

BASIC FINANCIAL STATEMENTS

**ROCHESTER ECONOMIC DEVELOPMENT
CORPORATION**

**SEPTEMBER 30, 2011 AND 2010
With
INDEPENDENT AUDITOR'S REPORT**

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2-5
Basic Financial Statements:	
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-19
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	20-21



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, 2011 and 2010 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 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 the Corporation, as of September 30, 2011 and 2010, 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 27, 2011, 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.

The management's discussion and analysis on pages 2-5 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Freed Maxick & Battaglia, CPAs, PC

Rochester, New York
December 27, 2011

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, 2011.

Financial Highlights

- + The assets of the Rochester Economic Development Corporation exceeded its liabilities at the close of the most recent fiscal year by \$14,343,582 (*net assets*). Of this amount, \$1,709,803 (*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 \$444,343 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 \$14,343,582 a decrease of \$167,886, 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-wide 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 activities* 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-wide financial statements can be found on pages immediately following this section as the first two pages of the Basic Financial Statements.

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 \$14,343,582 at the close of the most recent fiscal year.

Currently, of the Rochester Economic Development Corporation's net assets, 9 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
	2011	2010	Increase/(Decrease)
Current and other assets	\$ 8,995,690	\$ 8,626,462	\$ 369,228
Capital assets and notes receivable	6,598,018	7,411,589	(813,571)
Total assets	15,593,708	16,038,051	(444,343)
Long-term liabilities outstanding	800,000	1,160,000	(360,000)
Other liabilities	450,126	366,583	83,543
Total liabilities	1,250,126	1,526,583	(276,457)
Net assets:			
Unrestricted	2,873,187	2,900,315	(27,128)
Restricted	11,470,395	11,611,153	(140,758)
Total net assets	\$ 14,343,582	\$ 14,511,468	\$ (167,886)

Rochester Economic Development Corporation's Changes in Net Assets

			Variance
	2011	2010	Increase (Decrease)
Operating revenues			
Governmental agencies	\$ -	\$ 68,066	\$ (68,066)
Rental income	217,833	270,963	(53,130)
Other revenues	34,716	44,262	(9,546)
Total operating revenue	252,549	383,291	(130,742)
Operating expenses	528,504	922,060	(393,556)
Operating income (loss)	(275,955)	(538,769)	262,814
Nonoperating revenues			
Interest revenues	237,141	265,448	(28,307)
Interest expenses	(129,072)	(158,862)	29,790
Total nonoperating revenue	108,069	106,586	1,483
Change in net assets	(167,886)	(432,183)	264,297
Net Assets - beginning of year	14,511,468	14,943,651	(432,183)
Net Assets - end of year	14,343,582	14,511,468	\$ (167,886)

The Rochester Economic Development Corporation's total net assets decreased \$167,886 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 \$11,470,395, a decrease of \$140,758 in comparison with the prior year. The Revolving Loan Program had a net increase of \$37,742 due mainly to ongoing collections and interest. The Investment Program had a net increase of \$7,350 due mainly to ongoing collections and interest. The Enterprise Community Zone had a net increase of \$26,158 due mainly to collections on loans and interest. The Kodak/City Economic Development Fund had a net increase of \$635 due to collections on loans and interest. The Smith Street Acquisition had a net decrease of \$142,550 due to ongoing operations. The Phillip J. Banks Small Business Assistance Program had a decrease of \$70,093 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 funds balance was \$1,709,803, which was an increase of \$84,415 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, 2011, amounted to \$1,163,384 (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 0.7% as of October 2011 from October 2010. Private sector employment in the Rochester metropolitan area increased by 1.8% over the year, with non-farm employment increasing by 1.5% for the year. Employment gains for the year ended September 30, 2011 were led by construction (6.5%) and professional/business services (6.1%). For the same period, manufacturing employment showed a 1.0% gain, while government sector jobs decreased by less than 1.0%.

The unemployment rate for the Rochester metro area was 6.7% as of October 2011 (down from 7.4% as of October 2010). This compares to the unemployment rate for New York State of 7.9% as of October 2011 (down from 8.3% at October 2010) and for the nation of 9.0% as of October 2011 (down from 9.7% as of October 2010).

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 heavily based on manufacturing to one with a greater emphasis on education, health services, and business/professional services. UR's total economic impact on the New York State is estimated at \$4.11 billion, with the impact on the Rochester MSA estimated to include \$2.3 billion in wages paid (direct/indirect).

Interest rates declined in 2011 from 2010. While the prime rate of interest remained unchanged at 3.25% from October 2010 to October 2011, actions taken by the US Federal Reserve reduced medium and long-term interest rates. Local bank lending continued to be constrained by the lingering effects of the 2008/2009 national economic recession, although area banks loosened previously tightened lending practices modestly. REDCO experienced strong demand for SBA 504 loans in FYE 9/30/11 and expects that this trend will continue into fiscal 2012.

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	2011	2010
Current assets:		
Cash and cash equivalents	\$ 8,187,535	\$ 7,797,415
Accounts receivable	165,918	74,755
Notes receivable - current portion	642,237	604,292
Prepaid expenses	-	75,000
Total current assets	<u>8,995,690</u>	<u>8,551,462</u>
Property and equipment:		
Land and buildings, net	1,163,384	1,274,927
Other assets:		
Investments - certificate of deposit	-	75,000
Notes receivable - net of current portion	5,434,634	6,136,662
Total other assets	<u>5,434,634</u>	<u>6,211,662</u>
	<u><u>\$ 15,593,708</u></u>	<u><u>\$ 16,038,051</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 66,702	\$ 2,903
Accrued liabilities	23,424	28,680
Notes payable - current portion	360,000	335,000
Total current liabilities	<u>450,126</u>	<u>366,583</u>
Other liabilities:		
Notes payable - net of current portion	<u>800,000</u>	<u>1,160,000</u>
Total liabilities	1,250,126	1,526,583
Net assets:		
Invested in capital assets, net of related debt	1,163,384	1,274,927
Restricted	11,470,395	11,611,153
Unrestricted	<u>1,709,803</u>	<u>1,625,388</u>
Total net assets	<u>14,343,582</u>	<u>14,511,468</u>
	<u><u>\$ 15,593,708</u></u>	<u><u>\$ 16,038,051</u></u>

See notes to financial statements.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended September 30,

	2011	2010
Operating revenues:		
Governmental agencies	\$ -	\$ 68,066
Rental income	217,833	270,963
Other revenues	34,716	44,262
Total operating revenues	252,549	383,291
Operating expenses:		
Salary and benefits	48,416	49,093
Insurance	11,243	13,311
Professional services	75,202	91,669
Management fee	75,000	75,000
Grant expense	70,093	504,310
Other expenses	137,007	77,134
Depreciation	111,543	111,543
Total operating expenses	528,504	922,060
Operating loss	(275,955)	(538,769)
Non-operating revenues (expenses):		
Interest revenues	237,141	265,448
Interest expenses	(129,072)	(158,862)
Total non-operating revenues	108,069	106,586
Change in net assets	(167,886)	(432,183)
Net assets - beginning of year	14,511,468	14,943,651
Net assets - end of year	\$ 14,343,582	\$ 14,511,468

See notes to financial statements.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
For the Years Ended September 30,

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers and governmental agencies \$	126,670	\$ 601,961
Payments of service providers and suppliers	(229,746)	(857,646)
Payments for employee services	(48,697)	(49,654)
Other revenues	34,716	44,262
Net cash used by operating activities	<u>(117,057)</u>	<u>(261,077)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(335,000)	(512,923)
Interest payments on long-term debt	(134,047)	(163,513)
Change in escrow account	-	178,750
Net cash used by financing activities	<u>(469,047)</u>	<u>(497,686)</u>
Cash flows from investing activities:		
Interest revenues	237,141	265,448
Issuance of notes receivable	(200,000)	(1,255,000)
Repayments of notes receivable	864,083	542,811
Change in certificates of deposit	75,000	-
Net cash provided (used) by investing activities	<u>976,224</u>	<u>(446,741)</u>
Net increase (decrease) in cash and cash equivalents	390,120	(1,205,504)
Cash and cash equivalents - beginning of year	<u>7,797,415</u>	<u>9,002,919</u>
Cash and cash equivalents - end of year	<u>\$ 8,187,535</u>	<u>\$ 7,797,415</u>
Reconciliation of loss from operations to net cash used by operating activities:		
Loss from operations	\$ (275,955)	\$ (538,769)
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	(91,163)	262,932
Prepaid expenses	75,000	(75,000)
Increase (decrease) in:		
Accounts payable	63,799	(21,222)
Accrued liabilities	(281)	(561)
Net cash used by operating activities	<u>\$ (117,057)</u>	<u>\$ (261,077)</u>
Supplemental cash flow information:		
Cash paid for interest expense	\$ 134,047	\$ 163,513

See notes to financial statements.

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.

The City of Rochester provides certain administrative services to the Corporation. In the fiscal year 2011, 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.

Net Assets - Net assets are classified into three categories according to external donor restrictions or availability of assets for satisfaction of the Corporation's obligations. The Corporation's net assets are classified as follows:

Invested in Capital Assets-Net of Related Debt - This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets - This includes assets in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets - Unrestricted net assets represent resources derived from rental income and other operating revenue. These resources are used for transactions relating to the general operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

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.

B. CASH AND CASH EQUIVALENTS

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

C. 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 Class</u>	<u>Years</u>
Buildings	25

D. 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

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include interest-bearing accounts and certificates of deposit totaling \$8,187,535 and \$7,797,415 at September 30, 2011 and 2010, 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*.

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.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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>2011</u>	<u>2010</u>
ECZ Grant	-	50,000
NYS ESD Grant	-	18,000
Loan collections from the City	162,922	-
Other miscellaneous receivables	<u>2,996</u>	<u>6,755</u>
Total accounts receivable	<u>\$ 165,918</u>	<u>\$ 74,755</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>2011</u>	<u>2010</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 \$466,251 and \$316,667 in 2011 and 2010, respectively) with semi-annual interest payments calculated at blended rate of 8.57%.	\$ 1,000,832	\$ 1,467,083
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.	39,311	48,167
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.	25,558	33,266
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.	117,129	146,902
Note receivable, relating to the Kodak/Economic Development Fund Loan Program, paid off in October 2010.	-	1,792

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTES RECEIVABLE (Continued)

	<u>2011</u>	<u>2010</u>
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.	84,495	134,887
Note receivable, relating to the Wilton loan paid off in March 2011.	-	136,475
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.	52,291	72,172
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.	890,760	978,478
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	171,255	221,732
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>195,240</u>	<u>-</u>
	6,076,871	6,740,954
Less current portion	<u>642,237</u>	<u>604,292</u>
Long term portion	<u>\$ 5,434,634</u>	<u>\$ 6,136,662</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LAND AND BUILDINGS

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

	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>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation for - buildings	<u>(1,773,660)</u>	<u>(111,543)</u>	-	<u>(1,885,203)</u>
Capital assets - net	<u>\$ 1,274,927</u>	<u>\$(111,543)</u>	<u>\$ -</u>	<u>\$ 1,163,384</u>
	2010			
	<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>2,788,587</u>
Total capital assets	3,048,587	-	-	3,048,587
Less accumulated depreciation for - buildings	<u>(1,662,117)</u>	<u>(111,543)</u>	-	<u>(1,773,660)</u>
Capital assets - net	<u>\$ 1,386,470</u>	<u>\$(111,543)</u>	<u>\$ -</u>	<u>\$ 1,274,927</u>

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

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - NOTES PAYABLE

Notes payable as of September 30, are as follows:

	<u>2011</u>	<u>2010</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.	570,000	735,000
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>590,000</u>	<u>760,000</u>
	1,160,000	1,495,000
Less current portion	<u>360,000</u>	<u>335,000</u>
Long term portion	<u>\$ 800,000</u>	<u>\$ 1,160,000</u>

Principal payments are as follows:

Years Ending September 30	
2012	\$ 360,000
2013	380,000
2014	<u>420,000</u>
Total	<u>\$ 1,160,000</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 \$4,287. 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:

Years Ending September 30

2012	\$ 51,439
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>2011</u>	<u>2010</u>
Revolving Loan Program	\$ 5,723,352	\$ 5,685,610
Investment Program	1,274,746	1,267,396
Enterprise Community Zone	3,133,467	3,107,309
Kodak/Economic Development Department Loan Program	310,819	310,184
Business Ownership Training School	26,077	26,077
Upper Falls Mall Operation	49,415	49,415
Midtown Relocation	8,500	8,500
Smith Street Acquisition	514,112	656,662
Phillip J. Banks SBAP	<u>429,907</u>	<u>500,000</u>
	<u>\$ 11,470,395</u>	<u>\$ 11,611,153</u>

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENTERPRISE COMMUNITY ZONE

Federal funds from the U.S. Department of Health and Human Services pass through the Empire State Development Corporation, along with New York State funds, to the Corporation. Loans and grants for approved projects are part of a program to create jobs, leverage private capital, attract new investment and economic development, and address neighborhood improvement needs in the City. Federal funding expired on December 21, 2009. As of September 30, 2011, all program funds were expended except for \$493.

Expenditures for these federal programs as of September 30, were as follows:

	<u>2011</u>	<u>2010</u>
U.S. Department of Health and Human Services	\$ -	\$ 50,000

NOTE 11 - 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.

NOTE 12 - INTEREST REVENUE

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

	<u>2011</u>	<u>2010</u>
Interest from financial institutions	\$ 8,435	\$ 9,391
Interest from note receivables	<u>228,706</u>	<u>256,057</u>
	<u>\$ 237,141</u>	<u>\$ 265,448</u>

NOTE 13 - SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after December 27, 2011 which is the date these financial statements were available to be issued.

ROCHESTER ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - FUTURE GASB PRONOUNCEMENTS

A. CODIFICATION OF ACCOUNTING AND FINANCIAL REPORTING GUIDANCE CONTAINED IN PRE-NOVEMBER 30, 1989 FASB AND AICPA PRONOUNCEMENTS.

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure.

While the guidance included largely has been taken "as is" from the original FASB and AICPA pronouncements, it has been modified when appropriate to relate specifically to the governmental environment to increase its usefulness to this audience. By incorporating and maintaining this guidance in a single source, the Statement reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. It also eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments. The requirements of Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.



**INDEPENDENT AUDITOR'S 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 Rochester Economic Development Corporation
City of Rochester, New York

We have audited the financial statements of the Rochester Economic Development Corporation (the Corporation) as of and for the year ended September 30, 2011, and have issued our report thereon dated December 27, 2011. 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

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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, detected, or detected and corrected on timely basis.

Our consideration of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

This report is intended solely for the information and use of the members of the Board of Directors, management, others within the Corporation, and New York State Authorities Budget Office and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick & Battaglia, CPAs, PC

Rochester, New York
December 27, 2011





Freed Maxick & Battaglia, CPAs, PC

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of the
Rochester Economic Development Corporation

We have examined Rochester Economic Development Corporation's (the Corporation) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") for the year ended September 30, 2011. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2011.

This report is intended solely for the information and use of the Board of Directors, management and others within the Corporation and the New York State Authorities Budget Office, and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick & Battaglia, CPAs, PC

Rochester, New York
December 27, 2011