LUMBER CITY DEVELOPMENT CORPORATION

Financial Statements and
Independent Auditors' Report

December 31, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2019, 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 solely 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 the effectiveness of the Corporation's 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, 2019

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2018 and 2017

Assets	2018	2017
Cash	$ 541,423	413,027
Grants receivable	13,750	13,697
Loans receivable, less allowance of $279,488 in 2018 and 2017	457,418	691,747
Prepaid insurance	3,302	3,239
Equipment, at cost, less accumulated depreciation of $1,958 in 2018 and $1,834 in 2017	465	589
Total assets	$ 1,016,358	1,122,299
Liabilities and Net Assets		
Liabilities - accounts payable and accrued expenses	12,403	22,863
Net assets without donor restrictions	1,003,955	1,099,436
Total liabilities and net assets	$ 1,016,358	1,122,299

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Activities

Years ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Grant income	$ 202,250	198,121
Interest income	19,026	17,633
Contributed services	71,120	71,120
Total revenue	292,396	286,874
Expenses:		
Program services	307,359	413,095
Management and general	80,907	84,097
Total expenses	388,266	497,192
Change in net assets without donor restrictions before other income	(95,870)	(210,318)
Other non-operating income	389	550
Change in net assets without donor restrictions	(95,481)	(209,768)
Net assets without donor restrictions at beginning of year	1,099,436	1,309,204
Net assets without donor restrictions at end of year	$ 1,003,955	1,099,436

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Functional Expenses

Years ended December 31, 2018 and 2017

	2018			2017		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 121,150	-	121,150	210,661	-	210,661
Payroll	72,188	24,063	96,251	69,390	23,130	92,520
Payroll taxes and employee benefits	16,287	5,429	21,716	15,839	5,280	21,119
Stipend - Executive Director	10,800	3,600	14,400	10,800	3,600	14,400
Consulting fees	-	-	-	14,850	4,950	19,800
Contributed administrative expenses	27,880	9,293	37,173	27,825	9,275	37,100
Advertising	32,120	-	32,120	34,913	-	34,913
Business meetings	2,272	757	3,029	5,198	1,733	6,931
Legal and professional fees	4,525	4,525	9,050	3,688	3,688	7,376
Accounting fees	-	4,300	4,300	-	4,100	4,100
Insurance	-	4,461	4,461	-	4,462	4,462
Office expense	3,127	3,126	6,253	2,921	2,921	5,842
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	124	124	-	31	31
Miscellaneous	-	4,219	4,219	-	3,917	3,917
Total unrestricted expenses	$ 307,359	80,907	388,266	413,095	84,097	497,192

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets without donor restrictions	$ (95,481)	(209,768)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided (used) in operating activities:		
Depreciation	124	31
Principal payments on loans receivable	249,764	157,456
Loans granted during the year	(15,435)	(316,344)
Changes in:		
Grants receivable	(53)	53
Prepaid insurance	(63)	(88)
Accounts payable and accrued expenses	(10,460)	9,026
Net cash provided (used) in operating activities	128,396	(359,634)
Cash flows from investing activities - additions to equipment	-	(620)
Net change in cash	128,396	(360,254)
Cash at beginning of year	413,027	773,281
Cash at end of year	$ 541,423	413,027

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions represents resources available for the general support of the Corporation's activities. Net assets with donor restrictions are those whose use has been limited by donor-imposed stipulations and either expire by passage of time or can be fulfilled by actions of the Corporation. The Corporation had only net assets without donor restrictions in 2018 and 2017

(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, 2018 and 2017, 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 including professional fees, office expense and rent have been allocated among the programs and supporting services benefited. Other costs such as advertising and community development projects are allocated entirely to program services.

(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.

(k) Recent Accounting Standards Issued

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities." ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, quantitative and qualitative disclosures regarding liquidity, and a requirement to report expenses by function, nature, and an analysis showing the relationship between function and nature and the removal of the requirement for a reconciliation for statements of cash flows done on the direct basis.

This guidance is effective for fiscal years beginning after December 15, 2017. These financial statements and notes reflect adoption of this new standard.

(2) Liquidity

The Corporation has approximately $555,173 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of $541,423 of cash and $13,750 of grant receivables. None of these financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditure within one year of the 2018 statement of financial position date.

(3) 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, 2018 and 2017, 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 6. 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.

(4) 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

(4) Fair Value Measurements, Continued

- 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.

(5) 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 4 and are summarized as follows at December 31, 2018 and 2017:

	2018	2017
Sherwood Florist, Inc.	$ 10,928	13,994
Jay L. Soemann	-	5,872
Vito's Avenue Pizzeria	-	564
Susan Rechin-Fassl	10,706	14,995
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar	278,929	300,001
Draco Management, LLC	6,516	14,124
Jay L. Soemann - 88 Webster Street	22,123	33,171
Jay L. Soemann - 88 Webster Street	15,996	23,321
300 Oliver Street LLC d/b/a Witter's Sports Bar and Grill	6,591	8,230
Greg Stenis - 351 Oliver Street	182	4,054
Canalside Bistro and Creamery, Inc.	11,029	13,067
Canal Club 62, LLC	54,990	68,968
500 Fitness, Inc.	16,779	19,574
Lou Riggio - JFLR Enterprises	50,000	50,000

(5) Loans Receivable, Continued

	2018	2017
Thomas Pickles - Shirt Pickle, Inc.	$ 15,601	18,722
Uncorked Café, Inc.	34,187	34,187
Roger L. Urban, LLC	31,056	37,713
Pencil in the River	16,753	19,548
Superior Tool - Ameri-cut	47,823	51,448
Platter's Chocolate	55,440	200,500
Canalside Wine and Spirits	35,842	39,182
Lumber City Winery, LLC	15,435	-
Total loans receivable	736,906	971,235
Less allowance for loan losses	(279,488)	(279,488)
Net loans receivable	$ 457,418	691,747

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, 2018 and 2017:

	2018	2017
Balance at beginning of year	$ 971,235	812,347
Add loans issued	15,435	316,344
Less amounts repaid	(249,764)	(157,456)
Balance at end of year	$ 736,906	971,235

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, 2018 and 2017.

A summary of current and past due loans as of December 31, 2018 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 726,947	2,406	7,553	736,906

(6) Grant Income

The Corporation received grant income for the years ended December 31, 2018 and 2017 as follows:

	2018	2017
Community Foundation of Buffalo	$ 50,000	-
Community Development Block Grant	97,250	143,174
City of North Tonawanda	55,000	54,947
	$ 202,250	198,121

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.

(7) 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, 2018 and 2017, 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 $2,900 and $2,810 for 2018 and 2017, respectively.

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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, 2018, 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, 2019.

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, 2019