

DUNKIRK LOCAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

DUNKIRK LOCAL DEVELOPMENT CORPORATION

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

INDEPENDENT AUDITOR'S REPORT

March 20, 2010

Dunkirk Local Development Corporation
City Hall
Dunkirk, New York 14048

We have audited the accompanying statement of financial position of the Dunkirk Local Development Corporation (a nonprofit organization) as of December 31, 2009, and the related statement of activities, functional expenses, and cash flows for the year then ended. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Dunkirk Local Development Corporation, as of December 31, 2009 and the changes in its nets assets and its cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.

Johnson, Mackowiak & Associates, LLP

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 49,898
Restricted cash	35,592
Current portion of loans receivable	<u>75,546</u>
Total current assets	<u>161,036</u>

OTHER ASSETS

Loans receivable, non-current	503,969
Deposits	2,000
Investment property	50,990
Forfeited assets	<u>31,613</u>
Total other assets	<u>588,572</u>

TOTAL ASSETS \$ 749,608

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	<u>\$ 47,600</u>
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NET ASSETS

Unrestricted	666,416
Temporarily restricted	35,592
Permanently restricted	<u>-</u>

TOTAL NET ASSETS 702,008

TOTAL LIABILITIES AND NET ASSETS \$ 749,608

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

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT				
City of Dunkirk - CDBG	\$ -	\$ 160,711	\$ -	\$ 160,711
Donations	25,000	-	-	25,000
Interest and earnings	17,793	-	-	17,793
Administrative fees	3,880	-	-	3,880
Rental income	11,400	-	-	11,400
Festival sponsorships / donations	76,702	-	-	76,702
Miscellaneous income	7,712	-	-	7,712
Net assets released from restrictions	219,479	(219,479)	-	-
Total revenues, gains, and other support	<u>361,966</u>	<u>(58,768)</u>	<u>-</u>	<u>303,198</u>
EXPENSES - PROGRAM SERVICES				
DLDC Program	84,415	-	-	84,415
Festivals Program	49,785	-	-	49,785
Total expenses	<u>134,200</u>	<u>-</u>	<u>-</u>	<u>134,200</u>
CHANGE IN NET ASSETS	227,766	(58,768)	-	168,998
NET ASSETS, beginning of year	<u>438,650</u>	<u>94,360</u>	<u>-</u>	<u>533,010</u>
NET ASSETS, end of year	<u>\$ 666,416</u>	<u>\$ 35,592</u>	<u>\$ -</u>	<u>\$ 702,008</u>

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

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	<u>DLDC Program</u>	<u>Festivals Program</u>	<u>Total</u>
EXPENSES			
Grants	\$ 1,000	\$ -	\$ 1,000
Advertising	6,086	-	6,086
Office expenses	6,318	-	6,318
Maintenance / supplies	15,578	-	15,578
Utilities	5,027	-	5,027
Legal and professional	17,006	-	17,006
Rent expense	16,701	-	16,701
Festivals / entertainment	-	49,785	49,785
Miscellaneous expenses	466	-	466
Bad debt	16,233	-	16,233
	<u>16,233</u>	<u>-</u>	<u>16,233</u>
 Total functional expenses	 <u>\$ 84,415</u>	 <u>\$ 49,785</u>	 <u>\$ 134,200</u>

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

DUNKIRK LOCAL DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Grants/donations received	\$ 185,711
Receipts from customers	99,694
Payments to suppliers	<u>(117,967)</u>
Net cash used by operating activities	<u>167,438</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	17,793
Issuance of new loans	(337,400)
Repayment of loans	43,538
Purchase of investment property	<u>(52,990)</u>
Net cash used by investing activities	<u>(329,059)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (161,621)
 CASH AND CASH EQUIVALENTS, beginning	 <u>247,111</u>
 CASH AND CASH EQUIVALENTS, ending	 <u><u>\$ 85,490</u></u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPEARATING ACTIVITIES:	
Change in net assets	\$ 168,998
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Bad debt	16,233
Interest income	<u>(17,793)</u>
Net cash used by operating activities	<u><u>\$ 167,438</u></u>

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

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF ACTIVITIES - The Dunkirk Local Development Corporation ("DLDC") 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.

The DLDC was created to purchase, lease, sublease, own, hold, sell, assign, or pledge various real property throughout the City of Dunkirk. Additionally, the DLDC has been authorized to offer low interest loans to small businesses to help spur economic development throughout the City.

BASIS OF ACCOUNTING - The financial statements of the Dunkirk Local Development Corporation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

BASIS OF PRESENTATION - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets which are described as follows:

PERMANENTLY RESTRICTED NET ASSETS - Contributions and other inflows of assets whose use by the DLDC is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Corporation.

TEMPORARILY RESTRICTED NET ASSETS - Contributions and other inflows of assets whose use by the DLDC is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the DLDC pursuant to those stipulations.

UNRESTRICTED NET ASSETS - Neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

CASH AND CASH EQUIVALENTS - For purposes of the statement of cash flows, the DLDC considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

DONATED SERVICES - No amounts have been reflected in the financial statements for donated services. The DLDC pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the DLDC with specific assistance programs, campaign solicitations and various committee assignments.

EXPENSE ALLOCATION - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

FUND ACCOUNTING - The accounts of the DLDC are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each program described as follows:

DLDC PROGRAM - This program is used for the general operations of the DLDC. Major operating revenues include interest income on outstanding loans and administrative fees for managing these loans. Legal and professional expenses and rental expenses are the major operating costs of this program.

FESTIVALS PROGRAM - This program is used for promoting economic development and providing entertainment to the citizens of the City of Dunkirk. Major operating revenues include donations from various local companies while entertainment costs are the major operating costs of this program.

INCOME TAX STATUS - The DLDC is qualified under Internal Revenue Code, Section 501(c)(6), and therefore is not subject to income taxes.

PROPERTY AND EQUIPMENT - Furnishings and equipment acquired by the DLDC are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the respective assets. Estimated useful lives are as follows:

Equipment	5 - 10 years
Furnishings	7 years
Leasehold improvements	5 - 39 years

RESTRICTED AND UNRESTRICTED REVENUE AND SUPPORT - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009
(Continued)

NOTE 2 - LOANS RECEIVABLE

Loans receivable at December 31, 2009 are as follows:

Enviroteknix	\$ 50,340
Lightning Circuits International, Inc.	33,038
Demetri's on the Lake	76,726
Dunkirk Metal Products, Inc.	102,601
Dunkirk Metal Products, Inc.	5,000
SUNY Fredonia Incubator	6,000
Sound Chaser Systems	9,566
G&E Tents	25,963
Chautauqua Woods	16,577
Peyin's Deli	8,120
Lakeshore Grillworks	13,678
Chautauqua Health and Fitness	44,570
Rookies Sports Bar	9,230
Clarion Hotel	<u>175,000</u>
Subtotal	576,409
Plus: accrued interest	3,106
Less: current portion	<u>(75,546)</u>
Total loans receivable, net	<u>\$ 503,969</u>

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, 2009 this loan has accrued \$749 of interest resulting in a total balance outstanding of \$6,749.

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, 2009 this loan has accrued \$687 of interest resulting in a total balance outstanding of \$5,687.

During 2009, a loan to the G.F. Management (the "Clarion Hotel") was issued by the DLDC. This is a \$175,000 three year loan with a nominal interest rate of 4.5%. Terms of this loan state that if the hotel creates ten jobs after three years, \$50,000 will be deducted from the outstanding balance. As of December 31, 2009 this loan has accrued \$1,671 of interest resulting in a total balance outstanding of \$176,671.

During the current year, the loan of Nog, Inc. was determined to be uncollectable. This company has since ceased business and legal council has made numerous attempts to collect this debt with no avail. The total amount of bad debt in the current year amounted to \$16,233.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2009
 (Continued)

NOTE 2 - LOANS RECEIVABLE, continued

COMMUNITY DEVELOPMENT BLOCK GRANT ("CDBG") FUNDING - The DLDC currently has \$48,828 and \$50,000 respectively in 2008 and 2009 CDBG fiscal years available to be used for future DLDC loans and has yet to be drawn down. The DLDC is considered a subrecipient of this program which is administered by the City of Dunkirk, New York.

NOTE 3 - INVESTMENT IN LIMITED LIABILITY COMPANY

The DLDC has an interest in the Washington Avenue Revitalization Company, LLC. This company was established in 2009 to rehabilitate certain commercial real estate (the "Flickenger Building") in the City of Dunkirk. The DLDC has a 100% ownership interest in the Washington Avenue Revitalization Company, LLC and records net income or loss from this investment in accordance with its ownership interest. Future earnings will be included in the activity of DLDC.

The following is a summary of selected financial information from the accounts of the LLC:

	2009
Washington Avenue Revitalization Company, LLC	
Assets (100%)	\$ 50,990
Debt (100%)	-
Members' equity (100%)	\$ 50,990
Revenue (100%)	\$ -
Net income (100%)	\$ -
Company share of net income (100%)	\$ -

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.

B. Lease Commitments and Leased Assets

The DLDC entered a lease agreement for office space with Palmer Bryant Realty in April of 2008. Total rental expense for the year ending December 31, 2009 was \$11,700.

DUNKIRK LOCAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2009
(Continued)

NOTE 4 - CONTINGENCIES, continued

The minimum future non-cancelable operating lease payments are as follows:

Year ending, December 31,		
	2010	\$ 11,700
	2011	11,700
	2012	11,700
	2013	3,900

A portion of the above lease is reimbursed by the Chautauqua County Industrial Development Agency, Inc. and the Dunkirk Sheridan Empire Zone who both share office space with the DLDC.