

WATERTOWN LOCAL
DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

December 31, 2020

Table of Contents

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 <i>GOVERNMENT AUDITING STANDARDS</i> | 23 |



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INDEPENDENT AUDITOR'S REPORT

**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, 2020, 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

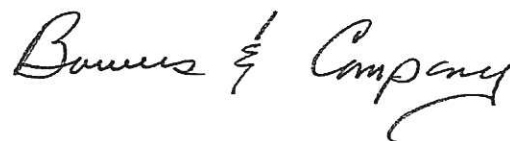
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Local Development Corporation as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Watertown Local Development Corporation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, 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 March 10, 2021, 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 solely 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 the effectiveness of Watertown Local Development Corporation's 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
March 10, 2021

WATERTOWN LOCAL DEVELOPMENT CORPORATION

AUDITED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

December 31, 2020 with Comparative Totals for 2019

| | 2020 | 2019 |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash | \$ 1,266,827 | \$ 521,166 |
| Temporary Cash Investments | 1,809,743 | 3,018,585 |
| Investments | 2,433,879 | 1,900,531 |
| Accrued Investment Interest Receivable | 22,169 | 24,804 |
| Grants Receivable | 65,232 | - |
| Loans Receivable, Net | 4,766,095 | 4,923,010 |
| Prepaid Expenses | 3,965 | 3,965 |
| Equipment and Leasehold Improvements, Net | <u>4,263</u> | <u>6,382</u> |
| TOTAL ASSETS | <u><u>\$ 10,372,173</u></u> | <u><u>\$ 10,398,443</u></u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts Payable | \$ - | \$ 4,115 |
| Other Deposits | - | 31,400 |
| Security Deposits | <u>7,720</u> | <u>7,505</u> |
| TOTAL LIABILITIES | <u>7,720</u> | <u>43,020</u> |
| NET ASSETS | | |
| Net Assets Without Donor Restrictions | | |
| Undesignated | 10,360,190 | 10,349,041 |
| Invested in Equipment and Leasehold Improvements | <u>4,263</u> | <u>6,382</u> |
| TOTAL NET ASSETS | <u>10,364,453</u> | <u>10,355,423</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 10,372,173</u></u> | <u><u>\$ 10,398,443</u></u> |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF ACTIVITIES

Year Ended December 31, 2020 with Summarized Totals for December 31, 2019

| | 2020 | 2019 (Summarized) |
|---------------------------------|---------------|----------------------|
| SUPPORT AND REVENUE: | | |
| Interest Income: | | |
| Interest on Loans | \$ 171,128 | \$ 214,440 |
| Interest on Investments, Net | 118,806 | 133,711 |
| Realized and Unrealized Gain | | |
| on Investments, Net | 92,380 | 262,434 |
| Franklin Building Rental Income | 83,669 | 86,357 |
| Loan Forgiveness - PPP Loan | 44,578 | - |
| Grant Revenue - DRI Program | 65,232 | - |
| Bad Debt Recovery | 26,089 | 34,864 |
| Other Income | 9,027 | 10,981 |
| | <hr/> | <hr/> |
| Total Support and Revenue | 610,909 | 742,787 |
| | <hr/> | <hr/> |
| EXPENSES: | | |
| Program Services | 462,844 | 299,644 |
| Management and General | 139,035 | 156,154 |
| | <hr/> | <hr/> |
| Total Expenses | 601,879 | 455,798 |
| | <hr/> | <hr/> |
| Change in Net Assets | 9,030 | 286,989 |
| Net Assets, Beginning of Year | 10,355,423 | 10,068,434 |
| | <hr/> | <hr/> |
| Net Assets, End of Year | \$ 10,364,453 | \$ 10,355,423 |
| | <hr/> <hr/> | <hr/> <hr/> |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020 with Summarized Totals for December 31, 2019

| | Program Services | Management and General | Totals | |
|---|-----------------------------|-----------------------------------|-------------------|------------------------------|
| | | | 2020 | 2019 (Summarized) |
| Salaries | \$ 66,243 | \$ 68,947 | \$ 135,190 | \$ 154,454 |
| Payroll Taxes and Employee Benefits | 33,436 | 34,800 | 68,236 | 93,026 |
| Advertising | - | 85 | 85 | - |
| Façade and Rental Assistance Program | 65,232 | - | 65,232 | 6,151 |
| Filing Fees | - | 140 | 140 | 750 |
| Franklin Building Program | 62,249 | - | 62,249 | 61,048 |
| Insurance | - | 1,754 | 1,754 | 3,133 |
| Janitorial Expense | 2,511 | 2,511 | 5,022 | 5,493 |
| Miscellaneous | 22,628 | 1,723 | 24,351 | 17,306 |
| Occupancy Expense | 10,592 | 10,592 | 21,184 | 22,503 |
| Office Expense | 6,969 | 6,968 | 13,937 | 14,016 |
| Professional Fees | 7,183 | 10,291 | 17,474 | 24,785 |
| Provision for Loan Loss | 178,007 | - | 178,007 | 26,255 |
| Rent Subsidy Program | 6,243 | - | 6,243 | 22,917 |
| Travel and Entertainment | 493 | 164 | 657 | 1,850 |
| Total Expenses Before Depreciation | 461,785 | 137,976 | 599,761 | 453,687 |
| Depreciation | 1,059 | 1,059 | 2,118 | 2,111 |
| TOTAL EXPENSES | \$ 462,844 | \$ 139,035 | \$ 601,879 | \$ 455,798 |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS

Year Ended December 31, 2020 with Comparative Totals for 2019

| | 2020 | 2019 |
|--|--------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in Net Assets | \$ 9,030 | \$ 286,989 |
| Adjustments to Reconcile Changes in Net Assets to | | |
| Net Cash Provided by (Used In) Operating Activities: | | |
| Depreciation | 2,118 | 2,111 |
| Provision for Loan Loss | 178,007 | 26,255 |
| Loan Forgiveness - PPP Loan | (44,578) | - |
| Unrealized Gain on Investments | (87,631) | (242,760) |
| Realized Gain on Sale of Investments | (4,749) | (19,674) |
| (Increase) Decrease in Assets: | | |
| Accrued Investment Interest Receivable | 2,635 | 805 |
| Grants Receivable | (65,232) | - |
| Rents Receivable, Franklin Building | - | 1,910 |
| Prepaid Expenses | - | (3,965) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable | (4,115) | 4,115 |
| Other Deposits | (31,400) | 31,400 |
| Security Deposits | 215 | (702) |
| | (45,700) | 86,484 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loan Originations | (917,162) | (1,113,404) |
| Principal Collections on Loans | 896,070 | 945,587 |
| Purchase of Equipment and Leasehold Improvements | - | (4,600) |
| Purchase of Investments | (1,710,925) | (1,630,775) |
| Proceeds from Sales of Investments | 2,478,801 | 2,134,072 |
| Net Cash Provided By Investing Activities | 746,784 | 330,880 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from PPP Loan | 44,578 | - |
| Net Cash Provided By Financing Activities | 44,578 | - |
| Net Increase in Cash | 745,662 | 417,364 |
| Cash, Beginning of Year | 521,166 | 103,803 |
| Cash, End of Year | \$ 1,266,827 | \$ 521,166 |

See notes to financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

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 the 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. At December 31, 2020 and 2019, 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.

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.

In addition, the following programs were established:

- The Board granted the CEO authority to approve loans in the amount of \$10,000 or less.
- The 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. Loans are no longer being originated under this program.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 1 – NATURE OF ACTIVITIES - CONTINUED

- The Façade Program is designated for businesses in the downtown boundaries. The maximum loan is for \$25,000 at 0% interest for a maximum of 3 years. Façade expense was \$65,232 and \$6,151 for the years ended December 31, 2020 and 2019, respectively.
- The 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.
- The Downtown Micro Loan Program designated for businesses in the Watertown area. The maximum loan is for \$40,000 at 3% interest for a maximum of 6 years.
- The Emergency Working Capital Program is designed to give loans to small businesses that were affected by the COVID-19 pandemic in the City of Watertown. The maximum loan is for \$10,000 at 3% interest with no payments for 3 months and interest only for the next 9 months. After the first 12 months, the loan will be amortized over 5 years.
- The Loan Deferment Program was offered to all existing loan customers for the months of May and June 2020 in response to the COVID-19 pandemic.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

The LDC reports information regarding its financial positions and activities according to one class of net assets: net assets without donor restrictions.

Net Assets Without Donor Restrictions – Are currently available for operating purposes subject only to the broad limits resulting from the nature of the organization or invested in equipment and leasehold improvements. Net assets without donor restrictions generally result from rental revenue, income from investments and receiving interest from notes receivables, less expenses incurred in providing program-related services and performing administrative functions.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

The LDC's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2019, 2018, and 2017 are subject to examination by the IRS, generally for 3 years after they were filed. Based on its analysis, the LDC determined that there were no uncertain tax positions and that the LDC should prevail upon examination by the taxing authorities.

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, 6, 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. There were no cash equivalents at December 31, 2020 and 2019.

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. For the years ended December 31, 2020 and 2019, no rents receivable were deemed uncollectible and written off to bad debt expense.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 and leasehold improvements, which have a cost of \$500 or more at the date of acquisition and have an expected useful life of greater than one year, are 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, 2019, from which the summarized information was derived.

Functional Allocation of Expenses

Expenses consist of costs related to providing economic development and administrative functions. The LDC's operating costs have been allocated based on direct identification when possible, and allocation if a single expenditure benefits more than one function. Expenditures that require allocation are allocated on either a personnel-cost or square-footage basis, whichever is more reasonable for the expenditure. Compensation and benefits are allocated based on estimates of time and effort. Occupancy costs and depreciation are allocated on a square footage basis.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2020 and 2019, the LDC's deposits in excess of FDIC limits totaled approximately \$0 and \$35,879, 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 2020 and 2019.

Revenue Recognition

In accordance with ASU 2014-09, "*Revenue from Contracts with Customers*" (Topic 606), the LDC recognizes revenues when control of the promised goods or services is transferred to the LDC's outside parties in an amount that reflects the consideration LDC expects to be entitled to in exchange for those goods or services. The Standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

The majority of the LDC's revenue stream is generated from rental income and interest income on loans which are outside the scope of Topic 606. Rental income is recognized at the time it is received by the LDC.

In accordance with ASU 2018-08, "*Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*" (Topic 958), the LDC recognizes nonreciprocal transactions at the time of the transaction.

Grants revenue result from cost-reimbursable grants, which are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the LDC has incurred expenditures in compliance with specific grant or contract provisions.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 2 –SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Impact of COVID-19 Pandemic on Financial Statements

The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the LDC and financial results will depend on future developments, which are highly uncertain and cannot be predicted, including but not limited to the duration, spread, severity, and impact of the outbreak, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact LDC's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

Date of Management's Review

Management has evaluated subsequent events through March 10, 2021, the date which the financial statements were available to be issued, and has determined that there are no additional adjustments and/or disclosures necessary.

NOTE 3 – LOANS RECEIVABLE

Loans receivable at December 31, are summarized as follows:

| | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|
| Real Estate, Machine and Equipment | \$ 4,910,080 | \$ 5,073,408 |
| Downtown Micro Loan | 159,444 | 183,901 |
| Factory Street Program | 17,063 | 21,815 |
| Total Loans Receivable | <u>5,086,587</u> | <u>5,279,124</u> |
| Less: Allowance for Loan Losses | <u>(320,492)</u> | <u>(356,114)</u> |
| Total Loans Receivable, Net | <u>\$ 4,766,095</u> | <u>\$ 4,923,010</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 3 – LOANS RECEIVABLE - CONTINUED

Credit Quality Information

Credit quality indicators as of December 31, 2020 and 2019 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 the 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.

Credit risk profile by internally assigned grade as of December 31, 2020, is summarized as follows:

| | Satisfactory | Watch | Substandard | Total Financing Receivable |
|--|---------------------|------------------|-------------------|-------------------------------|
| Real Estate, Machine and Equipment Loans Receivable | \$ 4,305,696 | \$ 11,046 | \$ 593,338 | \$ 4,910,080 |
| Downtown Micro Loan Loans Receivable | 122,787 | - | 36,657 | 159,444 |
| Factory Street Program Loans Receivable | - | - | 17,063 | 17,063 |
| | <u>\$ 4,428,483</u> | <u>\$ 11,046</u> | <u>\$ 647,058</u> | <u>\$ 5,086,587</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 3 – LOANS RECEIVABLE - CONTINUED

Credit Quality Information - Continued

Credit risk profile by internally assigned grade as of December 31, 2019, is summarized as follows:

| | Satisfactory | Watch | Substandard | Total Financing Receivable |
|--|---------------------|-------------------|-------------------|-------------------------------|
| Real Estate, Machine and Equipment Loans Receivable | \$ 4,203,614 | \$ 399,044 | \$ 470,750 | \$ 5,073,408 |
| Downtown Micro Loan Loans Receivable | 146,407 | 37,494 | - | 183,901 |
| Factory Street Program Loans Receivable | 4,643 | - | 17,172 | 21,815 |
| | <u>\$ 4,354,664</u> | <u>\$ 436,538</u> | <u>\$ 487,922</u> | <u>\$ 5,279,124</u> |

Age Analysis of Past Due Financing Receivables by Class

An aging of past due loans, segregated by class of loans, as of December 31, 2020, 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 | \$ 46,288 | \$ 330,661 | \$ 93,818 | \$ 4,439,313 | \$ 4,910,080 |
| Downtown Micro Loan Loans Receivable | - | - | 36,657 | 122,787 | 159,444 |
| Factory Street Program Loans Receivable | 17,063 | - | - | - | 17,063 |
| | <u>\$ 63,351</u> | <u>\$ 330,661</u> | <u>\$ 130,475</u> | <u>\$ 4,562,100</u> | <u>\$ 5,086,587</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 3 – LOANS RECEIVABLE - CONTINUED

Age Analysis of Past Due Financing Receivables by Class - Continued

An aging of past due loans, segregated by class of loans, as of December 31, 2019, 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 | \$ 176,325 | \$ 261,824 | \$ 122,712 | \$ 4,512,547 | \$ 5,073,408 |
| Downtown Micro Loan Loans Receivable | 37,494 | - | - | 146,407 | 183,901 |
| Factory Street Program Loans Receivable | 17,172 | - | - | 4,643 | 21,815 |
| | <u>\$ 230,991</u> | <u>\$ 261,824</u> | <u>\$ 122,712</u> | <u>\$ 4,663,597</u> | <u>\$ 5,279,124</u> |

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, 2020 and 2019 consists of the following:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| General Reserve | \$ 306,290 | \$ 342,236 |
| Specific Reserve: Downtown Micro Loan | 11,638 | 11,070 |
| Specific Reserve: Factory Street Loan Program | 2,564 | 2,808 |
| Total | <u>\$ 320,492</u> | <u>\$ 356,114</u> |
| Activity in the Allowance for Loan Losses is as follows: | | |
| Balance - January 01, 2019 | \$ 355,338 | |
| Provision for Loan Loss | 26,255 | |
| Recovery | - | |
| Write-offs | <u>(25,479)</u> | |
| Balance - December 31, 2019 | 356,114 | |
| Provision for Loan Loss | 178,007 | |
| Recovery | - | |
| Write-offs | <u>(213,629)</u> | |
| Balance - December 31, 2020 | <u>\$ 320,492</u> | |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 4 – COMMITMENTS

Loan

The LDC had approximately \$407,000 and \$65,000 of outstanding commitments to grant loans at December 31, 2020 and 2019, respectively.

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. Fair values and unrealized depreciation at December 31, 2020 and 2019 are summarized as follows:

| | Cost | Fair Values | Unrealized Appreciation (Depreciation) |
|--|---------------------|---------------------|--|
| 2020 | | | |
| Certificates of Deposit with Maturities Greater than Three Months | <u>\$ 1,778,986</u> | <u>\$ 1,809,743</u> | <u>\$ 30,757</u> |
| 2019 | | | |
| Certificates of Deposit with Maturities Greater than Three Months | <u>\$ 3,008,757</u> | <u>\$ 3,018,585</u> | <u>\$ 9,828</u> |

NOTE 6 – INVESTMENTS

The LDC invests in obligations of the United States government and federal agencies, corporate bonds, and equities. 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.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 6 – INVESTMENTS - CONTINUED

Fair values and unrealized appreciation (depreciation) at December 31, 2020 and 2019 are summarized as follows:

| | Cost | Fair Values | Unrealized Appreciation (Depreciation) |
|------------------------------|---------------------|---------------------|--|
| 2020 | | | |
| Equities | \$ 416,489 | \$ 575,055 | \$ 158,566 |
| Bonds - Government - Various | 1,730,576 | 1,858,824 | 128,248 |
| Total Investments | <u>\$ 2,147,065</u> | <u>\$ 2,433,879</u> | <u>\$ 286,814</u> |
| 2019 | | | |
| Equities | \$ 391,218 | \$ 527,123 | \$ 135,905 |
| Bonds - Government - Various | 1,299,380 | 1,373,408 | 74,028 |
| Total Investments | <u>\$ 1,690,598</u> | <u>\$ 1,900,531</u> | <u>\$ 209,933</u> |

NOTE 7 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET

Equipment and leasehold improvements at December 31, 2020 and 2019 consist of the following:

| | 2020 | 2019 |
|--------------------------------|-----------------|-----------------|
| Equipment | \$ 25,157 | \$ 25,157 |
| Leasehold Improvements | 42,532 | 42,532 |
| | 67,689 | 67,689 |
| Less: Accumulated Depreciation | <u>(63,426)</u> | <u>(61,307)</u> |
| Total | <u>\$ 4,263</u> | <u>\$ 6,382</u> |

NOTE 8 – OPERATING LEASES

The LDC leases its office space from BYNOW, Inc. under a 2-year commercial lease agreement commencing on November 1, 2019 at \$17,123 per year. The lease is payable in monthly installments of \$1,427 due on the first day of each month, with an annual increase of 13%. The previous lease expired on October 31, 2018 and the LDC was on a month-to-month rental option at \$1,596 per month for the period January through October 2019.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 8 – OPERATING LEASES - CONTINUED

Lease rent expense amounted to \$17,123 and \$20,242 for the years ended December 31, 2020 and 2019, respectively.

In February 2015, the LDC entered into a five-year lease for a copier with monthly payments of \$167, which was renegotiated in November 2019 establishing a new five-year copier lease with monthly payments of \$185. In March 2018, 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, 2020 and 2019 was \$2,484 and \$2,467, respectively.

Future minimum payments as of December 31 are as follows:

| | | |
|-------|-----------|---------------|
| 2021 | \$ | 18,791 |
| 2022 | | 2,661 |
| 2023 | | 2,291 |
| 2024 | | 2,032 |
| 2025 | | - |
| Total | <u>\$</u> | <u>25,775</u> |

NOTE 9 – 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 is set at 25% of the employees' annual salary. For the years ended December 31, 2020 and 2019, the LDC made contributions in the amount of \$29,278 and \$35,431, respectively.

NOTE 10 – 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.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

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

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, 2020 and 2019, the investment in and advances to Public Square Developers, L.P. was \$0, net of the reserve for uncollectible amounts at December 31, 2020 and 2019 of \$1,118,789. Accrued interest receivable on the above loans was deemed uncollectible and a reserve has been established in the full amount for both years ending December 31, 2020 and 2019, respectively.

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The LDC monitors its liquidity so that it is able to meet the operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The following table reflects the LDC’s financial assets as of December 31, 2020 and 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because the assets are not convertible to cash within one year.

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Financial Assets: | | |
| Cash | \$ 1,266,827 | \$ 521,166 |
| Temporary Cash Investments | 1,809,743 | 3,018,585 |
| Investments | 2,433,879 | 1,900,531 |
| Accrued Investment Interest Receivable | 22,169 | 24,804 |
| Grants Receivable | 65,232 | - |
| Loans Receivable, Net | <u>4,766,095</u> | <u>4,923,010</u> |
| Financial Assets, at Year - End | <u>10,363,945</u> | <u>10,388,096</u> |
| Less those unavailable for general expenditures within one year, due to: | | |
| Investments with liquidity horizons greater than one year | (2,433,879) | (1,900,531) |
| Loans receivable collectible beyond one year | <u>(4,538,565)</u> | <u>(4,667,693)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 3,391,501</u> | <u>\$ 3,819,872</u> |

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 12 – FAIR VALUE MEASUREMENTS

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. |

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.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 12 – FAIR VALUE MEASUREMENTS - CONTINUED

| | 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, 2020 | | | | |
| Temporary Cash Investments | \$ 1,809,743 | \$ - | \$ 1,809,743 | \$ - |
| Investments | \$ 2,433,879 | \$ 2,433,879 | \$ - | \$ - |
| December 31, 2019 | | | | |
| Temporary Cash Investments | \$ 3,018,585 | \$ - | \$ 3,018,585 | \$ - |
| Investments | \$ 1,900,531 | \$ 1,900,531 | \$ - | \$ - |

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 \$3,965. The lease expense for both years ended December 31, 2020 and 2019 was \$47,577.

As of February 1, 2021, the LDC completed the transfer of the master lease agreement to Neighbors of Watertown.

Future minimum payments as of December 31 are as follows:

| | |
|------|-----------------|
| 2021 | \$ 3,965 |
| | <u>\$ 3,965</u> |

The LDC rents the commercial space to other businesses. As of December 31, 2020, 10 commercial spaces have been leased. For the years ended December 31, 2020 and 2019, the LDC received \$83,669 and \$86,357, respectively, in rental income and incurred utility expenses on vacant commercial space of \$14,798 and \$13,471, respectively.

Once a space is leased, utilities are the responsibility of the tenant.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 with Comparative Totals for 2019

NOTE 13 – FRANKLIN BUILDING PROGRAM - CONTINUED

As a result of February 1, 2021 transfer of the master lease agreement to Neighbors of Watertown, the scheduled future rental income payments under current operating leases as of December 31 are as follows:

| | |
|------|-----------------|
| 2021 | <u>\$ 6,635</u> |
| | <u>\$ 6,635</u> |

NOTE 14 – PAYCHECK PROTECTION PROGRAM

On April 20, 2020, the LDC received loan proceeds in the amount of \$44,578 under the Paycheck Protection Program (“PPP”). Established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business’s average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (8 or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period.

The LDC used the PPP loan proceeds for purposes consistent with the PPP, applied for forgiveness within the 10 months of the end of the covered period, and the loan was subsequently forgiven on November 23, 2020.



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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

**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 the Watertown Local Development Corporation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, 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 March 10, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Watertown Local Development Corporation's internal control over financial reporting (internal control) as a basis for designing 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 the 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.

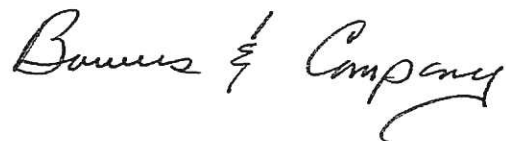
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 the 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 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
March 10, 2021