

DUNKIRK LOCAL DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Financial Statements and
Supplementary Information
December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
(A Component Unit of the City of Dunkirk)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Dunkirk Local Development Corporation
and Subsidiaries:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Dunkirk Local Development Corporation and Subsidiaries (the Corporation), a component unit of the City of Dunkirk, as of December 31, 2012 and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to consolidated financial statements. The 2011 consolidated financial statements were audited by other auditors, whose report dated June 15, 2012 expressed an unqualified opinion on those statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 2012 consolidated financial statements based on our audit. We conducted our 2012 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 consolidated financial statements are free of material misstatement.

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

Opinion

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dunkirk Local Development Corporation and Subsidiaries as of December 31, 2012 and the changes in its consolidated net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Corrections of Errors

As discussed in note 7 to the consolidated financial statements, certain errors resulting in misstatements of net assets as of January 1, 2012 were discovered during the current year. As a result, amounts reported for net assets in the 2011 consolidated financial statements have been restated to correct these errors. Our opinion on the 2012 consolidated financial statements is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses on page 14 and the consolidating schedules of financial position and activities on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records and other records used to prepare the consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the 2012 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 consolidated financial statements or to the 2012 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Williamsville, New York
, 2013

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statement of Financial Position
December 31, 2012 and 2011

	<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:			
Cash and equivalents		\$ 5,359	3,429
Restricted cash		5,680	500
Current portion of loans receivable		42,273	50,495
Grants receivable		1,000	-
Prepaid expenses		2,436	-
Total current assets		<u>56,748</u>	<u>54,424</u>
Other assets:			
Loans receivable, non-current, less allowance for uncollectible loans of \$155,000 for 2012		267,403	608,734
Investment property:			
Flickenger Building		20,200	50,990
Bertges Building		609,500	674,925
Other		47,613	47,613
Total other assets		<u>944,716</u>	<u>1,382,262</u>
Total assets		<u>\$ 1,001,464</u>	<u>1,436,686</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accrued interest		5,247	5,667
Current portion of long-term debt		34,259	32,999
Total current liabilities		<u>39,506</u>	<u>38,666</u>
Long-term debt, net of current portion		175,617	209,876
Total liabilities		<u>215,123</u>	<u>248,542</u>
Net assets:			
Unrestricted		722,099	1,187,644
Temporarily restricted		64,242	500
Total net assets		<u>786,341</u>	<u>1,188,144</u>
Total liabilities and net assets		<u>\$ 1,001,464</u>	<u>1,436,686</u>

See accompanying notes to consolidated financial statements.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statement of Activities
Years ended December 31, 2012 and 2011

	2012		2011	
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted
Revenue, gains and other support:				
City of Dunkirk - CDBG	\$ -	68,922	-	186,371
Interest and earnings	6,131	-	21,720	-
Administrative fees	-	-	1,261	-
Rental income	8,971	-	11,904	-
Festival sponsorships and donations	78,018	-	49,351	-
Miscellaneous income	3,558	-	1,697	-
Net assets released from restrictions	5,180	(5,180)	186,041	(186,041)
Total revenue, gains, and other support	<u>101,858</u>	<u>63,742</u>	<u>271,974</u>	<u>330</u>
Expenses - program services:				
DLDC program	401,791	-	146,488	-
Festivals	69,397	-	60,495	-
Total expenses	<u>471,188</u>	<u>-</u>	<u>206,983</u>	<u>-</u>
Change in net assets from operations	(369,330)	63,742	64,991	330
Nonoperating expenses - impairment - loss on property held for development or sale	(96,215)	-	-	-
Change in net assets	<u>(465,545)</u>	<u>63,742</u>	<u>64,991</u>	<u>330</u>
Net assets at beginning of year, as originally stated	1,187,644	500	1,188,144	170
Prior period adjustment	-	-	33,794	-
Net assets at beginning of year, as restated	<u>1,187,644</u>	<u>500</u>	<u>1,122,653</u>	<u>170</u>
Net assets at the end of year	<u>\$ 722,099</u>	<u>64,242</u>	<u>1,187,644</u>	<u>500</u>

See accompanying notes to consolidated financial statements.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Consolidated Statement of Cash Flows
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Grants and donations received	\$ 62,742	185,871
Receipts from customers	90,547	64,214
Payments to suppliers	<u>(182,723)</u>	<u>(202,514)</u>
Net cash provided by (used in) operating activities	<u>(29,434)</u>	<u>47,571</u>
Cash flows from investing activities:		
Interest income	6,131	21,720
Purchases of land improvements	-	(38,500)
Issuance of new loans	-	(58,080)
Repayments of loans	<u>74,533</u>	<u>70,149</u>
Net cash provided by (used in) investing activities	<u>80,664</u>	<u>(4,711)</u>
Cash flows from financing activities - payment of investment property debt	<u>(50,000)</u>	<u>(50,000)</u>
Net change in cash and equivalents	1,230	(7,140)
Cash and equivalents at beginning of year	<u>3,429</u>	<u>10,569</u>
Cash and equivalents at end of year	<u>\$ 4,659</u>	<u>3,429</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	(401,803)	65,321
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Interest income	(6,131)	(21,720)
Conversion of loan to grant - noncash	125,000	-
Impairment loss - noncash	96,215	-
Bad debt expense	160,141	-
Changes in:		
Prepaid expenses	(2,436)	-
Accrued interest	<u>(420)</u>	<u>3,970</u>
Net cash provided by (used in) operating activities	<u>\$ (29,434)</u>	<u>47,571</u>

See accompanying notes to consolidated financial statements.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

The Dunkirk Local Development Corporation and Subsidiaries (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 from the government 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.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of the Dunkirk Local Development Corporation, Washington Avenue Revitalization Company, LLC and DLDC Real Property Company, LLC. All significant intercompany activity has been eliminated in consolidation.

(c) Basis of Accounting

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

(d) Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of FASB ASC 958-210 (formerly Financial Accounting Standards (SFAS) No. 117), Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-210, 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. The Corporation has no such assets at December 31, 2012.

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.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Estimates

The preparation of consolidated 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.

(f) 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.

(g) Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the DLDC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The DLDC reclassifies temporarily restricted net assets to unrestricted net assets at that time. In prior years, three such properties were acquired by the DLDC from the County of Chautauqua, New York.

(h) Property Held for Development or Resale

The Corporation holds several properties for development or resale. These properties are carried at the lower of cost or value at date of donation or market value. The Corporation reviews the carrying values of these properties for impairment whenever events or changes in circumstances indicate that the carrying values of the assets may not be recoverable.

(i) Donated Services

Contributions have not been reflected in the consolidated financial statements for the value of 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.

(j) 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 schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Promises to Give

Contributions are recognized when donors make unconditional promises to give to the Corporation. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(l) Reclassifications

Reclassifications have been made to certain 2011 balances in order to conform them to the 2012 presentation.

(m) Subsequent Events

The Corporation has evaluated events after December 31, 2012, and through November , 2013, which is the date the consolidated financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these consolidated financial statements.

(n) Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes is reflected in the consolidated financial statements. The Corporation has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The Corporation presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the Corporation has taken no uncertain tax positions that require adjustment in its consolidated financial statements. U.S. Forms 990 file by the Corporation are subject to examination by taxing authorities. The Corporation is no longer subject to tax examination for the years ended December 31, 2009, and prior.

(2) Restricted Cash

Restricted cash represents net difference between payments received on HUD loans and amounts expended for CDBG purposes. This residual amount is restricted for such purposes.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(3) Loans Receivable

Loans receivable consists of the following at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Enviroteknix	\$ 38,200	42,326
Lightning Circuits International, Inc.	27,061	31,851
Demetri's on the Lake	58,723	76,425
Dunkirk Metal Products, Inc.	97,562	97,562
Sound Chaser Systems	8,566	8,566
G&E Tents	9,824	14,933
Chautauqua Woods	10,368	12,196
Peyin's Deli	6,334	6,334
Lakeshore Grillworks	4,808	7,933
Selling Hive	18,078	18,078
Rookies Sports Bar	766	3,675
Clarion Hotel	120,000	127,400
Henlie	15,000	15,000
Textivia	35,000	35,000
Paradis	14,386	14,386
Remtronics, Inc.	<u>-</u>	<u>125,000</u>
Subtotal	464,676	636,665
Plus: accrued interest	-	22,564
Less: allowance for doubtful accounts	(155,000)	-
Less: current portion	<u>(42,273)</u>	<u>(50,495)</u>
Total loans receivable, net	\$ <u>267,403</u>	<u>608,734</u>

During 2009, the Corporation made a loan commitment to the Clarion Hotel for \$175,000.

Because of uncertainty as to the terms of the loan and the allocation between loan and grant proceeds, the note was rewritten in 2013. The note as originally written provided that a portion of the outstanding balance would be converted into a grant provided certain job goals were met. This provision was not included in the note as rewritten.

The effects of this change, which includes a \$7,400 reduction in loan receivable and a \$16,424 reduction in accrued interest receivable has been treated as cancellation of debt in the accompanying 2012 consolidated financial statements.

During 2012, the Corporation made a \$125,000 loan to Remtronics, Inc. The terms of the loan provided that it would be converted to a grant if jobs were created within three years. During 2012, this goal was met and the loan was converted to a grant.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(4) Investment in Limited Liability Companies

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.

The DLDC also has an interest in the DLDC Real Property, LLC. This company was established in 2010 to rehabilitate certain commercial real estate (the Bertges property) in the City of Dunkirk. The DLDC has a 100% ownership interest in the DLDC Real Property, LLC and records net income or loss from this investment in accordance with its ownership interest.

The following is a summary of selected 2012 financial information from the accounts of the LLCs:

2011 Washington Avenue Revitalization Company, LLC	
Assets (100%)	\$ 20,200
Debt (100%)	<u>-</u>
Members' equity (100%)	<u>20,200</u>
Revenue (100%)	<u>-</u>
Net/impairment loss (100%)	<u>(30,790)</u>
Company share of net income (100%)	<u>(30,790)</u>
DLDC Real Property, LLC	
Assets (100%)	\$ 625,500
Debt (100%)	<u>209,876</u>
Members' equity (100%)	<u>\$ 415,624</u>
Revenue (100%)	<u>-</u>
Net/impairment loss (100%)	<u>(65,425)</u>
Company share of net income (100%)	<u>(65,425)</u>

(5) Impairment

During 2012, it was determined, based upon an appraisal and review of market conditions that carrying value of the Bertges property exceeds its fair value, resulting in an impairment. To acknowledge this impairment, the Corporation has recognized a \$65,425 impairment loss in its 2012 consolidated financial statements.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(6) Long-Term Debt

Long-term debt at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Note payable to Bertges Family Limited Partnership. Payments are due annually. Interest is accrued annually at various rates and is due with last payment. The note is secured by commercial property in Dunkirk, New York. Final payment is due September 2015.	\$ 209,876	242,875
Less current maturities	<u>34,259</u>	<u>32,999</u>
Total long-term debt	<u>\$ 175,617</u>	<u>209,876</u>

The following payments must be made in the next five years:

Year ended December 31,	
2013	\$ 50,000
2014	50,000
2015	<u>151,538</u>
Total payments through maturity	251,538
Less accrued interest due with last payment	<u>41,662</u>
	<u>\$ 209,876</u>

(7) Corrections of Errors

During 2012, certain errors were discovered resulting in the restatement of net assets from amounts reported in previously issued financial statements. Debt service payments in prior years were mischaracterized as principal payments resulting in a \$14,604 reduction to net assets at January 1, 2011 from what was previously reported. Loans receivable were misstated in prior years resulting in a \$48,398 increase to net assets at January 1, 2011.

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Supplementary Information
Consolidating Schedule of Activities
December 31, 2012

<u>Assets</u>	<u>Dunkirk Local Development Corporation</u>	<u>Washington Avenue Revitalization Company, LLC</u>	<u>DLDC Real Property Company, LLC</u>	<u>Eliminations</u>	<u>Total</u>
Revenue, gains and other support:					
City of Dunkirk - CDBG	\$ 68,922	-	-	-	68,922
Interest and earnings	6,131	-	-	-	6,131
Rental income	8,971	-	-	-	8,971
Festival sponsorships and donations	78,018	-	-	-	78,018
Miscellaneous income	3,558	-	-	-	3,558
Total revenue, gains, and other support	<u>165,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>165,600</u>
Expenses - program services:					
DLDC program	377,967	-	-	-	377,967
Festivals	69,397	-	-	-	69,397
Total expenses	<u>447,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>447,364</u>
Change in net assets from operations	<u>(281,764)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(281,764)</u>
Nonoperating expenses:					
Impairment loss on property held for development or sale	-	(65,425)	(30,790)	-	(96,215)
Forgiveness of indebtedness	<u>(23,824)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,824)</u>
Change in net assets	<u>\$ (305,588)</u>	<u>(65,425)</u>	<u>(30,790)</u>	<u>-</u>	<u>(401,803)</u>

DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES

Schedule of Operating Expenses

Year ended December 31, 2012

with comparative totals for 2011

	DLDC	Festivals	Total	
	<u>Program</u>	<u>Program</u>	<u>2012</u>	<u>2011</u>
Expenses:				
Grants	\$ 139,622	-	139,622	47,663
Advertising and promotion	-	11,788	11,788	13,761
Office expenses	20,108	-	20,108	29,994
Maintenance and supplies	13,105	-	13,105	7,064
Utilities	2,806	-	2,806	3,295
Legal and professional	2,963	-	2,963	8,250
Rent expense	6,223	-	6,223	13,241
Festivals and entertainment	-	57,609	57,609	46,734
Miscellaneous	425	-	425	3,587
Insurance	5,323	-	5,323	10,219
Interest	19,259	-	19,259	4,469
Bad debt	178,824	-	178,824	-
Real estate taxes	13,133	-	13,133	18,706
Total functional expenses	<u>\$ 401,791</u>	<u>69,397</u>	<u>471,188</u>	<u>206,983</u>

See accompanying notes to consolidated financial statements.