

DUNKIRK LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

DUNKIRK LOCAL DEVELOPMENT CORPORATION

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INDEPENDENT AUDITOR'S REPORT

July 10, 2009

Dunkirk Local Development Corporation
City Hall
Dunkirk, New York 14048

We have audited the accompanying financial statements of the Dunkirk Local Development Corporation, as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Dunkirk Local Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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 Dunkirk Local Development Corporation, as of December 31, 2008 and the results of its operations and the cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2009, on our consideration of the Dunkirk Local Development 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 3 through 4 are not a required part of the basic financial statements but are supplementary information required by 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 supplementary information. However, we did not audit the information and express no opinion on it.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP

**DUNKIRK LOCAL DEVELOPMENT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

This discussion and analysis of the Dunkirk Local Development Corporation's (DLDC) financial performance provides an overview of the DLDC financial activities for the year ended December 31, 2008. This document should be read in conjunction with the DLDC's financial statements which begin on page 5.

FINANCIAL HIGHLIGHTS

- The DLDC's net assets decreased \$81,775 as a result of this year's activity.

USING THIS REPORT

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information regarding the DLDC as a whole and present a longer-term view of the DLDC's finances. Financial statements for the DLDC's sole fund start on page 7. For governmental activities, these statements show how services were financed in the overall operation of the DLDC in greater detail than the Entity-wide financial statements.

REPORTING THE ENTITY AS A WHOLE

The Statement of Net Assets and Statement of Activities

The statement of net assets and statement of activities show information about the DLDC as a whole. These statements include all assets and liabilities of the DLDC using the accrual basis of accounting which is used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the DLDC's net assets and the changes to them. The DLDC's net assets – the difference between assets and liabilities – is a way to measure the DLDC's financial health, or financial position. Over time, increases or decreases in the DLDC's net assets are one indicator of whether its financial health is improving or deteriorating.

In the statement of net assets and the statement of activities, the DLDC reports all its basic services as governmental activities. These services are primarily economic development.

REPORTING THE DLDC'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our discussion and analysis of the DLDC's major fund begins on page 7 and provide detail of the DLDC's sole fund on an individual basis rather than the Entity taken as a whole. Some funds are required to be established by state or local law or by the nature of the federal and state funding for their operation. Currently the DLDC only utilizes a single governmental fund.

Governmental Funds

The sole fund of the DLDC is considered a governmental fund. This section focuses on how revenue flows into and out of this fund and the balance of the fund at year-end which is available for future spending. The fund is reported using the modified accrual basis of accounting which measures cash and financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the DLDC's general operations and the basic services it provides. This information helps determine the financial resources that can be spent to finance DLDC programs. The relationship between the governmental activities (accrual basis) and the governmental funds (modified accrual basis) is provided in reconciliations on pages 8 and 10.

CONTACTING THE ENTITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the DLDC's finances and to show the DLDC's accountability for the money it receives. If you have any questions or need additional information, contact Kory Ahlstrom, Executive Director, City Hall, 342 Central Avenue, Dunkirk, New York 14048.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 152,751
Restricted cash	94,360
Current portion of loans receivable	<u>47,890</u>
Total current assets	<u>295,001</u>

OTHER ASSETS

Loans receivable, net of allowances	206,396
Forfeited assets	<u>31,613</u>
Total other assets	<u>238,009</u>

TOTAL ASSETS \$ 533,010

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	<u>\$ -</u>
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NET ASSETS

Invested in capital assets, net of related debt	-
Restricted	94,360
Unrestricted	<u>438,650</u>

TOTAL NET ASSETS 533,010

TOTAL LIABILITIES AND NET ASSETS \$ 533,010

See notes to financial statements

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008

	PROGRAM REVENUES					NET (EXPENSE) REVENUE AND CHANGES IN NET DEFICIT
<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		<u>Governmental Activities</u>
Governmental activities:						
Economic assistance and opportunity	\$ 88,327	\$ 391	-	-	\$	(87,936)
Special items	17,209	-	-	-		(17,209)
Total governmental activities	\$ 105,536	\$ 391	\$ -	\$ -		(105,145)
General revenues:						
Interest earnings						14,420
Miscellaneous						8,950
Total general revenues						23,370
Change in net assets						(81,775)
NET ASSETS - beginning						614,785
NET ASSETS - ending					\$	533,010

See notes to financial statements

**DUNKIRK LOCAL DEVELOPMENT CORPORATION
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2008**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 152,751
Restricted cash	94,360
Current portion of loans receivable	47,890
Total current assets	<u>295,001</u>

OTHER ASSETS

Loans receivable, net of allowances	205,320
Forfeited assets	31,613
Total other assets	<u>236,933</u>

TOTAL ASSETS \$ 531,934

LIABILITIES AND NET ASSETS

LIABILITIES - Accounts payable \$ -

NET ASSETS

Restricted	94,360
Unrestricted	437,574
Total net assets	<u>531,934</u>

TOTAL LIABILITIES AND NET ASSETS \$ 531,934

See notes to financial statements

DUNKIRK LOCAL DEVELOPMENT CORPORATION
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

Fund balances - total governmental funds \$ 531,934

Amounts reported for governmental activities in the statement of activities are different because:

Interest income from loans receivable is not available soon enough to pay for the current period's expenditures and therefore is not reported as fund receivables. This interest is not accrued in the governmental funds, but rather is recognized when the resources are available. All assets - both current and long-term - are reported in the statement of net assets

1,076

Net assets of governmental activities

\$ 533,010

See notes to financial statements.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008

REVENUE FROM OPERATIONS	
Administrative fees	<u>\$ 391</u>
EXPENSES OF OPERATIONS	
Grants	50,000
Maintenance and operations	11,102
Utilities	3,361
Legal and professional	8,864
Marketing	15,000
General expenses	3,434
TOTAL EXPENSES OF OPERATIONS	<u>91,761</u>
EXCESS OF EXPENSES OVER REVENUES	<u>(91,370)</u>
OTHER SOURCES (USES)	
Interest income	13,344
Rental income	8,950
Rental expenses	(8,775)
Debt forgiven	(5,000)
TOTAL OTHER SOURCES (USES)	<u>8,519</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENSES	<u>(82,851)</u>
FUND BALANCE, beginning	<u>614,785</u>
FUND BALANCE, ending	<u><u>\$ 531,934</u></u>

See notes to financial statements

DUNKIRK LOCAL DEVELOPMENT CORPORATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008

Net change in fund balances - total governmental funds	\$ (82,851)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (increase in interest receivable of \$1,076).	1,076
Change in net asset of governmental activities	\$ (81,775)

See notes to financial statements.

**DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Dunkirk Local Development Corporation ("DLDC") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Entity's accounting policies are described below.

A. Reporting Entity

The reporting entity of the DLDC is based on criteria set forth by GASB Statement 14, *The Financial Reporting Entity*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

1. Nature of the Organization

The Dunkirk Local Development Corporation is a special purpose, local development corporation organized by the City of Dunkirk (the "City") under the Not-For-Profit Corporation Law of the State of New York. The DLDC is a nonstock membership entity governed by a board of directors, consisting of various community members and ex - officio members of the City of Dunkirk. Although legally separate from the City, the DLDC is a component unit of the City and, accordingly, is included in the City's financial statements as a discretely presented component unit.

The DLDC was created to purchase, lease, sublease, own, hold, sell, assign, or pledge various real property throughout the City of Dunkirk.

The DLDC does not have any employees. Its affairs are administered by employees of the City, for which the Entity pays a management fee based on its allocated share of personnel and overhead costs.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

B. Basis of presentation:

1. Entity-wide statements:

The Statement of Net Assets and the Statement of Activities present financial information about the DLDC's governmental activities. These statements include the financial activities of the overall governmental entity in its entirety, except those that are fiduciary.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Entity's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

2. Fund financial statements:

The fund statements provide information about the Entity's funds, including fiduciary funds (when applicable). Currently, the Entity maintains a single governmental fund. The emphasis of fund financial statements is on this governmental fund.

The Entity reports the following major governmental fund:

General Fund: This is the DLDC's primary operating fund. Currently, the general fund is the only fund of the Entity.

C. Measurement focus and basis of accounting

The Entity-wide financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Entity gives or receives value without directly receiving or giving equal value in exchange, may include grants and donations. On an accrual basis, revenue is recognized in the fiscal year for which the revenue is earned. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

C. Measurement focus and basis of accounting, continued

The governmental fund statements are reported using the current financial resources management focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The DLDC considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt or claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

D. Cash and Cash Equivalents

The DLDC's cash and cash equivalents consists of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the Entity's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United State Treasury, United States 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 FDIC insurance. Investments are stated at fair value.

The DLDC's cash and cash equivalents consist of cash and money market funds. As of December 31, 2008, total cash and cash equivalents of \$247,111 consist of \$128,772 of cash and \$118,339 of money market funds. The cash and money market funds were fully collateralized at December 31, 2008.

E. Estimates

The preparation of the 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 revenues, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates and those differences could be significant.

F. Change in Accounting Principle

The DLDC adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN48), *Accounting for Uncertainty in Income Taxes* on January 1, 2008. There was no impact to the DLDC's financial statements as a result of the implementation of FIN

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Continued)

**NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL
FUND STATEMENTS AND ENTITY-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the Entity-wide statements, certain financial transactions are treated differently. The basic financial statements contain full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A. Total fund balances of governmental funds vs. net assets of governmental activities:

Total fund balances of the Entity's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental funds Balance Sheets.

B. Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of the three broad categories. The amounts shown below represent:

1. Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the differences between recording an expenditure for the purchase of capital items in the governmental funds statements and depreciation expense on those items as recorded in the Statement of Activities.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 2 - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND ENTITY-WIDE STATEMENTS, continued

3. Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental funds, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

NOTE 3 - LOANS RECEIVABLE

Loans receivable at December 31, 2008 are as follows:

Enviroteknix	\$ 52,898
Lightning Circuits International, Inc.	36,901
Demetri's on the Lake	88,550
Dunkirk Metal Products, Inc.	35,295
Dunkirk Metal Products, Inc.	5,000
SUNY Fredonia Incubator	6,000
Sound Chaser Systems	12,566
NOG, Inc.	16,000
Subtotal	253,210
Plus: accrued interest	1,076
Less: current portion	(47,890)
Total loans receivable, net	\$ 206,396

The DLDC currently has an agreement with Sound Chaser Systems to pay off its existing debt. Terms of this agreement state that the Sound Chasers will pay \$500 per month with all the payment being applied to principal until the loan is paid off.

During 2007 the Dunkirk Local Development Corporation issued a loan to the SUNY Fredonia Incubator Project. This loan is a five year \$6,000 loan with a nominal annual interest rate of 5%. Terms of this loan state that if its new building is occupied for 18 months the loan will then become a grant. As of December 31, 2008 this loan has accrued \$427 of interest resulting in a total balance outstanding of \$6,427.

A loan to Dunkirk Metal Products, Inc. was also issued in 2007 by the DLDC. This is a \$5,000 five year loan with a nominal interest rate of 5%. Terms of this loan state that if employment remains the same or greater after 5 years, the loan will become a grant. As of December 31, 2008 this loan has accrued \$416 of interest resulting in a total balance outstanding of \$5,416.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2008
(Continued)

NOTE 3 - LOANS RECEIVABLE, continued

During 2008, a loan to NOG, Inc. was issued by the DLDC. This is a \$16,000 three year loan with a nominal interest rate of 7%. This company as since ceased business and legal council is currently involved in negotiations to collect this debt. As of December 31, 2008 this loan has accrued \$233 of interest resulting in a total balance outstanding of \$16,233.

NOTE 4 - CONTINGENCIES

A. Litigation

The DLDC is party to various legal proceedings which normally occur in governmental operations. The DLDC believes that its ultimate liability, if any, in connection with these matters, will not have a material effect on the DLDC's financial condition or results of operations.

NOTE 5 - SUBSEQUENT EVENTS

The DLDC issued five new loans during 2009. Details of the new loans issued are as follows:

	<u>Loan Amount</u>	<u>Rate</u>
Peyin's Deli	\$ 10,000	6.50%
Dunkirk Metal Products, Inc	110,000	4.50%
G & E Tents	30,000	5.00%
Chautauqua Woods	20,000	5.50%
Lakeshore Grillworks	15,000	5.50%



70 East Main Street / Fredonia, New York 14063 / 716-672-4770 / Fax 716-679-1512

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

July 10, 2009

Dunkirk Local Development Corporation
City Hall
Dunkirk, New York 14048

We have audited the basic financial statements of the governmental activities of Dunkirk Local Development Corporation, as of and for the year ended December 31, 2008, and have issued our report thereon dated July 10, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Dunkirk Local Development Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Dunkirk Local Development Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Dunkirk Local Development Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Dunkirk Local Development Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Dunkirk Local Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the Dunkirk Local Development Corporation is a separate letter dated July 10, 2009.

This report is intended for the information and use of management, the Board of Directors and others within the Corporation and is not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK & ASSOCIATES, LLP