

**GREATER LOCKPORT
DEVELOPMENT CORPORATION**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Greater Lockport Development Corporation

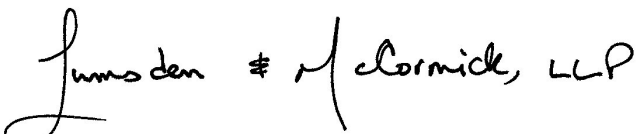
We have audited the accompanying consolidated balance sheets of Greater Lockport Development Corporation (the Corporation) as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements and schedule of HUD revolving loans on pages 8 – 10 are presented for purposes of 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 directly to the underlying accounting 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 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 consolidated financial statements or to the 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.


March 30, 2012

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Balance Sheets

December 31,	2011	2010
Assets		
Cash	\$ 767,889	\$ 898,663
Interest and other receivables, net	15,788	155,155
Prepaid expenses and deposits	11,441	12,078
Loans receivable, net (Note 3)	881,598	1,109,917
Capitalized development costs (Note 4)	120,000	3,521,366
Property, net of accumulated depreciation of \$158,647 in 2011 and \$56,261 in 2010	<u>3,936,773</u>	<u>1,794,159</u>
	<u>\$ 5,733,489</u>	<u>\$ 7,491,338</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 8,853	\$ 14,521
Security deposits	21,587	9,942
Notes payable (Note 5)	<u>215,000</u>	<u>260,000</u>
	<u>245,440</u>	<u>284,463</u>
Net assets (unrestricted)	<u>5,488,049</u>	<u>7,206,875</u>
	<u>\$ 5,733,489</u>	<u>\$ 7,491,338</u>

See accompanying notes.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Statements of Activities

For the years ended December 31,	2011	2010
Changes in unrestricted net assets:		
Revenues and other support:		
Interest income	\$ 46,097	\$ 51,244
Rental income	240,802	118,470
Other income and fees	32,927	87,287
Grant revenue - Dormitory Authority	-	250,000
Grant revenue - Empire State Development Corp.	-	268,277
Grant revenue - City of Lockport	5,117	-
Total unrestricted revenue and other support	<u>324,943</u>	<u>775,278</u>
Expenses before impairment of capitalized development costs:		
Consulting fees	13,331	4,078
Remittance to City of Lockport	-	250,000
General and administrative	309,502	278,759
Provision for doubtful loans and bad debts	-	95,845
Depreciation	102,386	46,261
Interest	3,574	15,564
	<u>428,793</u>	<u>690,507</u>
	(103,850)	84,771
Impairment of capitalized development costs (Note 4)	<u>1,614,976</u>	-
Change in unrestricted net assets	(1,718,826)	84,771
Net assets - beginning	<u>7,206,875</u>	<u>7,122,104</u>
Net assets - ending	<u>\$ 5,488,049</u>	<u>\$ 7,206,875</u>

See accompanying notes.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31,	2011	2010
Operating activities:		
Change in unrestricted net assets	\$ (1,718,826)	\$ 84,771
Adjustments to reconcile change in unrestricted net assets to net cash flows from operating activities:		
Depreciation	102,386	46,261
Provision for doubtful loans and bad debts	-	95,845
Impairment of capitalized development costs	1,614,976	-
Changes in other assets and liabilities:		
Interest and other receivables	139,367	(60,745)
Prepaid expenses and deposits	637	(5,814)
Accounts payable and accrued expenses	(5,668)	(122,356)
Security deposits	11,645	5,458
Net operating activities	144,517	43,420
Investing activities:		
Capitalized development costs	-	(366)
Property expenditures	(458,610)	(118,253)
Payments received on loans receivable	343,137	270,423
Loans granted	(114,818)	-
Net investing activities	(230,291)	151,804
Financing activities:		
Payments on notes payable	(45,000)	(280,000)
Change in cash	(130,774)	(84,776)
Cash - beginning	898,663	983,439
Cash - ending	\$ 767,889	\$ 898,663

See accompanying notes.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization

Greater Lockport Development Corporation (the Corporation) is a not-for-profit organization. Its related but separate entity, 210 Walnut Street, LLC (210 Walnut), was formed to own and manage industrial rental property acquired by the Corporation through foreclosure proceedings. The Corporation is the sole member of 210 Walnut.

The Corporation acts as an agent of the City of Lockport, New York (the City). The principal purpose is to aid the efforts of the City's Economic Development Program. The Corporation administers loan programs to create favorable conditions for City enterprises to expand or locate businesses engaged in the manufacturing, assembling, wholesaling or retailing of goods or services. Further, it provides for the financing of fixed assets or working capital, where such financing will assist in creating employment opportunities for persons of low and moderate income or assist in the elimination of slums and/or blight in the City.

The Corporation's funding was established through grants awarded by the United States Department of Housing and Urban Development (HUD), Urban Development Action Grant (UDAG), and Community Development Block Grant for Small Cities (CDBG) programs. The Corporation has the right to use principal repayments and interest income for the furtherance of its mission.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and 210 Walnut. All significant inter-entity accounts and transactions have been eliminated.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those restricted by donors to be maintained by the Corporation in perpetuity. Currently, there are no temporarily or permanently restricted net assets.

Cash

At various times, cash in financial institutions may exceed federally insured limits and subject the Corporation to concentrations of credit risk.

Loans Receivable

Loans receivable are stated at the principal amount outstanding, net of the allowance for doubtful loans that includes loan forgiveness. The allowance method is used to compute the provision for doubtful loans.

The determination of the balance of the allowance for uncollectible loans is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses after evaluating current economic conditions, historical collections, current collection efforts, and the financial condition of the loan recipient. Loans are charged off when, in management's judgment, no legal recourse is available to collect the amount owed.

Interest on notes receivable is accrued as required by the terms of the agreement, and management considers that collection is probable, based on the current economic condition of the borrower. Interest accrual stops when a loan becomes more than three months past due and does not commence again until the loan is current.

Loan Repayments

CDBG loan repayments (including interest thereon) are classified as income that is restricted for program purposes and, accordingly, can be used by the Corporation to finance other eligible activities. UDAG loan repayments (including interest thereon) can be used by the Corporation to finance other projects in accordance with Title I of The Housing and Community Development Act of 1974 (the Act). All program income from funds received pursuant to §108 of Title I of the Act (§108) are restricted for the purpose of paying interest and principal due on the §108 notes.

Property

Property is stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over estimated service lives.

The property maintained by 210 Walnut is known to contain asbestos. The Corporation is legally obligated to remediate the asbestos upon the related assets' retirement or disposal. Because there are no current plans to undertake a major renovation that would require removal of the asbestos or demolition of the property, the fair value of the liability can not be estimated with reasonable certainty. Additionally, the property is expected to be maintained through repair and maintenance activities that would not involve the removal of the asbestos. The need for major renovations caused by technology changes, operational changes, or other factors has not been identified. When such an estimate of the liability's fair value can be made, it will be established and the carrying value of the property will be increased by a corresponding amount.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

The Corporation is a 501(c)(3) organization exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. 210 Walnut is organized as a limited liability corporation, with flow-through characteristics to the Corporation, its sole member. Income of 210 Walnut may potentially subject the Corporation to unrelated business income tax.

Management of the Corporation believes it is no longer subject to examination by Federal and State taxing authorities for periods ended prior to December 31, 2008.

Contributions

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions whose stipulated purpose restriction is accomplished in the same reporting period as received are reported as an increase in unrestricted net assets.

The Corporation's policy is to record contribution revenue and expense for those specialized contributed services that it would otherwise be required to purchase at fair value had they not been contributed. However, the salaries of the director, as well as administrative support, have been provided by the City. In addition, since the Corporation's offices are located in the City's main administrative building, no rental or related overhead and operating expenses are charged to the Corporation. The Corporation has not reflected as contribution revenue and has not recorded expenses of equal amount for the fair value of these services.

Subsequent Events:

Management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 30, 2012, the date the financial statements were available to be issued.

2. Grants:

The City obtained a \$1,500,000 grant from the Empire State Development Corporation which required the City (through the Corporation) to fund various capital improvements to the facility maintained by 210 Walnut. The Corporation was required to contribute 10% (\$150,000) to the overall costs of the project which have been recognized as grant revenue and grant funding by the Corporation on the accompanying 2010 statement of activities.

3. Loans Receivable:

Loans are granted directly by the Corporation to local businesses to facilitate economic development in the City. The loans bear interest at rates ranging from 0% to 6.5%, and have varying repayment terms. Certain loans provide for the forgiveness of the obligation after five years conditioned upon the lender making timely payments and otherwise abiding by the terms of the loan.

	<u>2011</u>	2010
Loans receivable	\$ 1,148,544	\$ 1,674,728
Allowance for doubtful loans	(266,946)	(564,811)
	<u>\$ 881,598</u>	<u>\$ 1,109,917</u>

Following is a summary of the activity in the allowance for doubtful loans account:

	<u>2011</u>	2010
Balance, beginning of year	\$ 564,811	\$ 656,135
Additions charged to operations	-	82,000
Loans written-off	(297,865)	(173,324)
	<u>\$ 266,946</u>	<u>\$ 564,811</u>

4. Capitalized Development Costs:

Capitalized development costs relate to improvements of buildings on the City's Canal Street block. The buildings are marketed as being available for lease or sale. Given the historical and cultural significance of the Canal Street Block and overall economic development goals of establishing a tourism center of activity that would attract visitors to the City of Lockport, it was well anticipated by management that investments in these properties could exceed future revenue potential. In 2011, a review of capitalized development costs was conducted relative to the estimated discounted value of future cash flows based on existing leases, anticipated selling prices and local

market factors. As a result, the Corporation recognized an impairment loss of \$1,614,976. Additionally, \$2,245,000 was transferred to property and is being depreciated over 40 years.

5. Notes Payable:

HUD variable interest note payable represents \$108 funds borrowed by the Corporation to provide a long-term mortgage loan to a viable medium-sized business to renovate and expand its facilities and amounted to \$215,000 and \$260,000 as of December 31, 2011 and 2010. The note is unsecured by the Corporation; however, it is secured by future grants awarded to the City and, annual principal payments increase from \$40,000 to \$60,000 over the life of the loan. In 2010, the Corporation prepaid \$135,000, the balance originally due in 2016 and 2017.

Aggregate maturities of long-term debt subsequent to December 31, 2011 are:

2012	\$ 50,000
2013	50,000
2014	55,000
2015	60,000
	<u>\$ 215,000</u>

6. Commitments and Contingencies:

Management has consulted with external property managers regarding the potential for future development of 210 Walnut. Tenants that are currently occupying the building have rental agreements on a month to month basis.

7. Rental Income:

In 2011, the Corporation leased space to a company under the terms of a 4-year non-cancellable operating lease for \$90,000 per year. Rental income for 2011 was \$63,750. Future minimum rental payments to be received subsequent to December 31, 2011 are:

2012	\$ 90,000
2013	90,000
2014	90,000
2015	26,250
	<u>\$ 296,250</u>

GREATER LOCKPORT DEVELOPMENT CORPORATION

Additional Information Consolidating Balance Sheet

December 31, 2011

	GLDC	210 Walnut Street, LLC	Eliminations	Consolidated
Assets				
Cash	\$ 698,957	\$ 68,932	\$ -	\$ 767,889
Interest and other receivables, net	54,371	3,904	(42,487)	15,788
Prepaid expenses and deposits	1,159	10,282	-	11,441
Loans receivable, net	1,186,598	-	(305,000)	881,598
Capitalized development costs	120,000	-	-	120,000
Property, net of accumulated depreciation	2,188,875	1,747,898	-	3,936,773
	<u>\$ 4,249,960</u>	<u>\$ 1,831,016</u>	<u>\$ (347,487)</u>	<u>\$ 5,733,489</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,779	\$ 46,561	\$ (42,487)	\$ 8,853
Security deposits	7,500	14,087	-	21,587
Notes payable	215,000	305,000	(305,000)	215,000
	<u>227,279</u>	<u>365,648</u>	<u>(347,487)</u>	<u>245,440</u>
Net assets (unrestricted)	<u>4,022,681</u>	<u>1,465,368</u>	<u>-</u>	<u>5,488,049</u>
	<u>\$ 4,249,960</u>	<u>\$ 1,831,016</u>	<u>\$ (347,487)</u>	<u>\$ 5,733,489</u>

GREATER LOCKPORT DEVELOPMENT CORPORATION

**Additional Information
Consolidating Statement of Activities**

For the year ended December 31, 2011

	GLDC	210 Walnut Street, LLC	Eliminations	Consolidated
Changes in unrestricted net assets:				
Revenues and other support:				
Interest income	\$ 58,297	\$ -	\$ (12,200)	\$ 46,097
Rental income	63,750	177,052	-	240,802
Other income and fees	-	32,927	-	32,927
Grant revenue - City of Lockport	5,117	-	-	5,117
Total unrestricted revenue and other support	127,164	209,979	(12,200)	324,943
Expenses before impairment of capitalized development costs:				
Consulting fees	13,331	-	-	13,331
General and administrative	100,548	208,954	-	309,502
Depreciation	56,125	46,261	-	102,386
Interest	3,574	12,200	(12,200)	3,574
	173,578	267,415	(12,200)	428,793
	(46,414)	(57,436)	-	(103,850)
Impairment of capitalized development costs	1,614,976	-	-	1,614,976
Change in unrestricted net assets	(1,661,390)	(57,436)	-	(1,718,826)
Net assets - beginning	5,684,071	1,522,804	-	7,206,875
Net assets - ending	\$ 4,022,681	\$ 1,465,368	\$ -	\$ 5,488,049

GREATER LOCKPORT DEVELOPMENT CORPORATION

Additional Information Schedule of HUD Revolving Loans

For the year ended December 31, 2011

	Balance January 1, 2011	New Loans	Payments	Written Off/ Other	Balance December 31, 2011
Candlelight Cabinetry, Inc	\$ 51,306	\$ -	\$ 51,306	\$ -	\$ -
East Ave. Apparel, Inc.	11,634	-	1,860	-	9,774
80 Main Street	86,291	-	25,242	-	61,049
Housel's Service Station, Inc.	10,918	-	8,814	-	2,104
JunkeBell LLC	-	114,818	5,086	-	109,732
Lockport Locks & Canal Tours, Inc.	434,113	-	38,382	175,000	220,731
Morningstar Partners, LLC	247,687	-	124,822	122,865	-
Murphy, Michael & Sharon	4,638	-	2,813	-	1,825
Niagara Produce Lockport, Inc.	232,323	-	8,463	-	223,860
Rubberform Recycled Products, LLC	204,517	-	10,158	-	194,359
The Dale Association, Inc.	186,781	-	25,694	-	161,087
Tri-Side, LLC	124,715	-	36,115	-	88,600
Tuscarora Inn, Inc.	79,805	-	4,382	-	75,423
Total	\$ 1,674,728	\$ 114,818	\$ 343,137	\$ 297,865	1,148,544
Less: Allowance for doubtful loans					<u>(266,946)</u>
Total loans receivable					\$ 881,598

**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**

The Board of Directors
Greater Lockport Development Corporation

We have audited the consolidated financial statements of Greater Lockport Development Corporation (the Corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of an entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described below, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Financial accounting and external reporting

Management requests our assistance in drafting the annual financial statements and notes. Although we do not believe that our assistance impacts our overall independence, professional auditing standards require that we inform the Board and management of our involvement in this process.

Given the current administrative support of the Corporation and the resources that would be required for management to stay current with financial reporting and disclosure requirements, it is neither practical nor fiscally prudent to expect an implementation strategy that would avoid this comment in future audits.

The Board should maintain their strong oversight of the financial operations of the Corporation.

Because of the small number of staff at the Corporation, it is difficult to achieve an ideal segregation of duties. The risk that material errors, whether intentional or unintentional, may occur and go undetected is inherent given the small staff size.

We encourage the Board to remain committed to their involvement in the financial operations of the Corporation by thoroughly reviewing monthly financial data, requesting support for all payments when checks are signed, asking questions about unusual transactions, reviewing monthly reconciliations for all major balance sheet accounts, and routing the monthly statements for all bank accounts to the Board Treasurer for review before giving them to the person responsible for the reconciliation process.

The controls over 210 Walnut Street, LLC require regular monitoring. Although there is an outside property management firm, one person continues to be responsible to receive payments and make deposits. While we recognize the small size of the Corporation and limited staff available at 210 Walnut Street makes it difficult to achieve an ideal segregation of duties, we encourage the Board to be involved in the operations of 210 Walnut Street. We suggest the following:

- Approve bank reconciliations;
- Periodically match cancelled checks to the cash disbursements journal for agreement of payor and amount;
- Review cash receipts and disbursements journals monthly.

Account detail for 210 Walnut Street, LLC was not reconciled with general ledger activity, resulting in incorrect monthly account balances being presented to the Board. In order for the Board to accurately analyze the operations of 210 Walnut Street, accounts must be reconciled to the general ledger.

Management's Response

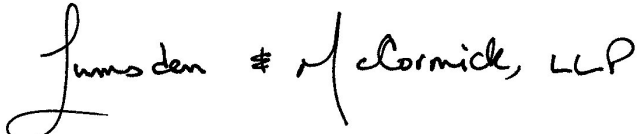
In order to eliminate these conditions, the Corporation would need to devote considerable resources, either internally or externally, to ensure complete mastery of existing and future accounting principles, disclosure requirements and to segregate duties. Management would have to compile the financial statements, including footnotes, and employ separate personnel for all accounting standard implementation issues, in lieu of the services presently provided by the auditing firm. Management would also need to hire part-time individuals to segregate incompatible accounting responsibilities. Based on an evaluation of resources and cost/benefit scenarios, we do not believe this is practical for the Corporation. Management and the Board will continue to monitor controls and provide guidance for exception based transactions and use the services of its auditing firm to ensure complete and accurate financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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*.

The Corporation's response to the findings identified in our audit is described above. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, and the New York State Comptroller's office. It is not intended to be and should not be used by anyone other than these specified parties.


March 30, 2012