LUMBER CITY DEVELOPMENT CORPORATION

Financial Statements and
Independent Auditors' Report

December 31, 2017 and 2016

LUMBER CITY DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lumber City Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Lumber City Development Corporation (the Corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 from 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lumber City Development Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2018, 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, and 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 in considering the Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 19, 2018

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Financial Position

December 31, 2017 and 2016

Assets	2017	2016
Cash	$ 413,027	773,281
Grants receivable	13,697	13,750
Loans receivable, less allowance of $279,488 in 2017 and 2016	691,747	532,859
Prepaid insurance	3,239	3,151
Equipment, at cost, less accumulated depreciation of $1,834 in 2017 and $1,803 in 2016	589	-
Total assets	$ 1,122,299	1,323,041
Liabilities and Net Assets		
Liabilities - accounts payable and accrued expenses	22,863	13,837
Unrestricted net assets	1,099,436	1,309,204
Contingency (note 7)		
Total liabilities and net assets	$ 1,122,299	1,323,041

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Activities
Years ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenue:		
Grant income	$ 198,121	200,573
Interest income	17,633	16,820
Contributed services	71,120	71,120
Total unrestricted revenue	286,874	288,513
Unrestricted expenses:		
Program services	413,095	201,368
Management and general	84,097	77,499
Total unrestricted expenses	497,192	278,867
Increase (decrease) in unrestricted net assets before other income	(210,318)	9,646
Other non-operating income	550	450
Increase (decrease) in unrestricted net assets	(209,768)	10,096
Unrestricted net assets at beginning of year	1,309,204	1,299,108
Unrestricted net assets at end of year	$ 1,099,436	1,309,204

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Functional Expenses
Years ended December 31, 2017 and 2016

	2017			2016		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 210,661	-	210,661	22,210	-	22,210
Payroll	69,390	23,130	92,520	65,532	21,844	87,376
Payroll taxes and employee benefits	15,839	5,280	21,119	15,037	5,013	20,050
Stipend - Executive Director	10,800	3,600	14,400	10,800	3,600	14,400
Consulting fees	14,850	4,950	19,800	844	281	1,125
Contributed administrative expenses	27,825	9,275	37,100	27,825	9,275	37,100
Advertising	34,913	-	34,913	33,781	-	33,781
Business meetings	5,198	1,733	6,931	1,299	433	1,732
Legal and professional fees	3,688	3,688	7,376	2,756	2,756	5,512
Accounting fees	-	4,100	4,100	-	3,900	3,900
Insurance	-	4,462	4,462	-	4,524	4,524
Office expense	2,921	2,921	5,842	4,274	4,274	8,548
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	31	31	-	-	-
Miscellaneous	-	3,917	3,917	-	4,589	4,589
Total unrestricted expenses	$ 413,095	84,097	497,192	201,368	77,499	278,867

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	$ (209,768)	10,096
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Depreciation	31	-
Principal payments on loans receivable	157,456	155,123
Loans granted during the year	(316,344)	(90,000)
Decrease in allowance for doubtful accounts	-	(42,139)
Changes in:		
Grants receivable	53	(13,750)
Prepaid insurance	(88)	5
Accounts payable and accrued expenses	9,026	12,202
Due to other governments	-	(66,154)
Net cash used in operating activities	(359,634)	(34,617)
Cash flows from investing activities - additions to equipment	(620)	-
Net decrease in cash	(360,254)	(34,617)
Cash at beginning of year	773,281	807,898
Cash at end of year	$ 413,027	773,281

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Lumber City Development Corporation (the Corporation) was formed pursuant to a resolution of the Common Council of the City of North Tonawanda, New York (the City), as a quasi-public local development corporation under the New York Not-For-Profit Corporation Law. The Corporation acts as an agent of the City. The principal purpose is to encourage and promote economic development in the City by distributing and loaning funds to businesses within the corporate limits of the City. A majority of the Corporation's revenue stems from grants passed through the City.

(b) Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(c) Basis of Presentation

The Corporation reports 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. The Corporation had only unrestricted net assets in 2017 and 2016.

(d) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual events and results could differ from those assumptions and estimates.

(e) Cash

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) Loans Receivable

Loans receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable.

(1) Summary of Significant Accounting Policies, Continued

(g) Contributed Services

During the years ended December 31, 2017 and 2016, the value of contributed services meeting the requirements for recognition in the financial statements amounted to $71,120. These services were provided to the Corporation by the City of North Tonawanda.

(h) Expense Allocation

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

(i) Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code); therefore, no provision for income taxes is reflected in the 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 financial statements. U.S. Forms 990 filed by the Corporation are subject to examination by taxing authorities.

(j) Subsequent Events

The Corporation has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(2) Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk include cash on deposit with a financial institution, which was insured for up to $250,000 by the U.S. Federal Deposit Insurance Corporation. At various times throughout the years ended December 31, 2017 and 2016, the Corporation’s balance in its accounts has exceeded the federally-insured limit.

Credit risk for grants receivable are also concentrated and are subject to review and approval by the grantor, as discussed in note 5. Credit risk for loans receivable is also concentrated as all the loans are to businesses located within the boundaries of the City of North Tonawanda, New York. The Corporation performs ongoing credit evaluations of its loans receivable and substantially all loans require collateral.

(3) Fair Value Measurements

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(4) Loans Receivable

Loans receivable, which have interest rates ranging from 0.00% to 4.25%, are considered to be level 3 assets as described in note 3 and are summarized as follows at December 31, 2017 and 2016:

	2017	2016
Sherwood Florist, Inc.	$ 13,994	16,928
Jay L. Soemann	5,872	13,499
Vito's Avenue Pizzeria	564	3,861
Leon Tringali d/b/a Leon's Studio One	-	13,937
Susan Rechin-Fassl	14,995	17,734
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar	300,001	320,451
Draco Management, LLC	14,124	21,508
Jay L. Soemann - 88 Webster Street	33,171	43,893
Jay L. Soemann - 88 Webster Street	23,321	30,432
300 Oliver Street LLC d/b/a Witter's Sports Bar and Grill	8,230	9,782
Greg Stenis - 351 Oliver Street	4,054	8,874
Canalside Bistro and Creamery, Inc.	13,067	15,345
Canal Club 62, LLC	68,968	81,212
500 Fitness, Inc.	19,574	19,717
Lou Riggio - JFLR Enterprises	50,000	50,000
Thomas Pickles - Shirt Pickle, Inc.	18,722	22,402
Uncorked Cafe′, Inc.	34,187	34,139
Roger L. Urban, LLC	37,713	88,633
Pencil in the River	19,548	-
Superior Tool - Ameri-cut	51,448	-
Platter's Chocolate	200,500	-
Canalside Wine and Spirits	39,182	-
Total loans receivable	971,235	812,347
Less allowance for loan losses	(279,488)	(279,488)
Net loans receivable	$ 691,747	532,859

(4) Loans Receivable, Continued

The table below sets forth a summary of changes in the fair value of the Corporation's Level 3 assets for the years ended December 31, 2017 and 2016:

	2017	2016
Balance at beginning of year	$ 812,347	877,470
Add loans issued	316,344	90,000
Less amounts repaid	(157,456)	(155,123)
Balance at end of year	$ 971,235	812,347

In 2012, a loan was issued to Delaware Restaurant Holdings, LLC in the amount of $200,000. The loan is to be repaid as a lump sum and bears no interest. Because the balance is anticipated to be forgiven by the Corporation at the maturity date, forgiveness of debt amounting to $200,000 was charged to community development projects expense during the year ended December 31, 2012. The $200,000 has been included in the allowance for uncollectible loans at December 31, 2017 and 2016.

A summary of current and past due loans as of December 31, 2017 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 961,252	851	9,132	971,235

(5) Grant Income

The Corporation received grant income for the years ended December 31, 2017 and 2016 as follows:

	2017	2016
Community Development Block Grant	$ 143,174	95,573
Community Foundation for Greater Buffalo Grant	-	50,000
City of North Tonawanda	54,947	55,000
	$ 198,121	200,573

Under the terms of various grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such questioned costs could lead to reimbursement to the grantor agencies. Except as discussed in note 7, management believes that it would be able to provide support acceptable to the grantor and that any disallowances would not be material.

(6) Retirement Plan

The Corporation maintains a simplified employee pension plan for all employees meeting certain employment and compensation requirements. The Corporation's contribution is determined by the Board of Directors. For the years ended December 31, 2017 and 2016, the Corporation contributed 3% of each participant's annual salary to Individual Retirement Accounts established by the respective employees. The Corporation's policy is to fund the current retirement benefit costs accrued. Corporation contributions to the plan totaled $2,810 and $2,632 for 2017 and 2016, respectively.

(7) Contingency

During 2015, the New York State Division of Housing and Community Renewal (NYSDHCR) performed a review of grants made to the Corporation and determined that the Corporation in prior years did not meet the grant objectives of a grant award totaling $66,154. This disallowance was accrued in the Corporation's 2015 financial statements and repaid in January 2016.

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INDEPENDENT AUDITORS' 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
Lumber City Development Corporation:

We have audited, in accordance with the 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, the financial statements of Lumber City Development Corporation (the Corporation), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated March 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 19, 2018