

To Management and the Board of Directors of  
Watertown Local Development Corporation

In planning and performing our audit of the financial statements of Watertown Local Development Corporation as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Watertown Local Development Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters.

### **Measurement of Credit Losses**

The FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which changed the method for recognizing credit impairments of financial assets during the year ended December 31, 2023. The current expected credit loss (CECL) model added by ASU 2016-13 expands the information organizations are required to consider when estimating credit losses and lowers the threshold for recognized losses. Under the new model, expected credit losses are to be measured based on historical experience, current conditions, and reasonable and supportable forecasts. The Organization has written risk rating guidelines in their lending policy and procedures to determine loan segments based on certain risks and characteristics. It was noted that the Organization does not have a documented methodology for the use of the percentages of 7%, 12%, and 17% in the current year to support their calculation of expected credit losses, or allowance for credit losses on loans receivable. It was found that the Organization has been using the same percentages for many years based on risk ratings within their policy and increased the percentages 2% for each category in 2023 but is not able to provide support for the percentages used with documented assumptions such as historical loss information adjusted to reflect current conditions and forecasts and reasonable and supportable forecasts about the future.

### **Recommendation**

We recommend that the Organization update their lending policy to include the methodology for calculating the expected credit loss on loans receivable in accordance with ASU 2016-13. The assumptions used to calculate the allowance should be documented on a regular basis and should include calculations of historical experiences, data on current conditions, and further estimates based on reasonable and supportable future forecasts. The assumptions and measurements should then be used to calculate an allowance for credit losses on a regular basis, specifically at year-end, which should be submitted to the Board for approval.

### **Annual Investment Report**

Section 2925 of Public Authorities Law (PAL) requires public authorities to adopt comprehensive investment guidelines including a policy for the Organization's investments and to prepare an annual investment report, which includes the results of the annual independent audit of all investments. The annual investment report must include the investment guidelines, the result of annual independent audit of all investment practices, a record of the Organization's investments, and a detailed list of the total fees or commissions paid to each banker or agent that has provided investment services. It was found that the Organization holds investments and has an investment policy, but that the annual investment report on the Organization website is not inclusive of all requirements in accordance with Section 2925 of PAL.

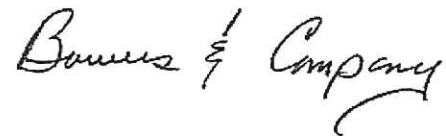
### **Recommendation**

We recommend the Organization expand its annual investment report going forward to include an opening summarized statement that lists all addendums and discloses total fees or commissions paid to each broker. The statement should be combined with the investment broker annual report, the investment policy, and the independent auditor's report and posted as the annual investment report on your website. We recommend the reports be approved by the board and submitted to the Public Authorities Reporting Information System (PARIS) within 90 days of the Organization's year-end.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Banner & Company". The signature is written in dark ink and is positioned to the right of the "Sincerely," text.

Watertown, New York  
March 15, 2024