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**WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION**



REPORT ON AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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JUNE 30, 2013 AND 2012

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POULSEN & PODVIN, CPA, P.C.

Certified Public Accountants

145 Clinton Street, Watertown NY 13601

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Watertown Industrial Center Local Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Watertown Industrial Center Local Development Corporation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watertown Industrial Center Local Development Corporation as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013, on our consideration of Watertown Industrial Center Local Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Watertown Industrial Center Local Development Corporation's internal control over financial reporting and compliance.

Poulsen & Podvin, CPA, P.C.

Watertown, NY

September 13, 2013

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS	2013	2012
Current Assets:		
Cash and cash equivalents	\$ 262,255	\$ 411,029
Accounts receivable	52,067	17,130
Rents receivable (net of allowance for doubtful accounts of \$150,000 and \$-0-, respectively)	14,363	65,996
Grant receivable (Note 8)	-	250,000
Prepaid insurance	13,755	14,198
Total Current Assets	342,440	758,353
Receivable - leasehold improvement (Note 7)	38,732	52,521
Fixed assets - net of accumulated depreciation (Notes 1 and 2)	2,462,863	2,628,340
TOTAL ASSETS	\$ 2,844,035	\$ 3,439,214
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 14,663	\$ 13,876
Other payables	1,058	44
Deferred revenue:		
Prepaid rent	11,990	5,618
Leasehold improvement (Note 7)	38,732	52,521
Demand notes	-	250,000
Current maturities of long-term debt (Note 3)	15,937	15,466
Total Current Liabilities	82,380	337,525
Long-term debt (Note 3)	347,465	363,402
TOTAL LIABILITIES	429,845	700,927
Net Assets:		
Unrestricted Net Assets:		
Operating	(6,382)	472,377
Board designated	321,111	266,438
Fixed assets	2,099,461	1,999,472
Total Unrestricted Net Assets/Total Net Assets	2,414,190	2,738,287
TOTAL LIABILITIES AND NET ASSETS	\$ 2,844,035	\$ 3,439,214

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

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Revenues and Support:		
Rental income	\$ 464,960	\$ 492,916
Grant income	-	250,000
Investment income	106	382
Insurance settlement	-	83,514
Miscellaneous	29,720	19,624
Total Revenues and Support	<u>494,786</u>	<u>846,436</u>
Expenses:		
Program Services - Development of Industrial Center	736,650	630,373
Support Services - General and administrative	82,233	47,814
Total Expenses	<u>818,883</u>	<u>678,187</u>
Changes in Net Assets	(324,097)	168,249
Net Assets - Beginning of Year	<u>2,738,287</u>	<u>2,570,038</u>
Net Assets - End of Year	<u>\$ 2,414,190</u>	<u>\$ 2,738,287</u>

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

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Activities:		
Change in net assets	\$ (324,097)	\$ 168,249
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	220,488	200,912
Provision for allowance for doubtful accounts	150,000	-
(Increase) decrease in:		
Accounts receivable	(34,937)	5,725
Rents receivable	(98,367)	(2,911)
Grant receivable	250,000	(250,000)
Prepaid insurance	443	(715)
Receivable - leasehold improvement	13,789	29,255
Increase (decrease) in:		
Accounts payable	787	(73,777)
Other payables	1,014	(2,750)
Deferred revenue - rent	6,372	(1,157)
Deferred revenue - other	-	(5,462)
Deferred revenue - leasehold improvement	(13,789)	(29,255)
Net Cash Provided by Operating Activities	<u>171,703</u>	<u>38,114</u>
Investing Activities:		
Investment in fixed assets	<u>(55,011)</u>	<u>(594,302)</u>
Net Cash (Used) by Investing Activities	<u>(55,011)</u>	<u>(594,302)</u>
Financing Activities:		
Long-term debt proceeds	-	250,000
Repayment of principal on long-term debt	<u>(265,466)</u>	<u>(15,010)</u>
Net Cash Provided by Financing Activities	<u>(265,466)</u>	<u>234,990</u>
Net (Decrease) in Cash and Cash Equivalents	(148,774)	(321,198)
Cash and Cash Equivalents - Beginning of Year	<u>411,029</u>	<u>732,227</u>
Cash and Cash Equivalents - End of Year	<u>\$ 262,255</u>	<u>\$ 411,029</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 11,155	\$ 11,611
Cash paid for income taxes	-	-

There were no noncash investing or financing activities in 2013 or 2012.

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

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 1 – Summary of Significant Accounting Policies:

Nature of Activities

Watertown Industrial Center Local Development Corporation is a non-profit organization, which was incorporated in New York State on June 7, 1994. The Organization is involved in developing an industrial center in the City of Watertown, NY by providing low cost rental space to industry.

The mission of the Watertown Industrial Center Local Development Corporation is to facilitate job creation and retention in the community by providing eligible businesses with suitable leased facilities at rents and under conditions that help them succeed.

Basis of Accounting

The financial statements of Watertown Industrial Center Local Development Corporation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendation of FASB Accounting Standards Codification No. 958, *Not-for-Profit Entities: Presentation of Financial Statements*. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Income Tax Status

The Organization is a not-for-profit organization and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Open Tax Years

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2013, 2012, 2011, and 2010 are subject to examination by the IRS, generally for 3 years after they were filed.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Accounts receivable include tenant rents receivable, tenant utilities receivable, and other short-term receivables that are non-interest bearing. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Allowance for Doubtful Accounts

The Organization provides an allowance for doubtful accounts based upon a review of existing receivables. Upon this review, management determined that the allowance for doubtful accounts is \$150,000 for 2013. There is no allowance for doubtful accounts for 2012. The bad debt expense amounted to \$150,000 and \$-0- for the years ended June 30, 2013 and 2012, respectively.

Support and Revenue

Watertown Industrial Center Local Development Corporation receives substantially all its revenue from the leasing of office and manufacturing space in four buildings owned by the Organization.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted. Watertown Industrial Center Local Development Corporation had no temporarily or permanently restricted net assets at June 30, 2013 and 2012.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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.

Property and Equipment

Property and equipment are recorded at cost or fair value at the date of acquisition. Watertown Industrial Center Local Development Corporation follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$1,000. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Category	Recovery Period Years
Buildings and improvements	5-30
Furniture, fixtures and equipment	5-10

Unrestricted Net Assets

Undesignated net assets include revenue and support to develop and maintain the industrial center and for general operating purposes.

Board-designated net assets have been appropriated by the Board from undesignated net assets for specific future needs as follows:

	June 30,	
	2013	2012
Leasehold improvement	\$ 176,524	\$ 161,477
Capital improvement fund	144,587	104,961
	\$ 321,111	\$ 266,438

The net investment in property and equipment consists of property and equipment, net of accumulated depreciation, and any other resources dedicated to property and equipment, net of related liabilities.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Fair Value of Financial Instruments

The carrying value of the note payable approximates fair value because it bears interest at a rate that approximates current market rates for notes with similar maturities and credit quality. Refer to Note 3.

Date of Management's Review

Management has evaluated subsequent events through September 13, 2013, the date which the financial statements were available to be issued.

Note 2 – Fixed Assets:

The major categories of fixed assets as of June 30, 2013 and 2012 are as follows:

	June 30,	
	2013	2012
Land	\$ 205,000	\$ 205,000
Buildings and improvements	4,778,859	4,723,848
Furniture, fixtures and equipment	48,106	48,106
Total	<u>5,031,965</u>	<u>4,976,954</u>
Less - accumulated depreciation	<u>(2,569,102)</u>	<u>(2,348,614)</u>
Net Fixed Assets	<u>\$ 2,462,863</u>	<u>\$ 2,628,340</u>

Note 3 – Related Party Agreements and Transactions:

- An agreement executed between the Organization and Jefferson County Industrial Development Agency (JCIDA) existed where the Corporation agreed to pay JCIDA for administrative support. This agreement was cancelled by both parties in January 2013. The amount paid for the service agreement for the years ended June 30, 2013 and 2012 was \$29,166 and \$50,000, respectively.
- Jefferson County Industrial Development Corporation rents office space from the Organization under a five-year lease agreement. The current lease was executed for the period July 1, 2010 through June 30, 2015. At June 30, 2013, current monthly rental payments are \$1,175.61. Rental income, including rent surcharges, received during the years ended June 30, 2013 and 2012 was \$14,107 in each year.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

- In December 2010, the Organization entered into a participation loan with Watertown Local Development Corporation and Jefferson County Local Development Corporation in the amount of \$400,000. The loan was obtained in order to finance the replacement of the Building A roof. The note is for a twenty-year term, with payments beginning January 1, 2011 through January 1, 2031 at an interest rate of 3.00%. During the years ended June 30, 2013 and 2012, the Organization made principal and interest payments totaling \$26,621 in both years. The following is outstanding at year end:

Note Payable	Interest Rate	June 30, 2013		June 30, 2012	
		Current	Long-Term	Current	Long-Term
WLDC /JCLDC	3.00%	<u>\$ 15,937</u>	<u>\$ 347,465</u>	<u>\$ 15,466</u>	<u>\$ 363,402</u>

The future scheduled maturities of long-term debt are as follows:

Years ending June 30:

2014	\$ 15,937
2015	16,421
2016	16,921
2017	17,435
2018	17,966
Thereafter	<u>278,722</u>
	<u>\$ 363,402</u>

- In January 2012, the Organization obtained demands notes in the amount of \$125,000 each from Watertown Local Development Corporation and Jefferson County Industrial Development Agency. The notes were obtained as operating loans to be used by the Organization until the Empire State Development Grant was received. On July 6, 2012, the Empire State Development Grant for \$250,000 was received and subsequently, the demand notes payable to Watertown Local Development Corporation and Jefferson County Industrial Development Agency were paid in full.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 4 – Property on Operating Leases:

The following schedule provides an analysis of the Organization's investment in property on operating leases as of June 30, 2013:

Land	\$ 205,000
Buildings and improvements	<u>4,778,859</u>
Total	4,983,859
Less - accumulated depreciation	<u>(2,523,077)</u>
Net	<u>\$ 2,460,782</u>

(See Note 5)

Note 5 – Rentals under Operating Leases:

The Organization leases office space to tenants under non-cancelable operating leases with terms of one to ten years. The following is a schedule of years of future minimum rentals under the leases after June 30, 2013:

2014	\$ 330,188
2015	297,475
2016	226,241
2017	215,568
2018	173,642
2019-2021	<u>359,348</u>
	<u>\$ 1,602,462</u>

Note 6 – Concentrations of Credit Risk:

The Organization maintains its cash balances in financial institutions located in Watertown, NY. Interest-bearing deposits and non-interest bearing deposits are insured by the Federal Deposit Insurance Corporation up to \$250,000. All deposits are fully insured as of June 30, 2013.

WATERTOWN INDUSTRIAL CENTER
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

Note 7 – Receivable Leasehold Improvements/ Deferred Revenue Leasehold Improvements:

At June 30, 2013 and 2012, the receivable and corresponding deferred revenue were recorded in the amount of \$38,732 and \$52,521, respectively, on the Statements of Financial Position. The amount represents the additional rent surcharge to be collected from tenants over their lease terms. The additional rent surcharges were the result of building additions completed, as requested by tenants. The Organization has consistently recorded all building improvements done for tenants as an addition to the Organization's fixed assets and charged rent surcharges to the tenants to cover the cost of the improvements.

The Organization decided to record the rent surcharge amount as receivable and deferred revenue on the Statements of Financial Position to better track the status of additional rent surcharges. There is no effect on the Statements of Activities as a result of recording the receivable and related deferred revenue. The additional rent surcharge payments received from tenants has been consistently recorded as rental income on the Statements of Activities.

Note 8 – Grant Receivable:

In 2010, Watertown Industrial Center Local Development Corporation was awarded a \$250,000 grant from Empire State Development (ESD). The grant monies were a reimbursement for a portion of the roof replacement costs incurred by the Organization. The project was completed in April 2012 and documentation to verify compliance with the grant agreement was appropriately submitted to ESD. Grant monies were received in July 2012.

Note 9 – Subsequent Event:

On August 1, 2013, the Organization established a 401K Profit Sharing Pension Plan. The Plan will be administered by RBC Wealth Management. The employer contribution was set at 4% of the employees' annual salary. A contribution was made by the Organization retroactive to April 1, 2013 in the amount of \$980. This amount is not reflected in the financial statements as of June 30, 2013.

ADDITIONAL INFORMATION

WATERTOWN INDUSTRIAL CENTER
LOCAL DEVELOPMENT CORPORATION

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SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

 2 0 1 3		
	Program Services Development of Industrial Center	Support Services General and Administrative	Total Expenses
Administrative services	\$ 14,583	\$ 14,583	\$ 29,166
Management leasing fee	76,091	-	76,091
Salaries	21,201	-	21,201
Depreciation	220,488	-	220,488
Professional services	2,105	53,969	56,074
Repairs and maintenance	66,854	-	66,854
Insurance	55,540	1,842	57,382
Office expense	-	8,986	8,986
Payroll taxes	9,051	-	9,051
Miscellaneous	-	2,853	2,853
Travel and entertainment	1,050	-	1,050
Telephone and utilities	48,472	-	48,472
Leased management benefits	18,873	-	18,873
Employee benefits	5,471	-	5,471
Real property taxes	28,186	-	28,186
Interest expense	11,155	-	11,155
Materials, equipment and advertisement	7,530	-	7,530
Bad debt expense	150,000	-	150,000
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 736,650</u>	<u>\$ 82,233</u>	<u>\$ 818,883</u>

See Paragraph on Supplementary Schedules Included in Auditor's Report.

 2 0 1 2		
	Program Services Development of Industrial Center	Support Services General and Administrative	Total Expenses
Administrative services	\$ 25,000	\$ 25,000	\$ 50,000
Management leasing fee	97,101	-	97,101
Depreciation	200,912	-	200,912
Professional services	455	10,848	11,303
Repairs and maintenance	93,248	-	93,248
Insurance	56,159	1,842	58,001
Office expense	-	6,535	6,535
Payroll taxes	7,635	-	7,635
Miscellaneous	-	694	694
Travel and entertainment	1,891	-	1,891
Telephone and utilities	59,290	-	59,290
Leased management benefits	37,311	-	37,311
Real property taxes	28,663	-	28,663
Interest expense	11,611	-	11,611
Materials, equipment and advertisement	11,097	-	11,097
Bad debt expense	-	2,895	2,895
	<u> </u>	<u> </u>	<u> </u>
Total	<u><u>\$ 630,373</u></u>	<u><u>\$ 47,814</u></u>	<u><u>\$ 678,187</u></u>
