

BASIC FINANCIAL STATEMENTS

**ROCHESTER ECONOMIC DEVELOPMENT
CORPORATION**

SEPTEMBER 30, 2012 AND 2011



ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Rochester Economic Development Corporation
City of Rochester, New York

We have audited the accompanying statements of net assets of Rochester Economic Development Corporation (the Corporation) as of September 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Corporation, as of September 30, 2012 and 2011, and the changes in its net assets and 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 December 17, 2012, on our consideration of the Corporation's internal control over financial reporting and 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 the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-5, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Freed Maxick CPAs, P.C.

Rochester, New York
December 17, 2012

As management of the Rochester Economic Development Corporation, we offer readers of the Rochester Economic Development Corporation's financial statements this narrative overview and analysis of the financial activities of the Rochester Economic Development Corporation for the fiscal year ended September 30, 2012.

Financial Highlights

- + The assets of the Rochester Economic Development Corporation exceeded its liabilities at the close of the most recent fiscal year by \$14,310,607 (*net assets*). Of this amount, \$2,335,538 (*unrestricted net assets*) may be used to meet the Rochester Economic Development Corporation's ongoing obligations to creditors.
- + The Rochester Economic Development Corporation's total assets decreased by \$461,564 primarily due normal operations of the Corporation.
- + As of the close of the current fiscal year, the Rochester Economic Development Corporation's funds reported combined ending balances of \$14,310,607 a decrease of \$32,975, in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Rochester Economic Development Corporation's basic financial statements. The Rochester Economic Development Corporation's basic financial statements comprise two components: 1) corporation financial statements and 2) notes to the financial statements.

Corporation-wide financial statements. The *corporation-wide financial statements* are designed to provide readers with a broad overview of the Rochester Economic Development Corporation's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Rochester Economic Development Corporation's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Rochester Economic Development Corporation is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the corporation's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The corporation financial statements can be found on pages immediately following this section.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the corporation-wide financial statements. The notes to the financial statements can be found following the Basic Financial Statements section of this report.

Corporation-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Rochester Economic Development Corporation, assets exceed liabilities by \$14,310,607 at the close of the most recent fiscal year.

Currently, of the Rochester Economic Development Corporation's net assets, 7 percent reflects its investment in capital assets. The Rochester Economic Development Corporation uses these capital assets to provide additional revenue for future spending.

Rochester Economic Development Corporation's Net Assets

			Variance
	2012	2011	Increase/(Decrease)
Current and other assets	\$ 9,250,540	\$ 8,995,690	\$ 254,850
Capital assets and notes receivable	5,881,604	6,598,018	(716,414)
Total assets	15,132,144	15,593,708	(461,564)
Long-term liabilities outstanding	420,000	800,000	(380,000)
Other liabilities	401,537	450,126	(48,589)
Total liabilities	821,537	1,250,126	(428,589)
Net assets:			
Invested in capital	1,051,841	1,163,384	(111,543)
Unrestricted	2,335,538	2,223,915	111,623
Restricted	10,923,228	10,956,283	(33,055)
Total net assets	\$ 14,310,607	\$ 14,343,582	\$ (32,975)

Rochester Economic Development Corporation's Changes in Net Assets

			Variance
	2012	2011	Increase (Decrease)
Operating revenues			
Rental income	207,207	217,833	(10,626)
Other revenues	28,814	34,716	(5,902)
Total operating revenue	236,021	252,549	(16,528)
Operating expenses	406,906	528,504	(121,598)
Operating income (loss)	(170,885)	(275,955)	105,070
Nonoperating revenues			
Interest revenues	236,750	237,141	(391)
Interest expenses	(98,840)	(129,072)	30,232
Total nonoperating revenue	137,910	108,069	29,841
Change in net assets	(32,975)	(167,886)	134,911
Net Assets - beginning of year	14,343,582	14,511,468	(167,886)
Net Assets - end of year	14,310,607	14,343,582	\$ (32,975)

The Rochester Economic Development Corporation's total net assets decreased \$32,975 due mainly to ongoing operations of the Corporation.

Financial Analysis of the Corporation's Funds

Restricted Funds. The following programs comprise the majority of the Rochester Economic Development Corporation's restricted funds; Revolving Loan Program, Investment Program, Enterprise Community Zone, Kodak/City Economic Development Fund, Midtown Relocation, Arts and Cultural Marketing, The Smith Street Acquisition and the Phillip J. Banks Small Business Assistance Program.

As of the end of the current fiscal year, the Rochester Economic Development Corporation's restricted funds (including restricted capital assets) reported combined ending fund balances of \$10,923,228, a decrease of \$33,055 in comparison with the prior year. The Revolving Loan Program had a net increase of \$22,477 due mainly to ongoing collections and interest. The Investment Program had a net increase of \$12,250 due mainly to ongoing collections and interest. The Enterprise Community Zone had a net increase of \$30,844 mainly due to collections of loans and interest. The Kodak/City Economic Development Fund had a net increase of \$431 due to collections of loans and interest. The Phillip J. Banks Small Business Assistance Program had a decrease of \$99,550 due to grants given to small businesses.

Unrestricted Funds. The unrestricted funds include the day-to-day operations of the Rochester Economic Development Corporation. At the end of the current fiscal year, the unrestricted fund balance was \$2,335,538 which was an increase of \$111,623 from the prior year.

Budgetary Highlights

The Rochester Economic Development Corporation budgets funds on a project-by-project basis. The projects are approved by the Rochester Economic Development Corporation's Board of Directors.

Capital Assets and Debt Administration

Capital Assets. In accordance with Governmental Accounting Standards Board Statement Number 34, the Rochester Economic Development Corporation has recorded depreciation expense associated with all of its capital assets. The Rochester Economic Development Corporation's investment in capital assets for its corporation and business type activities as of September 30, 2012, amounted to \$1,051,841 (net of accumulated depreciation). The total decrease in the Rochester Economic Development Corporation's investment in capital assets for the current fiscal year was \$111,543.

More detailed information on the Rochester Economic Development Corporation's capital assets is provided in the Notes to the Financial Statements.

Economic Factors

Non-farm employment in New York State increased by 1.5% as of October 2012 from October 2011. Private sector employment in the Rochester metropolitan area increased by 0.7% over the year, with non-farm employment increasing by 0.7% for the year. Employment gains for the year ended October 2012 were led by professional/business services (3.2%) and education/health services (1.8%). For the same period, manufacturing employment showed a 1.4% decline, while government sector jobs increased by 0.4%.

The unemployment rate for the Rochester metro area was 7.8% as October 2012 (up from 7.2% as of October 2011). This compares to the unemployment rate for New York State of 8.7% as of October 2012 (up from 7.9% at October 2011 and for the nation of 7.9% as of October 2012 (down from 9.0% as of October 2011)).

The top five largest employers in the Rochester area are University of Rochester/Strong Medical Center, Wegmans Food Markets, Rochester General Health, Eastman Kodak, and Xerox Corporation. UR/SMC continues to be the largest employer, as the Rochester region economy continues to transition from an economy which was heavily based on manufacturing decades ago to one with a greater emphasis on education, health services, and business/professional services. UR's total economic impact on the greater Rochester MSA is estimated to include \$2.4 billion in wages paid (direct/indirect), and \$143 million in sales tax, income tax, and property tax.

Interest rates declined slightly in 2012 from 2011 as the US Federal Reserve continued monetary policies designed to keep interest rates low. The prime rate of interest remained unchanged at 3.25% from October 2011 to October 2012, while medium and long-term interest rates declined on average approximately 100 basis points. Local bank lending, while continuing to be affected by the impact of the 2008/2009 financial crisis, increased, as area banks continued to loosen previously tightened lending practices. REDCO experienced steady demand for SBA 504 loans in FYE 9/30/12 and expects that this trend will continue into fiscal 2013.

Requests for Information

This financial report is designed to provide a general overview of the Rochester Economic Development Corporation's finances for all those with an interest in the corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Director of Finance, City Hall – Room 109A, 30 Church Street, Rochester, NY 14614.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF NET ASSETS

For the Years Ended September 30,

ASSETS	2012	2011
Current assets:		
Cash and cash equivalents	\$ 8,577,099	\$ 8,187,535
Accounts receivable	20,890	165,918
Notes receivable - current portion	652,551	642,237
Total current assets	9,250,540	8,995,690
Property and equipment:		
Land and buildings, net	1,051,841	1,163,384
Other assets:		
Notes receivable - net of current portion	4,829,763	5,434,634
Total assets	\$ 15,132,144	\$ 15,593,708
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 4,241	\$ 66,702
Accrued liabilities	17,296	23,424
Notes payable - current portion	380,000	360,000
Total current liabilities	401,537	450,126
Other liabilities:		
Notes payable -- net of current portion	420,000	800,000
Total liabilities	821,537	1,250,126
Net assets:		
Invested in capital assets, net of related debt	1,051,841	1,163,384
Restricted	10,923,228	10,956,283
Unrestricted	2,335,538	2,223,915
Total net assets	14,310,607	14,343,582
Total liabilities and net assets	\$ 15,132,144	\$ 15,593,708

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended September 30,

	2012	2011
Operating revenues:		
Rental income	\$ 207,207	\$ 217,833
Other revenues	28,814	34,716
Total operating revenues	236,021	252,549
Operating expenses:		
Salary & benefits	48,307	48,416
Insurance	11,436	11,243
Professional services	16,669	75,202
Management fee	75,000	75,000
Grant expense	99,550	70,093
Other expenses	44,401	137,007
Depreciation	111,543	111,543
Total operating expenses	406,906	528,504
Operating loss	(170,885)	(275,955)
Non-operating revenues (expenses):		
Interest revenues	236,750	237,141
Interest expenses	(98,840)	(129,072)
Total non-operating revenues	137,910	108,069
Change in net assets	(32,975)	(167,886)
Net assets - beginning of year	14,343,582	14,511,468
Net assets - end of year	\$ 14,310,607	\$ 14,343,582

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOWS For the Years Ended September 30,

	2012	2011
Cash flows from operating activities:		
Cash received from customers and governmental agencies	\$ 352,235	\$ 126,670
Payments of service providers	(309,517)	(229,746)
Payments for employee services	(48,448)	(48,697)
Other revenues	28,814	34,716
Net cash provided (used) by operating activities	23,084	(117,057)
Cash flows from financing activities:		
Principal payments on long-term debt	(360,000)	(335,000)
Interest payments on long-term debt	(104,198)	(134,047)
Net cash used by financing activities	(464,198)	(469,047)
Cash flows from investing activities:		
Interest revenues	236,750	237,141
Issuance of notes receivable	-	(200,000)
Repayments of notes receivable	593,928	864,083
Change in certificates of deposit	-	75,000
Net cash provided by investing activities	830,678	976,224
Net increase in cash and cash equivalents	389,564	390,120
Cash and cash equivalents - beginning of year	8,187,535	7,797,415
Cash and cash equivalents - end of year	\$ 8,577,099	\$ 8,187,535
Reconciliation of loss from operations to net cash provided (used) by operating activities:		
Loss from operations	\$ (170,885)	\$ (275,955)
Adjustment to reconcile loss from operations to net cash used by operating activities:		
Depreciation expense	111,543	111,543
Change in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	145,028	(91,163)
Prepaid expenses	-	75,000
Increase (decrease) in:		
Accounts payable	(62,461)	63,799
Accrued liabilities	(141)	(281)
Net cash provided (used) by operating activities	\$ 23,084	\$ (117,057)
Supplemental cash flow information:		
Cash paid for interest expense	\$ 104,198	\$ 134,047

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Rochester Economic Development Corporation (the "Corporation") was formed under the Not-for-Profit Corporation Law of the State of New York for the purpose of creating employment opportunities, particularly for low and moderate income persons, thereby improving the quality and condition of life in the City of Rochester, New York (the "City"). This is accomplished by encouraging and affecting the retention of existing business and industry, as well as encouraging the location and expansion of residential, commercial, industrial, and manufacturing facilities in the City. The Corporation is subject to the provisions of the New York State Public Authorities Law. As a local authority under this law, the Corporation is required to make certain information available to the public.

New York State Empire Zones, formerly known as the Economic Development Zones, are designated geographic areas that offer special incentives to encourage economic development, business investment, and job creation. Certified businesses in the zone that are eligible could qualify for significant New York State income tax credits, property tax abatements, sales tax benefits, as well as utility discounts.

The City of Rochester provides certain administrative services to the Corporation. In the fiscal year 2010, the Corporation began making an annual payment of \$75,000 for these services to the City of Rochester.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. New assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Amounts for each of the two classes of net assets – restricted and unrestricted – are displayed in the statement of net assets.

For financial accounting and reporting purposes, the Corporation follows all pronouncements of the Governmental Accounting Standards Board (GASB), as well as the pronouncements of the Financial Accounting Standards Board (FASB), including those FASB pronouncements issued after November 30, 1989 that does not conflict with or contradict GASB pronouncements.

B. NET ASSETS

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation.
- b. Restricted net assets - Consists of net assets with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. ACCOUNTS RECEIVABLE

Accounts receivable are reported at their net realizable value. Generally accepted accounting principles require the establishment of an allowance for doubtful accounts, however, no allowance for uncollectible accounts has been provided since management believes that such allowance would not be necessary.

D. PROPERTY AND EQUIPMENT

Property and equipment is recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements is expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. As of December 31, 2012 and 2011 depreciation expense amounted to \$111,543.

E. INCOME TAXES

The Corporation is a Public Benefit Corporation of the State of New York and is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes has been made on the accompanying financial statements.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include certificates of deposit which mature within 90 days of issuance.

G. LAND AND BUILDINGS

Land and buildings are recorded at historical cost. Depreciation is computed on a straight-line method over the estimated useful lives of the assets.

<u>Life in</u> <u>Class</u>	<u>Years</u>
Buildings	25

H. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

I. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following new statements:

- Statement No. 61, *The Financial Reporting Entity: Omnibus*—an amendment of GASB Statements No. 14 and No. 34, which will be effective for the year ending September 30, 2014;
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which will be effective for the year ending September 30, 2013;
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the year ending September 30, 2013;
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*—an amendment of GASB Statement No. 53, which will be effective for the year ending September 30, 2013;
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the year ending September 30, 2014; and
- Statement No. 66, *Technical Corrections—2012*—an amendment of GASB Statements No. 10 and 62, which will be effective for the year ending September 30, 2014.

The Corporation is currently studying these statements and plans on adoption of these policies as deemed appropriate.

J. RECLASSIFICATIONS

Certain reclassifications have been made to the 2011 net asset classifications to conform with current year presentation.

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS

A. ASSETS

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing accounts and certificates of deposit totaling \$8,577,099 and \$8,187,535 at September 30, 2012 and 2011, respectively. The Corporation's investment policies are governed by State statutes. The Corporation adopted an investment policy during 2011. The Corporation's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and municipalities and school districts.

Investment and Deposit Policy

The Corporation implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DETAILS ON TRANSACTION CLASSES/ACCOUNTS (Continued)

The Corporation currently follows an investment and deposit policy as directed by State statutes, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Board of Directors.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The Corporation restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by the New York State and its localities.

Statement of Cash Flows

For the purpose of this statement, cash includes both the restricted and unrestricted portions.

NOTE 4. RECEIVABLES

Major revenues accrued by the Corporation at September 30, include the following:

	<u>2012</u>	<u>2011</u>
Rents	\$ 17,267	\$ -
Loan collections from the City	-	162,922
Other miscellaneous receivables	3,623	2,996
Total accounts receivable	<u>\$ 20,890</u>	<u>\$ 165,918</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. NOTES RECEIVABLE

The Corporation maintains a revolving loan fund, which is intended to provide loans to existing and new businesses located in the City. No allowance has been provided as all loans are deemed collectable by management.

Notes receivable at September 30, is as follows:

	<u>2012</u>	<u>2011</u>
Note receivable, relating to a capital lease of a constructed building, with annual principal payments beginning at \$60,000 and increasing to \$420,000 through 2014 (principal payments of \$309,951 and \$466,251 in 2012 and 2011, respectively) with semi-annual interest payments calculated at blended rate of 8.57%.	\$ 690,881	\$ 1,000,832
Note receivable, relating to a Upper Falls Mall business, with principal due and payable on December 31, 2013. The agreement includes a base interest of 1% per annum until December 31, 2013, plus additional interest ranging from 1% to 2% per annum that is contingent upon gross sales of the borrower. The note is collateralized by all trade fixtures and equipment owned by the borrower located at Upper Falls Mall.	2,000,000	2,000,000
Note receivable, relating to the Adflex loan, due in monthly installments of \$840 through November 1, 2015, including interest at 3%. The note is guaranteed by a third-party corporation and collateralized by a first lien on equipment of the borrower.	30,401	39,311
Note receivable, relating to Flower City loan, due in monthly installments of \$884, including interest at 5%, through February 1, 2014. The note is collateralized by a building, the assets of the borrower, and a second mortgage on the building. The note is guaranteed by the owners of the borrowing company.	14,485	25,558
Note receivable, relating to the Enterprise Community Zone program, with monthly principal and interest payments of \$2,814 are due through June 30, 2015. The note is guaranteed by the owners of the borrowing company.	86,450	117,129
Note receivable, relating to the Enterprise Community Zone program, due in interest-only payments at 1% of the outstanding balance until December 31, 2013, after which the outstanding balance is due in a lump sum payment.	1,500,000	1,500,000
Note receivable, relating to the Mercury Print loan, due in monthly installments of \$4,273, including interest at 1% through May 1, 2013. The note is collateralized by a letter of credit.	34,059	84,495

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. NOTES RECEIVABLE (Continued)

	<u>2012</u>	<u>2011</u>
Note receivable, relating to the Kodak/Economic Development Fund Loan Program, due in monthly installments of \$1,709, including interest at 1%, through April 1, 2014. The note is collateralized by a letter of credit.	32,209	52,291
Note receivable, relating to the 61 Commercial St. loan, due in monthly installments of \$9,656, including interest at 3% through June 1, 2020. The note is guaranteed by the owners of the borrowing company.	800,374	890,760
Note receivable, relating to the Acro Industries loan, due in monthly installments of \$4,359, including interest at 1% through January 15, 2015. The note is collateralized by a letter of credit	120,587	171,255
Note receivable, relating to the Mamasans Monroe loan, due in monthly installments of \$1,752, including interest at 1% through April 1, 2021. The note is collateralized by a letter of credit.	<u>172,868</u>	<u>195,240</u>
Total notes receivable	5,482,314	6,076,871
Less current portion	<u>652,551</u>	<u>642,237</u>
Long term portion	<u>\$ 4,829,763</u>	<u>\$ 5,434,634</u>

NOTE 6. LAND AND BUILDINGS

A summary of land and buildings at September 30, respectively, is as follows:

	<u>2012</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated - land	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets being depreciated - buildings	<u>2,788,587</u>	<u>-</u>	<u>-</u>	<u>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation - buildings	<u>(1,885,203)</u>	<u>(111,543)</u>	<u>-</u>	<u>(1,996,746)</u>
Capital assets, net of depreciation	<u>\$ 1,163,384</u>	<u>\$ (111,543)</u>	<u>\$ -</u>	<u>\$ 1,051,841</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 6. LAND AND BUILDINGS (Continued)

	2011			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated land	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets being depreciated - buildings	<u>2,788,587</u>	<u>-</u>	<u>-</u>	<u>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation - buildings	<u>(1,773,660)</u>	<u>(111,543)</u>	<u>-</u>	<u>(1,885,203)</u>
Capital assets, net of depreciation	\$ <u>1,274,927</u>	\$ <u>(111,543)</u>	\$ <u>-</u>	\$ <u>1,163,384</u>

This property is rented to independent third parties (see Note 8).

NOTE 7. NOTES PAYABLE

Notes payable as of September 30, are as follows:

	<u>2012</u>	<u>2011</u>
Note payable to the City with interest at an annual blended rate of 8.57%. Semi-annual interest payments and annual principal payments due pursuant to 20 promissory notes maturing August 1 of each year through 2014.	\$ 395,000	\$ 570,000
Note payable to the County of Monroe with interest at an annual blended rate of 8.57%. Semi-annual interest payments and annual principal payments due pursuant to 20 promissory notes maturing August 1 of each year through 2014.	<u>405,000</u>	<u>590,000</u>
Total notes payable	800,000	1,160,000
Less current portion	<u>380,000</u>	<u>360,000</u>
Long term portion	\$ <u>420,000</u>	\$ <u>800,000</u>

Principal payments are as follows:

Years Ending September 30	
2013	\$ 380,000
2014	<u>420,000</u>
Total	\$ <u>800,000</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 8. LEASES

During fiscal year 1995, the Corporation entered into an operating lease, which expires in 2014, for land and a warehouse with monthly payments of approximately \$4,286. The Corporation in turn subleases the land and warehouse to an independent third party for terms that mirror their original lease agreement. The Corporation had an additional building constructed during fiscal 1995 and entered into a separate capital lease agreement with the independent third party.

Annual fixed rent payments due under the above lease are as follows:

<u>Years Ending September 30</u>	
2013	\$ 51,439
2014	51,439

The Corporation receives an annual rent of \$207,207 from an independent third party for certain of the Corporation's land and buildings. The prior lease expired in November 2010 and was subsequently modified and extended through November 2012.

NOTE 9. RESTRICTED NET ASSETS

Restricted net assets (including capital assets) available as of September 30, are as follows:

	<u>2012</u>	<u>2011</u>
Revolving Loan Program	\$ 5,745,829	\$ 5,723,352
Investment Program	1,286,996	1,274,746
Enterprise Community Zone	3,164,804	3,133,467
Kodak/Economic Development Department Loan Program	311,250	310,819
Business Ownership Training School	26,077	26,077
Upper Falls Mall Operation	49,415	49,415
Midtown Relocation	8,500	8,500
Phillip J. Banks SBAP	330,357	429,907
	<u>\$ 10,923,228</u>	<u>\$ 10,956,283</u>

NOTE 10. KODAK/ECONOMIC DEVELOPMENT FUND

The primary goal and objective of the Kodak/Economic Development Fund is to supply capital in the form of below-market interest rate loans to finance certain qualified businesses that retain and/or create jobs in the City. Kodak agreed to provide a one-time funding of up to \$300,000 to fund the program and the Corporation administers the program. All proceeds collected in repayment of loans will go to fund additional loans. The maximum amount of any given loan shall be \$100,000.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 11. INTEREST REVENUE

Interest revenue earned as of September 30, are as follows:

	<u>2012</u>	<u>2011</u>
Interest from financial institutions	\$ 8,540	\$ 8,435
Interest from note receivables	<u>228,210</u>	<u>228,706</u>
	<u>\$ 236,750</u>	<u>\$ 237,141</u>

NOTE 12. SUBSEQUENT EVENTS

The Corporation disbursed a \$250,000 loan to Monroe School Transportation, Inc. on October 5th, 2012.

Subsequent to year end the Corporation authorized a \$2,000,000 loan from the REDCO Revolving Loan Fund for real estate development. This loan was disbursed on November 20, 2012.

These financial statements have not been updated for subsequent events occurring after December 17, 2012 which is the date these financial statements were available to be issued.