

**W**ATERTOWN LOCAL  
DEVELOPMENT CORPORATION

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*FINANCIAL STATEMENTS*

December 31, 2022

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**BOWERS & COMPANY  
CPAs PLLC**

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT**

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**BOARD OF DIRECTORS  
WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**Report on the Audit of the Financial Statements**

**Opinion**

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Watertown Local Development Corporation as of December 31, 2022, 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.

**Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Watertown Local Development Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Watertown Development Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standard and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Watertown Development Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Watertown Local Development Corporation's ability to continue as a going concern for a reasonable period of time.

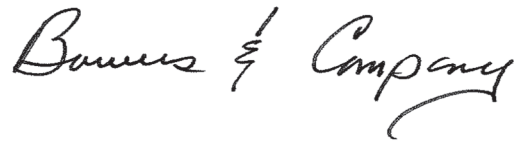
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## **Report on Summarized Comparative Information**

We have previously audited Watertown Local Development Corporation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 10, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, 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, 2023, 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.

A handwritten signature in black ink that reads "Bowers & Company". The signature is written in a cursive, flowing style.

Watertown, New York  
March 10, 2023

**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

**AUDITED FINANCIAL STATEMENTS**

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**STATEMENT OF FINANCIAL POSITION**

December 31, 2022 with Comparative Totals for 2021

|  | <b>2022</b>                | <b>2021</b>                 |
|--|----------------------------|-----------------------------|
| <b>ASSETS</b>                                    |                            |                             |
| Cash   | \$ 404,270                 | \$ 1,039,877                |
| Temporary Cash Investments                       | 1,114,005                  | 1,591,109                   |
| Investments                                      | 2,688,546                  | 2,491,053                   |
| Accrued Investment Interest Receivable           | 15,004                     | 15,751                      |
| Grants Receivable                                | 41,129                     | 149,095                     |
| Loans Receivable, Net                            | 5,314,555                  | 4,859,265                   |
| Equipment and Leasehold Improvements, Net        | <u>1,612</u>               | <u>2,858</u>                |
| <b>TOTAL ASSETS</b>                              | <b><u>\$ 9,579,121</u></b> | <b><u>\$ 10,149,008</u></b> |
| <b>NET ASSETS</b>                                |                            |                             |
| NET ASSETS                                       |                            |                             |
| Net Assets Without Donor Restrictions            |                            |                             |
| Undesignated                                     | \$ 9,577,509               | \$ 10,146,150               |
| Invested in Equipment and Leasehold Improvements | <u>1,612</u>               | <u>2,858</u>                |
| <b>TOTAL NET ASSETS</b>                          | <b><u>9,579,121</u></b>    | <b><u>10,149,008</u></b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b><u>\$ 9,579,121</u></b> | <b><u>\$ 10,149,008</u></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, 2022 with Summarized Totals for December 31, 2021

|  | 2022         | 2021<br>(Summarized) |
|--|--------------|----------------------|
| SUPPORT AND REVENUE:                                       |              |                      |
| Interest Income:   |              |                      |
| Interest on Loans  | \$ 189,579   | \$ 196,715           |
| Interest on Investments, Net                               | 97,507       | 110,173              |
| Realized and Unrealized Gain (Loss)<br>on Investments, Net | (425,900)    | 82,725               |
| Grant Revenue - DRI Program                                | 47,945       | 108,763              |
| Bad Debt Recovery  | 33,178       | 36,924               |
| Other Income   | 32,456       | 83,120               |
|  | <hr/>        | <hr/>                |
| Total Support and Revenue (Loss)                           | (25,235)     | 618,420              |
|  | <hr/>        | <hr/>                |
| EXPENSES:  |              |                      |
| Program Services   | 380,983      | 672,740              |
| Management and General                                     | 163,669      | 161,125              |
|  | <hr/>        | <hr/>                |
| Total Expenses   | 544,652      | 833,865              |
|  | <hr/>        | <hr/>                |
| Change in Net Assets                                       | (569,887)    | (215,445)            |
| Net Assets, Beginning of Year                              | 10,149,008   | 10,364,453           |
|  | <hr/>        | <hr/>                |
| Net Assets, End of Year                                    | \$ 9,579,121 | \$ 10,149,008        |
|  | <hr/> <hr/>  | <hr/> <hr/>          |

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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, 2022 with Summarized Totals for December 31, 2021

|                                       | <b>Program<br/>Services</b> | <b>Management<br/>and General</b> | <b>Totals<br/>2022</b> | <b>Totals<br/>2021<br/>(Summarized)</b> |
|---------------------------------------|-----------------------------|-----------------------------------|------------------------|---|
| Salaries                              | \$ 75,238                   | \$ 79,900                         | \$ 155,138             | \$ 150,054                              |
| Payroll Taxes and Employee Benefits   | 39,124                      | 41,549                            | 80,673                 | 79,242                                  |
| Façade and Rental Assistance Program  | 63,475                      | -                                 | 63,475                 | 108,763                                 |
| Filing Fees                           | -                           | 951                               | 951                    | 750                                     |
| Franklin Building Program             | -                           | -                                 | -                      | 8,082                                   |
| Industrial Park Development           | 102,249                     | -                                 | 102,249                | 61,984                                  |
| Insurance                             | -                           | 1,656                             | 1,656                  | 6,460                                   |
| Janitorial Expense                    | 3,422                       | 3,421                             | 6,843                  | 6,747                                   |
| Miscellaneous                         | 19,225                      | 3,008                             | 22,233                 | 4,474                                   |
| Occupancy Expense                     | 12,009                      | 12,009                            | 24,018                 | 22,158                                  |
| Office Expense                        | 7,923                       | 7,923                             | 15,846                 | 16,528                                  |
| Professional Fees                     | 6,228                       | 12,350                            | 18,578                 | 23,117                                  |
| Provision for Loan Loss               | 49,662                      | -                                 | 49,662                 | 302,510                                 |
| Thompson Park Grant                   | -                           | -                                 | -                      | 40,000                                  |
| Travel and Entertainment              | 1,805                       | 279                               | 2,084                  | 1,591                                   |
|                                       | <hr/>                       | <hr/>                             | <hr/>                  | <hr/>                                   |
| Total Expenses Before<br>Depreciation | 380,360                     | 163,046                           | 543,406                | 832,460                                 |
|                                       | <hr/>                       | <hr/>                             | <hr/>                  | <hr/>                                   |
| Depreciation                          | 623                         | 623                               | 1,246                  | 1,405                                   |
|                                       | <hr/>                       | <hr/>                             | <hr/>                  | <hr/>                                   |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 380,983</b>           | <b>\$ 163,669</b>                 | <b>\$ 544,652</b>      | <b>\$ 833,865</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, 2022 with Comparative Totals for 2021

|   | <b>2022</b>       | <b>2021</b>         |
|---|-------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                     |
| Changes in Net Assets   | \$ (569,887)      | \$ (215,445)        |
| Adjustments to Reconcile Changes in Net Assets to<br>Net Cash Provided By (Used In) Operating Activities: |                   |                     |
| Depreciation  | 1,246             | 1,405               |
| Provision for Loan Loss   | 49,662            | 302,510             |
| Unrealized (Gain) Loss on Investments   | 413,882           | (48,458)            |
| Realized (Gain) Loss on Sale of Investments   | 12,018            | (34,267)            |
| (Increase) Decrease in Assets:  |                   |                     |
| Accrued Investment Interest Receivable  | 747               | 6,418               |
| Grants Receivable   | 107,966           | (83,863)            |
| Prepaid Expenses  | -                 | 3,965               |
| Increase (Decrease) in Liabilities:   |                   |                     |
| Security Deposits   | -                 | (7,720)             |
|   | <u>15,634</u>     | <u>(75,455)</u>     |
| Net Cash Provided By (Used In) Operating Activities   |                   |                     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                   |                     |
| Loan Originations   | (2,029,936)       | (1,086,854)         |
| Principal Collections on Loans  | 1,524,983         | 691,174             |
| Purchase of Investments   | (1,356,316)       | (1,332,142)         |
| Proceeds from Sales of Investments  | 1,210,028         | 1,576,327           |
| Net Cash Used In Investing Activities   | <u>(651,241)</u>  | <u>(151,495)</u>    |
| Net Decrease in Cash  | (635,607)         | (226,950)           |
| Cash, Beginning of Year   | <u>1,039,877</u>  | <u>1,266,827</u>    |
| Cash, End of Year   | <u>\$ 404,270</u> | <u>\$ 1,039,877</u> |

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See notes to financial statements.

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

#### **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 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, 2022 and 2021, 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

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

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

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- The DRI Façade and Rental Assistance Program is designated for businesses in the downtown boundaries. Façade and rental assistance expense was \$63,475 and \$108,763 for the years ended December 31, 2022 and 2021, 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.

#### 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**

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 interest income from notes receivables, less expenses incurred in providing program-related services and performing administrative functions.

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

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

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##### **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 2021, 2020, and 2019 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**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, 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**

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, 2022 and 2021.

##### **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.

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

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

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##### **Loans Receivable and Allowance for Loan Losses – Continued**

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 \$1,000 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2021, 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.

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

#### 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, 2022 and 2021, the LDC's deposits in excess of FDIC limits totaled approximately \$-0- and \$52,833, 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 2022 and 2021.

##### **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 investment income and interest income on loans which are outside the scope of Topic 606.

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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

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

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**Low-Value Leases**

The LDC has evaluated low-value assets such as small equipment (e.g. copiers and postage meters) on a lease-by-lease basis. The LDC has decided that for the leases with low value, the lease payments associated with those leases will be recognized as an expense on a monthly basis over the lease term. This is not in conformity with accounting principles generally accepted in the United States of America which requires the lease to be accounted for under ASC 842. The overall effect of this departure is immaterial to the LDC's financial statements for the year ended December 31, 2022. Total lease expense for low-value assets was \$2,985 for the year ended December 31, 2022.

**Date of Management's Review**

Management has evaluated subsequent events and transactions that occurred between December 31, 2022 through March 10, 2023, 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**

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Loans receivable at December 31, are summarized as follows:

|                                    | <b>2022</b>         | <b>2021</b>         |
|------------------------------------|---------------------|---------------------|
| Real Estate, Machine and Equipment | \$ 5,466,202        | \$ 4,927,646        |
| Downtown Micro Loan                | 184,186             | 300,866             |
| Factory Street Program             | 20                  | 20                  |
| Total Loans Receivable             | <u>5,650,408</u>    | <u>5,228,532</u>    |
| Less: Allowance for Loan Losses    | <u>(335,853)</u>    | <u>(369,267)</u>    |
| Total Loans Receivable, Net        | <u>\$ 5,314,555</u> | <u>\$ 4,859,265</u> |

## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

#### NOTE 3 – LOANS RECEIVABLE - Continued

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##### Credit Quality Information

Credit quality indicators as of December 31, 2022 and 2021 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, 2022 and 2021 respectively, is summarized as follows:

|                  | <b>2022</b>         |                   |                    | Total Financing     |
|------------------|---------------------|-------------------|--------------------|---------------------|
|                  | <u>Satisfactory</u> | <u>Watch</u>      | <u>Substandard</u> | <u>Receivable</u>   |
| Loans Receivable | <u>\$ 5,128,873</u> | <u>\$ 172,872</u> | <u>\$ 348,663</u>  | <u>\$ 5,650,408</u> |

|                  | <b>2021</b>         |                  |                    | Total Financing     |
|------------------|---------------------|------------------|--------------------|---------------------|
|                  | <u>Satisfactory</u> | <u>Watch</u>     | <u>Substandard</u> | <u>Receivable</u>   |
| Loans Receivable | <u>\$ 4,776,807</u> | <u>\$ 76,194</u> | <u>\$ 375,531</u>  | <u>\$ 5,228,532</u> |

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

**NOTE 3 – LOANS RECEIVABLE - Continued**

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**Age Analysis of Past Due Financing Receivables**

An aging of past due loans as of December 31, 2022 and 2021 respectively, is summarized as follows:

|                  | <b>2022</b>               |                           |                                     |                    |                               |
|------------------|---------------------------|---------------------------|-------------------------------------|--------------------|-------------------------------|
|                  | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | Greater Than<br>90 Days Past<br>Due | Current            | Total Financing<br>Receivable |
| Loans Receivable | <u>\$341,113</u>          | <u>\$ 59,240</u>          | <u>\$ 100,647</u>                   | <u>\$5,149,408</u> | <u>\$ 5,650,408</u>           |

|                  | <b>2021</b>               |                           |                                     |                    |                               |
|------------------|---------------------------|---------------------------|-------------------------------------|--------------------|-------------------------------|
|                  | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | Greater Than<br>90 Days Past<br>Due | Current            | Total Financing<br>Receivable |
| Loans Receivable | <u>\$ 32,587</u>          | <u>\$ 10,059</u>          | <u>\$ 8,787</u>                     | <u>\$5,177,099</u> | <u>\$ 5,228,532</u>           |

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

**NOTE 3 – LOANS RECEIVABLE - Continued**

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**Age Analysis of Past Due Financing Receivables - Continued**

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, 2022 and 2021 consists of the following:

|  | <b>2022</b>       | <b>2021</b>       |
|--|-------------------|-------------------|
| General Reserve  | <u>\$ 335,853</u> | <u>\$ 369,267</u> |
| Activity in the Allowance for Loan Losses is as follows: |                   |                   |
| Balance – January 01, 2021                               | \$ 320,492        |                   |
| Provision for Loan Loss                                  | 302,510           |                   |
| Recovery   | -                 |                   |
| Write-offs   | <u>(253,735)</u>  |                   |
| Balance – December 31, 2021                              | 369,267           |                   |
| Provision for Loan Loss                                  | 49,662            |                   |
| Recovery   | -                 |                   |
| Write-offs   | <u>(83,076)</u>   |                   |
| Balance – December 31, 2022                              | <u>\$ 335,853</u> |                   |

**NOTE 4 – COMMITMENTS**

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**Loan**

The LDC had approximately \$230,000 and \$383,131 of outstanding commitments to grant loans at December 31, 2022 and 2021, respectively.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

**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 depreciation at December 31, 2022 and 2021 are summarized as follows:

|  | <b>Cost</b>         | <b>Fair Values</b>  | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> |
|--|---------------------|---------------------|---|
| <b>2022</b>  |                     |                     |   |
| Certificates of Deposit with Maturities<br>Greater than Three Months | <u>\$ 1,199,693</u> | <u>\$ 1,114,005</u> | <u>\$ (85,688)</u>                                    |
| <b>2021</b>  |                     |                     |   |
| Certificates of Deposit with Maturities<br>Greater than Three Months | <u>\$ 1,597,206</u> | <u>\$ 1,591,109</u> | <u>\$ (6,097)</u>                                     |

**NOTE 6 – INVESTMENTS**

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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.

Fair values and unrealized appreciation (depreciation) at December 31, 2022 and 2021 are summarized as follows:

|                              | <b>Cost</b>        | <b>Fair Values</b> | <b>Unrealized<br/>Appreciation<br/>(Depreciation)</b> |
|------------------------------|--------------------|--------------------|---|
| <b>2022</b>                  |                    |                    |   |
| Equities                     | \$ 597,115         | \$ 747,658         | \$ 150,543  |
| Bonds - Government - Various | <u>2,046,825</u>   | <u>1,940,888</u>   | <u>(105,937)</u>                                      |
| Total Investments            | <u>\$2,643,940</u> | <u>\$2,688,546</u> | <u>\$ 44,606</u>                                      |
| <b>2021</b>                  |                    |                    |   |
| Equities                     | \$ 750,817         | \$ 1,040,374       | \$ 289,557  |
| Bonds - Government - Various | <u>1,365,986</u>   | <u>1,450,679</u>   | <u>84,693</u>   |
| Total Investments            | <u>\$2,116,803</u> | <u>\$2,491,053</u> | <u>\$ 374,250</u>                                     |

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

**NOTE 7 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET**

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Equipment and leasehold improvements at December 31, 2022 and 2021 consist of the following:

|                                | <b>2022</b>     | <b>2021</b>     |
|--------------------------------|-----------------|-----------------|
| Equipment                      | \$ 25,157       | \$ 25,157       |
| Leasehold Improvements         | <u>42,532</u>   | <u>42,532</u>   |
|                                | 67,689          | 67,689          |
| Less: Accumulated Depreciation | <u>(66,077)</u> | <u>(64,831)</u> |
| Total                          | <u>\$ 1,612</u> | <u>\$ 2,858</u> |

**NOTE 8 – OPERATING LEASES**

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The Organization leases office space on a month to month basis at \$1,712 from BYNOW, Inc. Lease rent expense amounted to \$20,549 and \$17,980 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 was \$2,985 and \$2,644, respectively.

Future minimum payments as of December 31 are as follows:

|       |                 |
|-------|-----------------|
| 2023  | \$ 2,615        |
| 2024  | <u>2,350</u>    |
| Total | <u>\$ 4,965</u> |

## **WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

#### **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, 2022 and 2021, the LDC made contributions in the amount of \$38,612 and \$37,647, 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, 2022 and 2021, the investment in and advances to Public Square Developers, L.P. was \$0, net of the reserve for uncollectible amounts at December 31, 2022 and 2021 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, 2022 and 2021, respectively.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

**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, 2022 and 2021, 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.

|   | <b>2022</b>        | <b>2021</b>         |
|---|--------------------|---------------------|
| Financial Assets:   |                    |                     |
| Cash  | \$ 404,270         | \$ 1,039,877        |
| Temporary Cash Investments  | 1,114,005          | 1,591,109           |
| Investments   | 2,688,546          | 2,491,053           |
| Accrued Investment Interest Receivable  | 15,004             | 15,751              |
| Grants Receivable   | 41,129             | 149,095             |
| Loans Receivable, Net   | <u>5,314,555</u>   | <u>4,859,265</u>    |
| Financial Assets, at Year - End   | <u>9,577,509</u>   | <u>10,146,150</u>   |
| Less those unavailable for general expenditures within one year,<br>due to:               |                    |                     |
| Investments with liquidity horizons greater than one year                                 | (2,688,546)        | (2,491,053)         |
| Loans receivable collectible beyond one year  | <u>(4,808,352)</u> | <u>(4,683,856)</u>  |
| Financial assets available to meet cash needs for general<br>expenditures within one year | <u>\$2,080,611</u> | <u>\$ 2,971,241</u> |

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## WATERTOWN LOCAL DEVELOPMENT CORPORATION

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### NOTES TO FINANCIAL STATEMENTS

December 31, 2022 with Comparative Totals for 2021

#### 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 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.

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**WATERTOWN LOCAL DEVELOPMENT CORPORATION**

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**NOTES TO FINANCIAL STATEMENTS**

December 31, 2022 with Comparative Totals for 2021

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

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|                               | Fair Value   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|-------------------------------|--------------|--|--|---|
| <b>December 31, 2022</b>      |              |  |  |   |
| Temporary Cash<br>Investments | \$ 1,114,005 | \$ -   | \$ 1,114,005   | \$ -  |
| Investments                   | \$ 2,688,546 | \$ 2,688,546   | \$ -   | \$ -  |
| <b>December 31, 2021</b>      |              |  |  |   |
| Temporary Cash<br>Investments | \$ 1,591,109 | \$ -   | \$ 1,591,109   | \$ -  |
| Investments                   | \$ 2,491,053 | \$ 2,491,053   | \$ -   | \$ -  |

**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 \$3,965. The lease expense for the years ended December 31, 2022 and 2021 was \$-0- and \$2,327, respectively.

The LDC rents the commercial space to other businesses. During the year ended December 31, 2022, the Organization had no commercial spaces under lease. For the years ended December 31, 2022 and 2021, incurred utility expenses on vacant commercial space of \$-0- and \$5,755, respectively.

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