,828</u> | <u>1,166,618</u> | <u>(25,210)</u> |
| Investments | <u>\$ 1,380,608</u> | <u>\$ 1,366,268</u> | <u>\$ (14,340)</u> |

NOTE 7 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|--------------------------------|-----------------|-----------------|
| Equipment | \$ 22,148 | \$ 21,150 |
| Leasehold Improvements | <u>37,930</u> | <u>37,930</u> |
| | 60,078 | 59,080 |
| Less: Accumulated Depreciation | <u>(56,944)</u> | <u>(54,841)</u> |
| Total | <u>\$ 3,134</u> | <u>\$ 4,239</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 8 – 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. A new 2-year commercial lease agreement commenced on November 1, 2016 at \$15,000 per year, payable in monthly installments of \$1,250 due on the first day of each month. Lease rent expense amounted to \$11,500 and \$10,800 for the years ended December 31, 2016 and 2015, respectively.

Future minimum payments as of December 31 are as follows:

| | | |
|-------|----|---------------|
| 2017 | \$ | 15,000 |
| 2018 | | <u>12,500</u> |
| Total | \$ | <u>27,500</u> |

In February 2015, the LDC entered into a five-year lease for a copier. The lease calls for monthly payments of \$167. In March 2013, the LDC entered into a five-year postage meter lease. The lease calls for monthly payments of \$37. Equipment rent expense for the years ended December 31, 2016 and 2015 was \$2,448 and \$2,548, respectively.

Future minimum payments as of December 31 are as follows:

| | | |
|-------|----|--------------|
| 2017 | \$ | 2,448 |
| 2018 | | 2,078 |
| 2019 | | 2,004 |
| 2020 | | <u>167</u> |
| Total | \$ | <u>6,697</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 9 – 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, 2016 and 2015, the investment in and advances to Public Square Developers, L.P. was \$0, net of the reserve for uncollectible amounts at December 31, 2016 and 2015 of \$1,118,789. Accrued interest receivable on the loan of CDBG monies in the amount \$22,500 was deemed uncollectible and a reserve has been established in the full amount for both years ending December 31, 2016 and 2015.

NOTE 10 – 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 was to be used to provide loans for the support of economic development in the City of Watertown. The revolving loan fund was considered permanently restricted. The Current Applications, Inc.'s loan has been paid in full. Interest collected on the account balance has been paid back to the City of Watertown. The CDBG grant monies were returned to the City of Watertown during May 2016.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

NOTE 11 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2016 and 2015:

| | 2016 | 2015 |
|--------------------------------|-------------|-------------------|
| HUD - CDBG Revolving Loan Fund | <u>\$ -</u> | <u>\$ 117,196</u> |

NOTE 12 – 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.

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|-------------------------------|---------------------|--|--|---|
| December 31, 2016 | | | | |
| Temporary Cash Investments | <u>\$ 3,301,883</u> | <u>\$ 3,301,883</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments | <u>\$ 1,352,887</u> | <u>\$ 1,352,887</u> | <u>\$ -</u> | <u>\$ -</u> |
| December 31, 2015 | | | | |
| Temporary Cash Investments | <u>\$ 3,424,165</u> | <u>\$ 3,424,165</u> | <u>\$ -</u> | <u>\$ -</u> |
| Investments | <u>\$ 1,366,268</u> | <u>\$ 1,366,268</u> | <u>\$ -</u> | <u>\$ -</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 with Comparative Totals for 2015

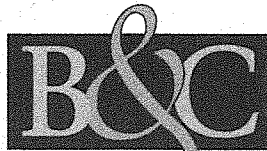
NOTE 13 – FRANKLIN BUILDING PROGRAM

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 both years ended December 31, 2016 and 2015 was \$47,577.

The LDC rents the commercial space to other businesses. At December 31, 2016, 9 commercial spaces had been leased out. For the years ended December 31, 2016 and 2015, the LDC received \$69,483 and \$74,212, respectively, in rental income and incurred utility expenses on vacant commercial space of \$14,380 and \$14,590 respectively. Once a space is leased, utilities are the responsibility of the tenant.

NOTE 14 – RETIREMENT PLAN

On March 7, 2013, the LDC established a 401K Profit Sharing Pension Plan. 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, 2016 and 2015, the LDC made contributions in the amount of \$35,125 and \$34,612, respectively.



**BOWERS & COMPANY
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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

**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, 2016, 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 February 17, 2017.

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. 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, 2016-1.

Compliance and Other Matters

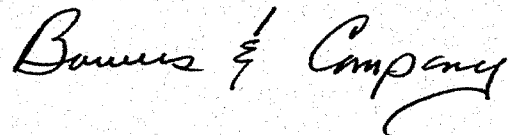
As part of obtaining reasonable assurance about whether Watertown Local Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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
February 17, 2017

WATERTOWN LOCAL DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

December 31, 2016

Internal Control Over Financial Reporting

Significant Deficiency

2016-1 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 accrual 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.

