

**WATERTOWN LOCAL DEVELOPMENT
CORPORATION**



REPORT ON AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton St.

Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Watertown Local Development Corporation

We have audited the accompanying statement of financial position of Watertown Local Development Corporation (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of Watertown Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Poulsen & Podvin, CPA, P.C.

Watertown, New York
February 27, 2012

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
Cash and cash equivalents	\$ 1,141,512	\$ 1,857,526
Restricted cash	117,224	117,224
Accrued interest receivable (net of uncollectible amount of \$7,500)	22,650	12,232
Temporary cash investments	3,567,659	1,340,289
Investments	664,632	702,579
Receivable - Infill Housing Project	-	82,657
Notes receivable (net of reserve for bad debts of \$313,441 and \$329,773, respectively)	4,748,447	5,160,312
Investment in and advances to Public Square Developers (net of reserve for uncollectible amounts of \$1,118,789 and \$1,055,086, respectively)	331,277	394,980
Equipment and leasehold improvements, less accumulated depreciation of \$55,190 and \$53,957, respectively	567	1,800
Other real estate, less accumulated depreciation of \$0 and \$64,482, respectively	-	1,032,887
TOTAL ASSETS	<u><u>\$ 10,593,968</u></u>	<u><u>\$ 10,702,486</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 29	\$ 29
Security Deposits	2,019	-
Total Liabilities	<u>2,048</u>	<u>29</u>
Net Assets:		
Unrestricted:		
Undesignated	10,474,129	9,550,546
Fixed assets	567	1,034,687
Total Unrestricted	<u>10,474,696</u>	<u>10,585,233</u>
Permanently Restricted	117,224	117,224
Total Net Assets	<u>10,591,920</u>	<u>10,702,457</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,593,968</u></u>	<u><u>\$ 10,702,486</u></u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2011 AND 2010**

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	Unrestricted	Permanently Restricted	Total
Revenue and Other Support:			
Interest income:			
Interest on notes	\$ 244,732	\$ -	\$ 244,732
Interest from investments	80,256	-	80,256
Net realized and unrealized gains (losses)			
on investments	(29,274)	-	(29,274)
Gain on sale of spec. building	36,066	-	36,066
Rental income	73,326	-	73,326
Frankling building rental income	21,846	-	21,846
Bad debt recovery	26,090	-	26,090
Other income	9,424	-	9,424
	<u>462,466</u>	<u>-</u>	<u>462,466</u>
Total Revenue and Other Support			
Expenses and Losses:			
Program services	412,155	-	412,155
Management and general	160,848	-	160,848
	<u>573,003</u>	<u>-</u>	<u>573,003</u>
Total Expenses and Losses			
Changes in Net Assets	(110,537)	-	(110,537)
Net Assets:			
Beginning of Year	<u>10,585,233</u>	<u>117,224</u>	<u>10,702,457</u>
End of Year	<u>\$ 10,474,696</u>	<u>\$ 117,224</u>	<u>\$ 10,591,920</u>

The accompanying notes are an integral part of these financial statements.

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Unrestricted	Permanently Restricted	Total
\$ 318,170	\$ (4)	\$ 318,166
61,827	-	61,827
(5,035)	-	(5,035)
-	-	-
71,662	-	71,662
-	-	-
28,816	-	28,816
10,116	-	10,116
<u>485,556</u>	<u>(4)</u>	<u>485,552</u>
410,310	-	410,310
154,703	-	154,703
<u>565,013</u>	<u>-</u>	<u>565,013</u>
(79,457)	(4)	(79,461)
<u>10,664,690</u>	<u>117,228</u>	<u>10,781,918</u>
<u>\$ 10,585,233</u>	<u>\$ 117,224</u>	<u>\$ 10,702,457</u>

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Program Services	Management and General	2011	2010
Management leasing fee	\$ 67,087	\$ 67,086	\$ 134,173	\$ 128,980
Leased management benefits	27,796	27,795	55,591	45,001
Filing fees	750	-	750	750
Insurance	-	3,221	3,221	3,148
Office expense	5,849	5,846	11,695	10,259
Audit fees	2,700	2,700	5,400	5,200
Professional fees	34,762	2,071	36,833	41,847
Occupancy expense	7,181	7,181	14,362	14,144
Travel and entertainment	2,063	2,064	4,127	6,779
Janitorial expense	2,110	2,109	4,219	3,600
Advertising	1,264	1,264	2,528	9,674
Miscellaneous	7,259	10,141	17,400	7,770
Façade program	121,482	-	121,482	37,297
Franklin building program	59,946	-	59,946	-
Loss on Infill housing project	8,203	-	8,203	-
Bad debt expense	63,703	-	63,703	220,511
Total Expenses before Depreciation	<u>\$ 412,155</u>	<u>\$ 131,478</u>	<u>\$ 543,633</u>	<u>\$ 534,960</u>
Depreciation	<u>-</u>	<u>29,370</u>	<u>29,370</u>	<u>30,053</u>
TOTAL EXPENSES	<u><u>\$ 412,155</u></u>	<u><u>\$ 160,848</u></u>	<u><u>\$ 573,003</u></u>	<u><u>\$ 565,013</u></u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities:		
Changes in net assets	\$ (110,537)	\$ (79,461)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	29,370	30,053
Bad debt expense	63,703	220,511
Gain on sale of spec. building	(36,066)	-
Loss on Infill housing project	8,203	-
Net unrealized losses on investments	29,274	5,035
Interest income restricted for revolving loan fund	-	4
(Increase) decrease in assets:		
Grant receivable	-	375,000
Accrued interest receivable	(10,418)	7,298
Increase in liabilities:		
Security Deposits	2,019	-
Accounts payable	-	1
Net Cash Provided (Used) by Operating Activities	<u>(24,452)</u>	<u>558,441</u>
Cash Flows from Investing Activities:		
Notes receivable - net	411,865	1,042,704
Notes receivable - infill house	74,455	-
Proceeds from sale of other real estate	1,040,815	-
Investment in and advances to Public Square Developers	-	261,507
Proceeds from (purchases of) investments - net	<u>(2,218,697)</u>	<u>(237,030)</u>
Net Cash Provided (Used) by Investing Activities	<u>(691,562)</u>	<u>1,067,181</u>
Cash Flows from Financing Activities:		
Proceeds from (payments to) line of credit	-	(400,000)
Interest income restricted for revolving loan fund	-	(4)
Net Cash (Used) by Financing Activities	<u>-</u>	<u>(400,004)</u>
Net Increase (Decrease) in Cash	(716,014)	1,225,618
Cash and Cash Equivalents - Beginning of Year	<u>1,974,750</u>	<u>749,132</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,258,736</u>	<u>\$ 1,974,750</u>
Supplementary Cash Flow Disclosures:		
Cash Paid for:		
Interest	\$ -	\$ 2,125
Income taxes	-	-

There were no noncash investing and financing activities during 2011 and 2010.

The accompanying notes are an integral part of these financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Note A – Summary of Significant Accounting Policies:

Organization

On March 23, 1981, the City of Watertown was awarded an Urban Development Action Grant (UDAG) by the U.S. Department of Housing and Urban Development to assist in the rehabilitation of a portion of the premises known as the New York Air Brake Company in the amount of \$6,500,000. Under the terms of the original application and final agreement, the recipient is required to repay this debt to a Not-for-Profit corporation who must administer the loan repayment and set-up a revolving loan program for other similar projects. The Watertown Local Development Corporation (the LDC) and formerly known as "The Local Development Corporation of the City of Watertown, New York", was established by the City to satisfy this obligation. On November 14, 1982, the Watertown Local Development Corporation was formally incorporated under Section 1411 of the Not-for-Profit corporation law of the State of New York.

50 Public Square LLC, a New York Limited Liability Company, was organized on June 17, 2002. At December 31, 2008, the Watertown Local Development Corporation was 100% owner of 50 Public Square LLC, which is the general partner of Public Square Developers, L.P., which was organized June 19, 2002. The LDC's primary purpose was to acquire, hold, develop, improve, manage, lease or sell a certain parcel of real property in Watertown, NY. The Watertown Local Development Corporation, the sole member of 50 Public Square, LLC, at December 31, 2008 was not liable as a member for its debts, obligations and liabilities. The financial statements were consolidated to include the accounts of both companies at December 31, 2008. Effective December 1, 2009, the Watertown Local Development Corporation withdrew 100% of its limited partnership interest in Public Square Developers, L.P. and Neighbors of Watertown, Inc. was admitted as the new limited partner. The LDC's investment in and advances to Public Square Developers, L.P. have been recorded as a receivable accordingly.

Nature of Activities

The primary purpose of the Watertown Local Development Corporation is to stimulate growth of private sector employment in the Watertown area by assisting the financing needs of:

- Companies already in the area that wish to expand or to build new facilities.
- Companies not presently in the area but seeking locations in the Watertown area for new plants or facilities.

Also, recognizing the need for a lending program for certain public and not-for-profit organizations, the LDC set aside \$500,000 to fund such requests.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

In addition, the following programs were established:

- The Board granted the CEO authority to approve loans in the amount of \$10,000 or less.
- A loan assistance program was started during 2007 to give loans to small businesses that were affected by road construction in the City of Watertown. The maximum loan is for \$10,000 at 3% interest and for a maximum of 5 years.
- The Public Square Historic District Façade Easement Program was established to provide grants to owners of downtown buildings wishing to upgrade the appearance and stability of their building exterior. The program is administered by Neighbors of Watertown, Inc. The LDC then set aside a total of \$456,000 to fund the program. As of December 31, 2011, there is \$57,000 remaining of program funds.

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.

Financial Statement Presentation

Basis of Presentation – Financial statement presentation as required by FASB Accounting Standards Codification No. 958, *Not-for-Profit Entities: Presentation of Financial Statements* requires the LDC to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Taxes

The LDC is exempt from federal income tax as an organization other than a private foundation described in Section 501(c)(3) of the Internal Revenue Code.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Open Tax Years

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2011, 2010, 2009, and 2008 are subject to examination by the IRS, generally for 3 years after they were filed.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash of \$117,224 for both years ended December 31, 2011 and 2010 represents repayments on a loan disbursed through the Small Cities CDBG grant. The cash is restricted for future loans in accordance with the terms of the grant sub-recipient agreement with the City of Watertown.

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 Note E for fair value of investments.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

Notes Receivable and Allowance for Loan Losses

Notes receivable are stated at unpaid principal balances, less an allowance for loan losses. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

The LDC uses a loan rating system as a method for calculating their required reserve. Loan rating classifications are 1) Satisfactory, 2) Watch, and 3) Substandard. A percentage of each loan is allocated to the reserve calculation based on its classification. Management's periodic evaluation of the loan risk ratings is based on specific criteria such as past loan loss experience, known and other risks inherent in the portfolio, cash flows, and estimated value of any underlying collateral. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries) as deemed appropriate by the LDC's internal loan review and risk rating process.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
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Equipment and Leasehold Improvements

Equipment and leasehold improvements have been recorded at cost. Repairs and maintenance not prolonging the useful life of the asset are charged to expense in the year incurred and improvements, which extend the useful life of the assets, are capitalized. Assets are depreciated over their estimated useful lives of five years using the straight-line depreciation method. Leasehold improvements are amortized over the lease term. Generally, equipment, which has a cost of \$500 or more at the date of acquisition and has an expected useful life of one year, is capitalized.

Concentrations of Credit Risk

The LDC typically maintains cash deposits in local federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits. At December 31, 2011, there were no deposits in excess of FDIC coverage.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services

A portion of the LDC's functions is conducted by unpaid officers and board members. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Date of Management's Review

Management has evaluated subsequent events through February 27, 2012, the date which the financial statements were available to be issued.

Note B – Allowance for Loan Losses:

The allowance for loan losses is based off of management's loan risk ratings. The Board of Directors will adjust the funding of the reserve account based on their loan risk calculation. The reserve for bad debts at December 31, 2011 and 2010 consists of the following:

	2011	2010
General reserve	\$ 301,283	\$ 317,615
Specific reserve: Loan Asst. Program	<u>12,158</u>	<u>12,158</u>
	<u>\$ 313,441</u>	<u>\$ 329,773</u>

Activity in the Reserve for Bad Debts is as follows:

Balance - January 1, 2010	\$ 429,369
Bad debt expense	30,040
Reserve adjustment	(120,826)
Recoveries	-
Write-offs	<u>(8,810)</u>
Balance - December 31, 2010	\$ 329,773
Bad debt expense	-
Reserve adjustment	-
Recoveries	-
Write-offs	<u>(16,332)</u>
Balance - December 31, 2011	<u>\$ 313,441</u>

Note C – Commitments:

Loan

The LDC had approximately \$2,027,147 and \$1,290,250 of outstanding loan commitments at December 31, 2011 and 2010, respectively.

Other

The LDC signed an agreement with Neighbors of Watertown, Inc. in June 2003 to make an equity contribution up to \$250,000 for the purpose of funding loans in the City of Watertown under the "Grow Watertown Fund." The LDC will fund its equity contribution on a project-by-project basis. There were no funding requirements at December 31, 2011 and 2010.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Note D – Line-of-Credit:

The LDC has a \$500,000 line-of-credit with HSBC, which was extended on April 30, 2011. Interest charged would be at the prime rate less 1%. Any borrowings would be secured by accounts receivable. Borrowings on the line were \$-0- for each year ended December 31, 2011 and 2010.

Note E – Temporary Cash Investments:

The LDC invests in certificates of deposit. These investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements). Fair values and unrealized appreciation at December 31, 2011 and 2010 are summarized as follows:

	Cost	Fair Values	Unrealized Appreciation
2011			
Certificates of deposit with maturities greater than three months	<u>\$ 3,546,000</u>	<u>\$ 3,567,659</u>	<u>\$ 21,659</u>
2010			
Certificates of deposit with maturities greater than three months	<u>\$ 1,306,000</u>	<u>\$ 1,340,289</u>	<u>\$ 34,289</u>

Note F – Investments:

The LDC invests in governmental fixed income instruments. Investments are stated at fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements). Fair values and unrealized (depreciation) at December 31, 2011 and 2010 are summarized as follows:

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
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2011	Cost	Fair Values	Appreciation (Depreciation)
Mortgage-backed securities - GNMA mortgage pool	\$ 9,230	\$ 4,060	\$ (5,170)
Bonds - Government - various	<u>679,648</u>	<u>660,572</u>	<u>(19,076)</u>
Investments	<u>\$ 688,878</u>	<u>\$ 664,632</u>	<u>\$ (24,246)</u>
2010			
Mortgage-backed securities - GNMA mortgage pool	\$ 9,807	\$ 4,633	\$ (5,174)
Bonds - Government - various	<u>700,375</u>	<u>697,946</u>	<u>(2,429)</u>
Investments	<u>\$ 710,182</u>	<u>\$ 702,579</u>	<u>\$ (7,603)</u>

Note G – Equipment and Leasehold Improvements:

Equipment and leasehold improvements at December 31, 2011 and 2010 consist of the following:

	2011	2010
Equipment	\$ 20,601	\$ 20,601
Leasehold improvements	<u>35,156</u>	<u>35,156</u>
	\$ 55,757	\$ 55,757
Less - accumulated depreciation	<u>(55,190)</u>	<u>(53,957)</u>
Net Equipment and Leasehold Improvements	<u>\$ 567</u>	<u>\$ 1,800</u>

Note H – Operating Leases:

In August 2005, the LDC began leasing its office space from BYNOW, Inc. for one year with an option to renew the lease for an additional year, which the LDC exercised. As of December 31, 2011, a new lease agreement has not been done. The LDC is operating under the terms of the expired agreement. Lease rent expense amounted to \$10,800 for each year ended December 31, 2011 and 2010.

In February 2010, the LDC entered into a five-year lease for a copier. The lease calls for monthly payments of \$121. Equipment rent expense for the years ended December 31, 2011 and 2010 was \$1,457 and \$1,214, respectfully.

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Future minimum payments are as follows:

Year Ended December 31	Amount
2012	\$ 1,457
2013	1,457
2014	1,457
2015	1,457
	<u>\$ 5,828</u>

Note I – Other Real Estate:

- **Spec Building**

The LDC approved construction of a facility in the City Center Industrial Park. The building will be used as an economic development tool to attract a new business to the City of Watertown. Construction was completed in 2008. The LDC's investment towards the construction of this building amounted to \$1,097,369 for the years ended December 31, 2011 and 2010. Accumulated depreciation on the Spec Building was \$92,620 and \$64,482 for the years ended December 31, 2011 and 2010, respectively. On December 14, 2011, the spec building was sold to Current Applications, Inc. who had been leasing the building since September of 2008. The building was sold for \$1,040,815, resulting in a gain of \$36,066. Rental income amounted to \$73,326 and \$71,662 for the years ended December 31, 2011 and 2010, respectively.

Note J – Notes Receivable:

The LDC had 91 outstanding loans to various businesses in the aggregate amount of \$5,065,097 at December 31, 2011. The allowance for bad debts is \$313,441 at December 31, 2011. There were 3 loans over 90-days delinquent to the LDC as of December 31, 2011 in the amount of \$215,069.

The LDC had 89 outstanding loans to various businesses in the aggregate amount of \$5,490,085 at December 31, 2010. The allowance for bad debts is \$329,773 at December 31, 2010. There were 2 loans over 90-days delinquent to the LDC as of December 31, 2010 in the amount of \$142,781.

Note K – Investment in and Advances to Public Square Developers, L.P.:

Beginning June 2002, Watertown Local Development Corporation, as the sole member of Public Square Developers, L.P., began to acquire, hold, improve and develop a parcel of real property in Watertown, NY known as the Franklin Building.

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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. As the deferred mortgage loan portion of the LDC's investment in the project has been deemed uncollectible, a reserve has been established in the full amount of \$743,789. At December 31, 2011 and 2010, the investment in and advances to Public Square Developers, L.P. was \$331,277 and \$394,980, respectively, net of the reserve for uncollectible amounts at December 31, 2011 and 2010 of \$1,118,789 and \$1,055,086, respectively.

Note L - Receivable-Infill Housing Project:

During 2005, the LDC committed \$500,000 towards the Single Family Housing Infill Program administered by the Development Authority of the North Country. The LDC has advanced \$0- and \$82,657 as of December 31, 2011 and 2010, respectively. According to the cooperation agreement with DANC, the LDC pays one-half of expenses of construction and associated costs for the constructions of single family homes designated. Net proceeds from the sale of the homes are divided equally between the LDC and DANC. An Infill house was sold December 21, 2011. The LDC received their portion of the proceeds of \$74,455, resulting in a loss of \$8,203.

Note M – Commitments and Contingencies:

The LDC has guaranteed the following borrowing as of December 31, 2011:

- JCIDA - \$8,800,000 term loan with M&T Bank where the LDC guarantees 50% of the loan balance. The loan balance was \$1,788,049 and \$2,607,317 at December 31, 2011 and 2010, respectively.

All guarantees were made during 2002 and no new guarantees were made during 2011 or 2010.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Note N – Related Party Transactions:

The LDC has related party transactions detailed as follows as of December 31, 2011 and 2010:

Related Party Organization	Notes Receivable	Unrestricted Revenues - Interest on Notes
12/31/2011 JCIDA	\$ -	\$ -
12/31/2010 JCIDA	\$ 27,776	\$ 1,852

The LDC also has a renewable management leasing agreement with JCIDA to provide professional staffing and support services to the LDC. JCIDA charges the LDC for the cost of compensating the leased employees plus the costs of all related taxes and benefits.

Note O – Governmental Grants:

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

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

The LDC shall use program income (loan repayments) on the Current Applications, Inc.'s loan to create a revolving loan fund. Loan payments of \$-0- and \$3,774 were received during the years ended December 31, 2011 and 2010, respectively, and are reflected as restricted cash in these financial statements.

- **HUD- CDBG Grant – Franklin Building Redevelopment**

The LDC entered into a sub-recipient agreement with the City of Watertown dated May 6, 2008 to administer a \$375,000 HUD-Small Cities Community Development Block Grant to pay for rehabilitation expenses related to the Franklin Building shell and infrastructure. The activity is expected to support the creation of 16 new apartments on the upper floors of the Franklin Building to be occupied by households that qualify as low or moderate income. At December 31, 2009, a \$375,000 grant receivable was recorded to reflect the draw down request for rehabilitation expenses incurred under the grant agreement. As of December 31, 2010 the \$375,000 grant had been received.

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note P – Permanently Restricted Net Assets:

Net assets were permanently restricted for the following purposes at December 31, 2011 and 2010:

	2011	2010
HUD-CDBG Revolving Loan Fund	<u>\$ 117,224</u>	<u>\$ 117,224</u>

Note Q – Fair Value Measurements:

FASB Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Certificates of deposit are not subject to withdrawal limitations although withdrawal before maturity usually results in a loss of a portion of the interest earned. As penalties for early withdrawal are not significant, the carrying amount of certificates of deposit approximates fair value. All investments held by the LDC are deemed to be observable in active markets and are therefore considered to be Level 1.

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011				
Temporary cash investments	<u>\$ 3,567,659</u>	<u>\$ 3,567,659</u>	<u>\$ -</u>	<u>\$ -</u>
Investments	<u>\$ 664,632</u>	<u>\$ 664,632</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2010				
Temporary cash investments	<u>\$ 1,340,289</u>	<u>\$ 1,340,289</u>	<u>\$ -</u>	<u>\$ -</u>
Investments	<u>\$ 702,579</u>	<u>\$ 702,579</u>	<u>\$ -</u>	<u>\$ -</u>

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note R – Franklin Building Program:

On February 1, 2011, the LDC entered into a Master Lease Agreement with Public Square Developers, L.P. for the commercial space located on the ground floor of the Franklin Building. The space houses 6-12 commercial units. The term of the lease is 30 years. Monthly payments for the term of the lease are \$3,964.75. The lease expense for the year ended December 31, 2011 was \$43,612.

The LDC rents the commercial space to other businesses. At December 31, 2011, 4 commercial spaces had been leased out. For the year ended December 31, 2011, the LDC received \$21,845 in rental income and incurred utility expenses on vacant commercial space of \$16,334. Once a space is leased, utilities are the responsibility of the tenant.

Note S –Subsequent Events:

The Franklin Building Project was completed and permanent funding was obtained by Public Square Developers, L.P. on February 8, 2012 and funds were released February 13, 2012. The LDC's final payment of \$331,277 has not been received as of February 27, 2012.

As of February 27, 2012, the LDC has six commercial spaces leased out to five tenants in the Franklin Building.

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*

To the Board of Directors of
Watertown Local Development

We have audited the financial statements of Watertown Local Development Corporation (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated February 27, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Watertown Local Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watertown Local Development Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, listed as item 2011-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watertown Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Watertown Local Development Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Watertown Local Development Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Poulsen & Podvin, CPA, P.C.

February 27, 2012

WATERTOWN LOCAL DEVELOPMENT CORPORATION

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**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Internal Control Over Financial Reporting

Significant Deficiency

2011-1 Preparation of Financial Statements

Condition: Management is unable to prepare the financial statements in accordance with GAAP and relies on external auditor to prepare the financial statements, which also includes preparation of various journal entries.

Criteria: Management needs to exercise control over the preparation of its financial statements. To exercise control, management must possess the necessary accounting expertise to prevent, detect and correct a potential misstatement in its financial statements.

Effect: Management may not be able to detect and correct potential misstatements in its financial statements.

Recommendation: The Board of Directors should be aware that this condition is a significant deficiency and will be in future years unless management is able to prepare their financial statements in accordance with the cash basis of accounting.

Management's Response: The Organization currently has its staff perform day-to-day bookkeeping duties and prepare financial statements using QuickBooks software. At year-end, the Organization contracts with an outside auditing firm to prepare its audited financial statements. The Organization recognizes that this is viewed as a significant deficiency; however, it is not financially feasible at this time to hire someone with the expertise to prepare the financial statements.