

**W**ATERTOWN LOCAL  
DEVELOPMENT CORPORATION

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*FINANCIAL STATEMENTS*  
December 31, 2017

# Table of Contents

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

INDEPENDENT AUDITOR'S REPORT	1
AUDITED FINANCIAL STATEMENTS	3
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7
INDEPENDENT AUDITOR'S 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	22
SCHEDULE OF FINDINGS AND RESPONSES	24



**BOWERS & COMPANY  
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**INDEPENDENT AUDITOR'S REPORT**

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**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 statement of financial position as of December 31, 2017, 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.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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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**

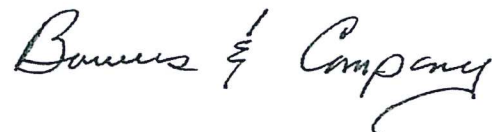
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Local Development Corporation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited Watertown Local Development Corporation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 17, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 26, 2018, 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.



Watertown, New York  
February 26, 2018

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**AUDITED FINANCIAL STATEMENTS**

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**STATEMENT OF FINANCIAL POSITION**

December 31, 2017 with Comparative Totals for 2016

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 458,233	\$ 463,343
Temporary Cash Investments	3,573,153	3,301,883
Investments	1,650,865	1,352,887
Accrued Investment Interest Receivable	25,028	20,496
Rents Receivable - Franklin Building	7,447	7,615
Loans Receivable, Net	4,797,496	5,326,038
Equipment and Leasehold Improvements, Net	5,010	3,134
<b>TOTAL ASSETS</b>	<b>\$ 10,517,232</b>	<b>\$ 10,475,396</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ -	\$ 7,238
Security Deposits	8,006	6,086
	<u>8,006</u>	<u>13,324</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	10,504,216	10,458,938
Equipment and Leasehold Improvements	5,010	3,134
	<u>10,509,226</u>	<u>10,462,072</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,517,232</b>	<b>\$ 10,475,396</b>

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See notes to financial statements.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENT OF ACTIVITIES**

Year Ended December 31, 2017 with Summarized Totals for December 31, 2016

	2017	Totals 2016 (Summarized)
<b>SUPPORT AND REVENUE:</b>		
Interest Income:		
Interest on Loans	\$ 224,550	\$ 233,144
Interest on Investments, Net	111,796	106,238
Realized and Unrealized Gains		
on Investments, Net	71,703	77,154
Franklin Building Rental Income	79,763	69,483
Bad Debt Recovery	30,002	51,399
Other Income	8,389	7,546
Total Support and Revenue	<u>526,203</u>	<u>544,964</u>
<b>EXPENSES:</b>		
Program Services	323,136	237,225
Management and General	<u>155,913</u>	<u>145,475</u>
Total Expenses	<u>479,049</u>	<u>382,700</u>
<b>NON-OPERATING EXPENSES:</b>		
Transfer of CDBG Monies		
To City of Watertown	<u>-</u>	<u>117,196</u>
Changes in Net Assets	47,154	45,068
Net Assets, Beginning of Year	<u>10,462,072</u>	<u>10,417,004</u>
Net Assets, End of Year	<u>\$ 10,509,226</u>	<u>\$ 10,462,072</u>

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See notes to financial statements.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended December 31, 2017 with Summarized Totals for December 31, 2016

	<b>Program Services</b>	<b>Management and General</b>	<b>Totals 2017</b>	<b>Totals 2016 (Summarized)</b>
Salaries	\$ 82,590	\$ 82,589	\$ 165,179	\$ 153,700
Employee Benefits	38,658	38,657	77,315	73,802
Advertising	507	507	1,014	289
Audit Fees	3,550	3,550	7,100	7,100
Filing Fees	775	-	775	775
Insurance	-	1,677	1,677	3,336
Janitorial Expense	2,451	2,450	4,901	4,334
Miscellaneous	7,728	7,727	15,455	3,053
Occupancy Expense	8,880	8,880	17,760	14,292
Office Expense	6,605	6,604	13,209	13,162
Professional Fees	43,967	415	44,382	35,286
Travel and Entertainment	1,271	1,270	2,541	3,645
Franklin Building Program	63,462	-	63,462	61,957
Rent Subsidy Program	39,288	-	39,288	5,866
Provision for Loan Loss	23,404	-	23,404	-
Total Expenses Before Depreciation	323,136	154,326	477,462	380,597
Depreciation	-	1,587	1,587	2,103
<b>TOTAL EXPENSES</b>	<b>\$ 323,136</b>	<b>\$ 155,913</b>	<b>\$ 479,049</b>	<b>\$ 382,700</b>

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See notes to financial statements.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**STATEMENT OF CASH FLOWS**

Year Ended December 31, 2017 with Comparative Totals for 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 47,154	\$ 45,068
Adjustments to Reconcile Changes in Net Assets to Net Cash Used In Operating Activities:		
Depreciation	1,587	2,103
Provision for Loan Loss	23,404	-
Unrealized Gain on Investments	(67,927)	(67,679)
Realized Gain on Sale of Investments	(3,776)	(9,475)
(Increase) Decrease in Assets:		
Accrued Interest Receivable	(4,532)	968
Rents Receivable - Franklin Building	168	(4,856)
Increase (Decrease) in Liabilities:		
Security Deposits	1,920	585
Accounts Payable	(7,238)	7,163
Net Cash Used In Operating Activities	<u>(9,240)</u>	<u>(26,123)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan Originations	(794,749)	(1,173,309)
Principal Collections on Loans	1,299,887	757,091
Purchase of Equipment and Leasehold Improvements	(3,463)	(999)
Purchase of Investments	(1,269,437)	(1,324,247)
Proceeds from Sales of Investments	771,893	1,537,064
Net Cash Provided By (Used In) Investing Activities	<u>4,131</u>	<u>(204,400)</u>
Net Decrease in Cash	(5,109)	(230,523)
Cash and Cash Equivalents, Beginning of Year	<u>463,343</u>	<u>693,866</u>
Cash and Cash Equivalents, End of Year	<u>\$ 458,233</u>	<u>\$ 463,343</u>

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See notes to financial statements.

## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

#### NOTE 1 – NATURE OF ACTIVITIES

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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 (“LLC”), 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, 2017 and 2016, the LLC held no property. The activity in the LLC is not material to the LDC financial statements, and therefore is not reflected in the accompanying financial statements.

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 2016. Remaining commitments of \$250,000 are still available to be disbursed. Façade expense was \$0 for both years ended December 31, 2017 and 2016.
- 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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

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

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

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

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

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

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**Basis of Accounting**

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

**Basis of Presentation**

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, the LDC 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. For the years ended December 31, 2017 and 2016, the LDC reported no temporarily or 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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

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

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**Income Taxes - Continued**

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2016, 2015, and 2014 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.

**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.

**Cash and Cash Equivalents**

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

**Rents Receivable**

Rents 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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

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

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**Loans Receivable and Allowance for Loan Losses**

Loans 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 three to seven 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.

**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, 2016, 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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

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

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**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, 2017 and 2016, the Organization's deposits in excess of FDIC limits totaled approximately \$19,000 and \$0, 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. Cash balances at RBC are covered by FDIC insurance at each program bank.

**Statement of Cash Flows**

There were no noncash investing and financing activities during 2017 and 2016.

**Reclassifications**

Certain reclassifications have been made to the 2016 financial statements in order for them to be in conformity with the current year's presentation.

**Date of Management's Review**

Management has evaluated subsequent events through February 26, 2018, the date which the financial statements were available to be issued.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 3 – LOANS RECEIVABLE**

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Loans receivable at December 31, are summarized as follows:

	<b>2017</b>	<b>2016</b>
Real Estate, Machine and Equipment	\$ 5,129,209	\$ 5,615,328
Factory Street Program	50,117	70,999
Total Loans Receivable	<u>5,179,326</u>	<u>5,686,327</u>
Less: Allowance for Loan Losses	<u>(381,830)</u>	<u>(360,289)</u>
Total Loans Receivable, Net	<u>\$ 4,797,496</u>	<u>\$ 5,326,038</u>

**Credit Quality Information**

Credit quality indicators as of December 31, 2017 and 2016 are as follows:

Internally assigned grade:

Satisfactory – loans in this category show the borrower is responsible for the credit, financial statements are current, of good quality and in adequate detail, financial condition is generally on par with the industry average, earnings are generally profitable, cash flow is sufficient, borrower adheres to repayment schedule and loan covenants, integrity and ability of management are good, and collateral is adequate.

Watch – loans in this category contain higher risk profiles but credit is generally current and loan is being paid as agreed. These loans may be missing current financial statements, financial condition is below industry average, the borrower is experiencing negative trends or unstable financial performance, cash flow may be potentially inadequate, borrower adheres to repayment schedule but may have violated loan covenants, integrity of management is good, collateral is moderate, and the business may be closing.

Substandard – loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged. These loans hold the distinct possibility that the LDC will sustain some losses if the deficiencies are not corrected.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 3 – LOANS RECEIVABLE - Continued**

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**Credit Quality Information - Continued**

Credit risk profile by internally assigned grade as of December 31, 2017, is summarized as follows:

	<u>Satisfactory</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total Financing Receivable</u>
Real Estate, Machine and Equipment Loans Receivable	\$ 4,094,349	\$ 76,374	\$ 958,486	\$ 5,129,209
Factory Street Program Loans Receivable	<u>32,945</u>	<u>-</u>	<u>17,172</u>	<u>50,117</u>
	<u>\$ 4,127,294</u>	<u>\$ 76,374</u>	<u>\$ 975,658</u>	<u>\$ 5,179,326</u>

Credit risk profile by internally assigned grade as of December 31, 2016, is summarized as follows:

	<u>Satisfactory</u>	<u>Watch</u>	<u>Substandard</u>	<u>Total Financing Receivable</u>
Real Estate, Machine and Equipment Loans Receivable	\$ 4,978,021	\$ 169,681	\$ 467,626	\$ 5,615,328
Factory Street Program Loans Receivable	<u>70,999</u>	<u>-</u>	<u>-</u>	<u>70,999</u>
	<u>\$ 5,049,020</u>	<u>\$ 169,681</u>	<u>\$ 467,626</u>	<u>\$ 5,686,327</u>

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 3 – LOANS RECEIVABLE - Continued**

**Age Analysis of Past Due Financing Receivables by Class**

An aging of past due loans, segregated by class of loans, as of December 31, 2017, is summarized as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Current	Total Financing Receivable
Real Estate, Machine and Equipment Loans Receivable	\$ 248,230	\$ 179,494	\$ 668,951	\$ 4,032,534	\$ 5,129,209
Factory Street Program Loans Receivable	23,684	-	-	26,433	50,117
	<u>\$ 271,914</u>	<u>\$ 179,494</u>	<u>\$ 668,951</u>	<u>\$ 4,058,967</u>	<u>\$ 5,179,326</u>

An aging of past due loans, segregated by class of loans, as of December 31, 2016, is summarized as follows:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Current	Total Financing Receivable
Real Estate, Machine and Equipment Loans Receivable	\$ 631,936	\$ 267,561	\$ 173,789	\$ 4,542,042	\$ 5,615,328
Factory Street Program Loans 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>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 3 – LOANS RECEIVABLE - Continued**

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The allowance for loan losses is based on 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, 2017 and 2016 consists of the following:

	2017	2016
General Reserve	\$ 377,607	\$ 356,739
Specific Reserve: Factory Street Loan Program	4,223	3,550
Total	<u>\$ 381,830</u>	<u>\$ 360,289</u>

Activity in the Allowance for Loan Losses is as follows:

Balance - January 01, 2016	\$ 365,503
Provision for Loan Loss	-
Recovery	-
Write-offs	(5,214)
Balance - December 31, 2016	360,289
Provision for Loan Loss	23,404
Recovery	-
Write-offs	(1,863)
Balance - December 31, 2017	<u>\$ 381,830</u>

**NOTE 4 – COMMITMENTS**

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**Loan**

The LDC had approximately \$210,000 and \$0 of outstanding commitments to grant loans at December 31, 2017 and 2016, 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, 2017 and 2016.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 5 – TEMPORARY CASH INVESTMENTS**

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The LDC invests in certificates of deposit. These investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values and unrealized appreciation (depreciation) at December 31, 2017 and 2016 are summarized as follows:

	<b>Cost</b>	<b>Fair Values</b>	<b>Unrealized Appreciation (Depreciation)</b>
<b>2017</b>			
Certificates of Deposit with Maturities Greater than Three Months	<u>\$ 3,592,963</u>	<u>\$ 3,573,153</u>	<u>\$ (19,810)</u>
<b>2016</b>			
Certificates of Deposit with Maturities Greater than Three Months	<u>\$ 3,293,348</u>	<u>\$ 3,301,883</u>	<u>\$ 8,535</u>

**NOTE 6 – INVESTMENTS**

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The LDC invests in governmental fixed income instruments. Investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair values and unrealized appreciation (depreciation) at December 31, 2017 and 2016 are summarized as follows:

	<b>Cost</b>	<b>Fair Values</b>	<b>Unrealized Appreciation (Depreciation)</b>
<b>2017</b>			
Equities	\$ 387,148	\$ 504,696	\$ 117,548
Bonds - Government - Various	<u>1,125,088</u>	<u>1,146,169</u>	<u>21,081</u>
Total Investments	<u>\$ 1,512,236</u>	<u>\$ 1,650,865</u>	<u>\$ 138,629</u>
<b>2016</b>			
Equities	\$ 327,811	\$ 376,510	\$ 48,699
Bonds - Government - Various	<u>982,718</u>	<u>976,377</u>	<u>(6,341)</u>
Total Investments	<u>\$ 1,310,529</u>	<u>\$ 1,352,887</u>	<u>\$ 42,358</u>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 7 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

Equipment and leasehold improvements at December 31, 2017 and 2016 consist of the following:

	2017	2016
Equipment	\$ 24,223	\$ 22,148
Leasehold Improvements	<u>37,930</u>	<u>37,930</u>
	62,153	60,078
Less: Accumulated Depreciation	<u>(57,143)</u>	<u>(56,944)</u>
Total	<u>\$ 5,010</u>	<u>\$ 3,134</u>

**NOTE 8 – OPERATING LEASES**

The LDC leases its office space from BYNOW, Inc. Under a new 2-year commercial lease agreement commencing on November 1, 2016 at \$15,000 per year. The lease is payable in monthly installments of \$1,250 due on the first day of each month, with an annual increase of 13%. Lease rent expense amounted to \$15,325 and \$11,500 for the years ended December 31, 2017 and 2016, respectively.

Future minimum payments as of December 31 are as follows:

2018	<u>\$ 15,537</u>
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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 each of the years ended December 31, 2017 and 2016 was \$2,448.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 8 – OPERATING LEASES - Continued**

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Future minimum payments as of December 31 are as follows:

2018	\$	2,078
2019		2,004
2020		<u>167</u>
Total	\$	<u>4,249</u>

**NOTE 9 – RETIREMENT PLAN**

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On March 7, 2013, the LDC established a 401K Profit Sharing Pension Plan. The Plan is administered by RBC Wealth Management. The employer contribution is set at 25% of the employees' annual salary. For the years ended December 31, 2017 and 2016, the LDC made contributions in the amount of \$34,348 and \$35,125, respectively.

**NOTE 10 – ADVANCES TO PUBLIC SQUARE DEVELOPERS, L.P.**

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Beginning June 2002, Watertown Local Development Corporation, as the sole member of Public Square Developers, L.P., began to acquire, hold, improve and develop a parcel of real property in Watertown, NY known as the Franklin Building. Effective December 1, 2009, the LDC transferred 100% of their ownership interest in Public Square Developers, L.P. to Neighbors of Watertown, Inc. Upon transfer of ownership, the development costs incurred by Watertown Local Development Corporation became a loan receivable from Public Square Developers, L.P. Repayment terms for the loan are as follows; \$636,507 to be paid using funds from closing of construction financing, \$331,277 to be paid at the completion of the Franklin Building project once permanent funding is obtained, and the remaining \$743,789 will be a mortgage loan with the LDC at 1% interest deferred until 2027. In 2010, the LDC also loaned the \$375,000 Community Development Block Grant ("CDBG") 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, 2017 and 2016, the investment in and advances to Public Square Developers, L.P. was \$0, net of the reserve for uncollectible amounts at December 31, 2017 and 2016 of \$1,118,789. Accrued interest receivable on the loan of CDBG monies in the amount of \$30,000 and \$22,500 was deemed uncollectible and a reserve has been established in the full amount for both years ending December 31, 2017 and 2016, respectively.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 11 – GOVERNMENTAL GRANTS**

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

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

**NOTE 12 – FAIR VALUE MEASUREMENTS**

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FASB ASC 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 value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined by based on quoted market prices. In cases where quoted market prices are not readily available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The LDC uses a three tier value hierarchy which maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value, as follows.

- |         |   |
|---------|---|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the LDC has the ability to access.  |
| Level 2 | Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data. |
| Level 3 | Significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.  |

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 12 – FAIR VALUE MEASUREMENTS - Continued**

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Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Temporary cash investments 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 temporary cash investments approximates fair value.

	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, 2017				
Temporary Cash Investments	\$ 3,573,153	\$ -	\$ 3,573,153	\$ -
Investments	\$ 1,650,865	\$ 1,650,865	\$ -	\$ -
December 31, 2016				
Temporary Cash Investments	\$ 3,301,883	\$ -	\$ 3,301,883	\$ -
Investments	\$ 1,352,887	\$ 1,352,887	\$ -	\$ -

**NOTE 13 – FRANKLIN BUILDING PROGRAM**

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On February 1, 2011, the LDC entered into a Master Lease Agreement with Public Square Developers, L.P. for the commercial space located on the ground floor of the Franklin Building. The space houses 6-12 commercial units. The term of the lease is 30 years. Monthly payments for the term of the lease are \$3,964.75. The lease expense for both years ended December 31, 2017 and 2016 was \$47,577.

Future minimum payments as of December 31 are as follows:

2018	\$ 47,577
2019	47,577
2020	47,577
2021	47,577
2022	47,577
2023-2041	860,351
	<u>\$ 1,098,236</u>

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2017 with Comparative Totals for 2016

**NOTE 13 – FRANKLIN BUILDING PROGRAM - Continued**

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The LDC rents the commercial space to other businesses. At December 31, 2017, 10 commercial spaces had been leased out. For the years ended December 31, 2017 and 2016, the LDC received \$79,763 and \$69,483, respectively, in rental income and incurred utility expenses on vacant commercial space of \$15,885 and \$14,380, respectively. Once a space is leased, utilities are the responsibility of the tenant.

The scheduled future rental payments under current operating leases as of December 31 are as follows:

2018	\$	74,041
2019		30,988
2020		20,683
2021		14,518
		<hr/>
	\$	140,230
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**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

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**BOARD OF DIRECTORS  
WATERTOWN LOCAL DEVELOPMENT CORPORATION**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Watertown Local Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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 26, 2018.

**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, 2017-1.

### **Compliance and Other Matters**

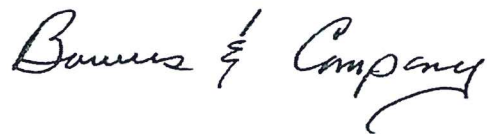
As part of obtaining reasonable assurance about whether Watertown Local Development Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 26, 2018

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**SCHEDULE OF FINDINGS AND RESPONSES**

December 31, 2017

**Internal Control Over Financial Reporting**

**Significant Deficiency**

**2017-1 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.