

**GREATER LOCKPORT
DEVELOPMENT CORPORATION**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Greater Lockport Development Corporation

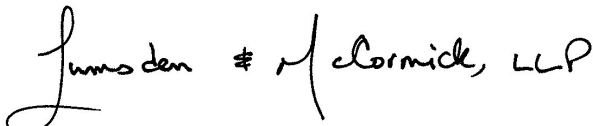
We have audited the accompanying consolidated balance sheets of Greater Lockport Development Corporation (the Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with 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, 2010 and 2009, and the changes in its net assets and its 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 April 26, 2011 on our consideration of the Corporation's internal control over financial reporting and 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.



April 26, 2011

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Balance Sheets

December 31,	2010	2009
Assets		
Cash	\$ 898,663	\$ 983,439
Interest and other receivables, net	155,155	108,255
Prepaid expenses and deposits	12,078	6,264
Loans receivable, net (Note 3)	1,109,917	1,462,340
Capitalized development costs (Note 4)	3,521,366	3,521,000
Property, net of accumulated depreciation of \$56,261 in 2010 and \$10,000 in 2009	1,794,159	1,722,167
	<u>\$ 7,491,338</u>	<u>\$ 7,803,465</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 24,463	\$ 141,361
Notes payable (Note 5)	260,000	540,000
	<u>284,463</u>	<u>681,361</u>
Net assets (unrestricted)	<u>7,206,875</u>	<u>7,122,104</u>
	<u>\$ 7,491,338</u>	<u>\$ 7,803,465</u>

See accompanying notes.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Statements of Activities

For the years ended December 31,	2010	2009
Changes in unrestricted net assets:		
Revenues and other support:		
Grant revenue - Dormitory Authority	\$ 250,000	\$ -
Grant revenue - Empire State Development Corp.	268,277	502,450
Interest income	51,244	57,245
Rental income	118,470	113,639
Other income and fees	87,287	28,406
Total unrestricted revenue and other support	<u>775,278</u>	<u>701,740</u>
Expenses:		
Consulting fees	4,078	7,878
Remittance to City of Lockport	250,000	-
General and administrative	278,759	265,754
Provision for doubtful loans and bad debts	95,845	75,120
Depreciation	46,261	2,500
Interest	15,564	35,550
	<u>690,507</u>	<u>386,802</u>
Change in unrestricted net assets	84,771	314,938
Net assets - beginning	<u>7,122,104</u>	<u>6,807,166</u>
Net assets - ending	\$ 7,206,875	\$ 7,122,104

See accompanying notes.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31,	2010	2009
Operating activities:		
Change in unrestricted net assets	\$ 84,771	\$ 314,938
Adjustments to reconcile change in unrestricted net assets to net cash flows from operating activities:		
Depreciation	46,261	2,500
Provision for doubtful loans and bad debts	82,000	75,120
Changes in other assets and liabilities:		
Interest and other receivables	(46,900)	(109,622)
Prepaid expenses and deposits	(5,814)	14,276
Accounts payable and accrued expenses	(116,898)	96,412
Net operating activities	43,420	393,624
Investing activities:		
Capitalized development costs	(366)	(3,231)
Property expenditures	(118,253)	(597,084)
Payments received on loans receivable	270,423	289,662
Net investing activities	151,804	(310,653)
Financing activities:		
Payments on notes payable	(280,000)	(140,000)
Change in cash	(84,776)	(57,029)
Cash - beginning	983,439	1,040,468
Cash - ending	\$ 898,663	\$ 983,439

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 Section 108 of Title I of the Act (Section 108) are restricted for the purpose of paying interest and principal due on the Section 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, 2007.

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:

Subsequent events have been evaluated by management through April 26, 2011 (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 requires the City (through the Corporation) to fund various capital improvements to the facility maintained by 210 Walnut. The Corporation is required to contribute 10% (\$150,000) to the overall costs of the project which has been recognized as grant revenue and grant funding by the Corporation on the accompanying statements 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 8%, 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>2010</u>	<u>2009</u>
Loans receivable	\$ 1,674,728	\$ 2,118,475
Allowance for doubtful loans	(564,811)	(656,135)
	<u>\$ 1,109,917</u>	<u>\$ 1,462,340</u>

At December 31, 2009, the Corporation had loans of approximately \$173,000 which were impaired as defined by accounting guidance. Impaired loans in 2009 had been fully allowed for. There were no such loans at December 31, 2010.

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

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 656,135	\$ 636,975
Additions charged to operations	82,000	54,715
Loans written-off	(173,324)	(35,555)
	<u>\$ 564,811</u>	<u>\$ 656,135</u>

4. Capitalized Development Costs:

Capitalized development costs of approximately \$3,521,000, relate to improvements of buildings on the City's Canal Street block. The buildings are currently being marketed for lease or sale. After the buildings are occupied, there is at least a reasonable possibility that recorded development costs will change by a material amount in the near term.

5. Notes Payable:

	<u>2010</u>	<u>2009</u>
HUD	\$ 260,000	\$ 440,000
Term note	-	100,000
	<u>\$ 260,000</u>	<u>\$ 540,000</u>

HUD variable interest note payable represents Section 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. 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. The term note was payable in annual installments of \$100,000 and carried interest at 4%.

Aggregate maturities of long-term debt subsequent to December 31, 2010 are:

2011	\$ 45,000
2012	50,000
2013	50,000
2014	55,000
2015	60,000
	<u>\$ 260,000</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.

GREATER LOCKPORT DEVELOPMENT CORPORATION

Additional Information Consolidating Balance Sheet

December 31, 2010

	GLDC	210 Walnut Street, LLC	Eliminations	Consolidated
Assets				
Cash	\$ 828,857	\$ 69,806	\$ -	\$ 898,663
Interest and other receivables, net	183,119	2,323	(30,287)	155,155
Prepaid expenses and deposits	415	11,663	-	12,078
Loans receivable, net	1,414,917	-	(305,000)	1,109,917
Capitalized development costs	3,521,366	-	-	3,521,366
Property, net of accumulated depreciation	-	1,794,159	-	1,794,159
	<u>\$ 5,948,674</u>	<u>\$ 1,877,951</u>	<u>\$ (335,287)</u>	<u>\$ 7,491,338</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 4,603	\$ 50,147	\$ (30,287)	\$ 24,463
Notes payable	260,000	305,000	(305,000)	260,000
	<u>264,603</u>	<u>355,147</u>	<u>(335,287)</u>	<u>284,463</u>
Net assets (unrestricted)	<u>5,684,071</u>	<u>1,522,804</u>	<u>-</u>	<u>7,206,875</u>
	<u>\$ 5,948,674</u>	<u>\$ 1,877,951</u>	<u>\$ (335,287)</u>	<u>\$ 7,491,338</u>

GREATER LOCKPORT DEVELOPMENT CORPORATION

**Additional Information
Consolidating Statement of Activities**

For the year ended December 31, 2010

	GLDC	210 Walnut Street, LLC	Eliminations	Consolidated
Changes in unrestricted net assets:				
Revenues and other support:				
Grant revenue - Dormitory Authority	\$ -	\$ 250,000	\$ -	\$ 250,000
Grant revenue - Empire State Development Corp.	250,000	117,990	(99,713)	268,277
Interest income	62,876	-	(11,632)	51,244
Rental income	-	118,470	-	118,470
Other income and fees	203	87,084	-	87,287
Total unrestricted revenue and other support	313,079	573,544	(111,345)	775,278
Expenses:				
Consulting fees	4,078	-	-	4,078
Remittance to City of Lockport	-	250,000	-	250,000
General and administrative	67,583	211,176	-	278,759
Grant funding	99,713	-	(99,713)	-
Provision for doubtful loans and bad debts	82,000	13,845	-	95,845
Depreciation	-	46,261	-	46,261
Interest	15,564	11,632	(11,632)	15,564
	268,938	532,914	(111,345)	690,507
Change in unrestricted net assets	44,141	40,630	-	84,771
Net assets - beginning	5,639,930	1,482,174	-	7,122,104
Net assets - ending	\$ 5,684,071	\$ 1,522,804	\$ -	\$ 7,206,875

GREATER LOCKPORT DEVELOPMENT CORPORATION

Additional Information Schedule of HUD Revolving Loans

For the year ended December 31, 2010

	Balance January 1, 2010	New Loans	Payments	Written Off/ Other	Balance December 31, 2010
Candlelight Cabinetry, Inc	\$ 101,097	\$ -	\$ 49,791	\$ -	\$ 51,306
Diversified Manufacturing, Inc.	5,991	-	5,991	-	-
East Ave. Apparel, Inc.	13,745	-	2,111	-	11,634
80 Main Street	323,326	-	63,711	173,324	86,291
Housel's Service Station, Inc.	18,012	-	7,094	-	10,918
Lockport Locks & Canal Tours, Inc.	478,900	-	44,787	-	434,113
Morningstar Partners, LLC	264,566	-	16,879	-	247,687
Murphy, Michael & Sharon	7,233	-	2,595	-	4,638
Niagara Produce Lockport, Inc.	241,294	-	8,971	-	232,323
Rubberform Recycled Products, LLC	204,517	-	-	-	204,517
The Dale Association, Inc.	211,717	-	24,936	-	186,781
Tri-Side, LLC	159,765	-	35,050	-	124,715
Tuscarora Inn, Inc.	88,312	-	8,507	-	79,805
Total	\$ 2,118,475	\$ -	\$ 270,423	\$ 173,324	1,674,728
Less: Allowance for doubtful loans					<u>(564,811)</u>
Total loans receivable					\$ 1,109,917

**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, 2010, and have issued our report thereon dated April 26, 2011. 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.

Among other valuable services, informative monthly financial reports are prepared by management with the assistance of an outside accounting firm for the Board to use in monitoring operations. As part of its due diligence, management proactively communicates with its auditor to ensure they understand and properly apply new accounting pronouncements as they are effective.

Historically, management has requested its auditor provide feedback and assistance with closing entries and in drafting the Corporation's consolidated financial statements and footnote disclosures. While this is typical of an organization of the Corporation's size, an auditor cannot technically be part of an entity's system of internal control.

Given the staff size of the Corporation and the resources that would be required for management to be current with financial accounting and disclosure requirements, it is neither practical nor fiscally prudent to expect a resolution to this matter by the Corporation in the near term.

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 for receiving payments and making deposits. While we recognize the small size of the Corporation and limited staff available at 210 Walnut Street make 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 our 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 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.

 James J. Janssen # McCormick, LLP

April 26, 2011