

**DUNKIRK LOCAL DEVELOPMENT  
CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2011**

## **DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**

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## INDEPENDENT AUDITOR'S REPORT

June 15, 2012

Dunkirk Local Development Corporation  
342 Central Avenue  
Dunkirk, New York 14048

We have audited the accompanying statement of financial position of the Dunkirk Local Development Corporation (a nonprofit organization) and subsidiaries as of December 31, 2011, and the related consolidated 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 and subsidiaries, as of December 31, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated supplementary information – schedules 1 and 2 on pages 12 and 13 are presented for additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the

underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Johnson, Mackowiak & Associates, LLP*

JOHNSON, MACKOWIAK AND ASSOCIATES, LLP

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2011**

<u>ASSETS</u>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 3,429
Restricted cash	500
Current portion of loans receivable	50,495
Total current assets	<u>54,424</u>
<b>OTHER ASSETS</b>	
Loans receivable, non-current	607,936
Investment property - Flickenger Building	50,990
Investment property - Bertges Building	674,925
Investment property - Land, other	16,000
Forfeited assets	31,613
Total other assets	<u>1,381,464</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,435,888</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 47,600
Accrued interest	8,938
Current portion of long-term debt	50,000
Total current liabilities	<u>106,538</u>
<b>LONG-TERM DEBT, net of current portion</b>	<u>175,000</u>
Total liabilities	<u>281,538</u>
<b>NET ASSETS</b>	
Unrestricted	1,153,850
Temporarily restricted	500
Permanently restricted	<u>-</u>
<b>TOTAL NET ASSETS</b>	<u>1,154,350</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,435,888</u></u>

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

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
City of Dunkirk - CDBG	\$ -	\$ 186,371	\$ -	\$ 186,371
Interest and earnings	21,720	-	-	21,720
Administrative fees	1,261	-	-	1,261
Rental income	11,904	-	-	11,904
Festival sponsorships and donations	49,351	-	-	49,351
Miscellaneous income	1,697	-	-	1,697
Net assets released from restrictions	186,041	(186,041)	-	-
Total revenues, gains, and other support	271,974	330	-	272,304
<b>EXPENSES - PROGRAM SERVICES</b>				
DLDC Program	146,488	-	-	146,488
Festivals Program	60,495	-	-	60,495
Total expenses	206,983	-	-	206,983
<b>CHANGE IN NET ASSETS</b>	64,991	330	-	65,321
<b>NET ASSETS, beginning of year</b>	1,088,859	170	-	1,089,029
<b>NET ASSETS, end of year</b>	\$ 1,153,850	\$ 500	\$ -	\$ 1,154,350

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

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2011**

	DLDC Program	Festivals Program	Total
EXPENSES			
Grants	\$ 47,663	\$ -	\$ 47,663
Advertising	-	13,761	13,761
Office expenses	29,994	-	29,994
Maintenance and supplies	7,064	-	7,064
Utilities	3,295	-	3,295
Legal and professional	8,250	-	8,250
Rent expense	13,241	-	13,241
Festivals and entertainment	-	46,734	46,734
Miscellaneous expenses	3,587	-	3,587
Insurance expense	10,219	-	10,219
Interest expense	4,469	-	4,469
Real estate taxes	18,706	-	18,706
	<u>146,488</u>	<u>60,495</u>	<u>206,983</u>
Total functional expenses	<u>\$ 146,488</u>	<u>\$ 60,495</u>	<u>\$ 206,983</u>

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

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIAREIS**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Grants and donations received	\$ 186,371
Receipts from customers	64,214
Payments to suppliers	(202,514)
Net cash provided by operating activities	<u>48,071</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest income	21,720
Purchases of land improvements	(38,500)
Issuance of new loans	(58,080)
Repayment of loans	70,149
Net cash used by investing activities	<u>(4,711)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payment of investment property debt	(50,000)
Net cash provided by financing activities	<u>(50,000)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(6,640)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>10,569</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u><u>\$ 3,929</u></u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES:</b>	
Change in net assets	\$ 65,321
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Interest income	(21,720)
Change in assets and liabilities:	
Accrued interest	<u>4,470</u>
Net cash used by operating activities	<u><u>\$ 48,071</u></u>

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

**DUNKIRK LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**

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**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.

**PRINCIPLES OF CONSOLIDATION** - The consolidated financial statements include the accounts of the Dunkirk Local Development Corporation and its wholly owned subsidiaries Washington Avenue Revitalization Company, LLC and DLDC Real Property Company, LLC. All significant intercompany transactions and balances have been eliminated.

**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 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.

**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.

**DUNKIRK LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**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.

**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.

**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 exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and therefore is not subject to income taxes.

**DUNKIRK LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**INCOME TAX STATUS, continued**

The DLDC adopted the provisions of FASB ASC 740-10 (formerly FASB Interpretation No. 48) *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. There was no impact on the DLDC's financial statements as a result of the implementation of FASB ASC 740-10.

Any penalties and interest associated with uncertain tax positions would be included as part of any income tax provision. For 2011, there were no penalties and interest recognized related to uncertain tax positions.

The DLDC files exempt organization returns with the U.S. federal and New York State tax jurisdictions. The DLDC's returns prior to 2009 are closed.

**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.

**NOTE 2 - LOANS RECEIVABLE**

Loans receivable at December 31, 2011 are as follows:

Envirotekknix	\$ 42,326
Lightning Circuits International, Inc.	31,851
Demetri's on the Lake	76,425
Dunkirk Metal Products, Inc.	97,562
Sound Chaser Systems	8,566
G&E Tents	14,933
Chautauqua Woods	12,196
Peyin's Deli	6,334
Lakeshore Grillworks	7,933
Selling Hive	18,078
Rookies Sports Bar	3,675
Clarion Hotel	175,000
Henlie	15,000
Rem-tronics, Inc.	125,000
Subtotal	<u>634,879</u>
Plus: accrued interest	23,552
Less: current portion	<u>(50,495)</u>
Total loans receivable, net	<u>\$ 607,936</u>

**DUNKIRK LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(Continued)**

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**NOTE 2 - LOANS RECEIVABLE, continued**

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 August 21, 2011 the SUNY Fredonia Incubator Project did occupy the new building for 18 months and the loan pursuant of the agreement became a grant.

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, 2011 this loan has accrued \$16,424 of interest resulting in a total balance outstanding of \$191,424.

A loan to Rem-tronics, Inc. was issued in 2010 by the DLDC. This loan is a \$125,000 three year loan with a nominal interest rate of 4.5%. Terms of this loan state that if 5 jobs are created within three years, the loan will become a grant. As of December 31, 2011 this loan has accrued \$7,128 of interest resulting in a total balance outstanding of \$132,128.

**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 DLDC also has an interest in the DLDC Real Property, LLC. This company was established in 2010 to rehabilitate certain commercial real estate 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. Future earnings will be included in the activity of DLDC.

**NOTE 4 - LONG-TERM DEBT**

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

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.

\$ 225,000

Less current maturities

50,000

TOTAL LONG-TERM DEBT

\$ 175,000

**DUNKIRK LOCAL DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2011**  
**(Continued)**

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**NOTE 4 - LONG-TERM DEBT, continued**

Future maturities of the note are as follows:

Year ended December 31,

2012	\$	50,000
2013		50,000
2014		50,000
2015		<u>75,000</u>
	\$	<u>225,000</u>

**NOTE 5 - SUBSEQUENT EVENTS**

Management of the DLDC has reviewed events and transactions that occurred between January 1, 2012 and June 15, 2012, which is the date the financial statements were available to be issued for the purpose of determining whether there were any events or transactions that might require disclosure in these financial statements. No such events or transactions were noted.

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SUPPLEMENTARY INFORMATION**  
**SCHEDULE 1 - STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2011**

	<u>ASSETS</u>					
	Dunkirk Local Development Corporation	Washington Avenue Revitalization Company, LLC	DLDC Real Property Company, LLC	Eliminations	Total	
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 3,429	\$ -	\$ -	\$ -	\$ 3,429	
Restricted cash	500	-	-	-	500	
Current portion of loans receivable	50,495	-	-	-	50,495	
Total current assets	<u>54,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,424</u>	
<b>OTHER ASSETS</b>						
Loans receivable, non-current	607,936	-	-	-	607,936	
Investment in LLC's	516,915	-	-	(516,915)	-	
Investment property - Flickenger Building	-	50,990	-	-	50,990	
Investment property - Bertges Building	-	-	674,925	-	674,925	
Investment property - Land, other	-	-	16,000	-	16,000	
Forfeited assets	31,613	-	-	-	31,613	
Total other assets	<u>1,156,464</u>	<u>50,990</u>	<u>690,925</u>	<u>(516,915)</u>	<u>1,381,464</u>	
<b>TOTAL ASSETS</b>	<u>\$ 1,210,888</u>	<u>\$ 50,990</u>	<u>\$ 690,925</u>	<u>\$ (516,915)</u>	<u>\$ 1,435,888</u>	
	<u>LIABILITIES AND NET ASSETS</u>					
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 47,600	\$ -	\$ -	\$ -	\$ 47,600	
Accrued interest	8,938	-	-	-	8,938	
Current portion of long-term debt	-	-	50,000	-	50,000	
Total current liabilities	<u>56,538</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>106,538</u>	
<b>LONG-TERM DEBT, net of current portion</b>						
Total liabilities	<u>-</u>	<u>-</u>	<u>175,000</u>	<u>-</u>	<u>175,000</u>	
	<u>56,538</u>	<u>-</u>	<u>225,000</u>	<u>-</u>	<u>281,538</u>	
<b>NET ASSETS</b>						
Unrestricted	1,153,850	50,990	465,925	(516,915)	1,153,850	
Temporarily restricted	500	-	-	-	500	
Permanently restricted	-	-	-	-	-	
<b>TOTAL NET ASSETS</b>	<u>1,154,350</u>	<u>50,990</u>	<u>465,925</u>	<u>(516,915)</u>	<u>1,154,350</u>	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,210,888</u>	<u>\$ 50,990</u>	<u>\$ 690,925</u>	<u>\$ (516,915)</u>	<u>\$ 1,435,888</u>	

See independent auditor's report.

**DUNKIRK LOCAL DEVELOPMENT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED SUPPLEMENTARY INFORMATION**  
**SCHEDULE 2 - STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2011**

	Dunkirk Local Development Corporation	Washington Avenue Revitalization	DLDC Real Property Company, LLC	Eliminations	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>					
City of Dunkirk - CDBG	\$ 186,371	\$ -	\$ -	-	\$ 186,371
Interest and earnings	21,720	-	-	-	21,720
Administrative fees	1,261	-	-	-	1,261
Rental income	11,904	-	-	-	11,904
Festival sponsorships and donations	49,351	-	-	-	49,351
Miscellaneous income	1,697	-	-	-	1,697
Total revenues, gains, and other support	<u>272,304</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>272,304</u>
<b>EXPENSES - PROGRAM SERVICES</b>					
DLDC Program	146,488	-	-	-	146,488
Festivals Program	60,495	-	-	-	60,495
Total expenses	<u>206,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,983</u>
<b>CHANGE IN NET ASSETS</b>	65,321	-	-	-	65,321
<b>NET ASSETS, beginning of year</b>	572,114	50,990	465,925	-	1,089,029
<b>NET ASSETS, end of year</b>	<u>\$ 637,435</u>	<u>\$ 50,990</u>	<u>\$ 465,925</u>	<u>\$ -</u>	<u>\$ 1,154,350</u>

See independent auditor's report.