LUMBER CITY DEVELOPMENT CORPORATION

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

LUMBER CITY DEVELOPMENT CORPORATION

Contents

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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014 and 2013, 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.

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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, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2015, 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 24, 2015

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2014 and 2013

Assets		2014	2013
Cash	$	908,445	1,008,562
Loans and grants receivable, less allowance of $321,627 for 2014 and 2013		647,966	661,943
Prepaid insurance		3,173	3,212
Equipment, at cost, less accumulated depreciation of $1,803 in 2014 and $1,748 in 2013		-	55
Total assets	$	1,559,584	1,673,772

Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses		4,766	4,003
Due to other governments		100,000	98,250
Total liabilities and net assets		104,766	102,253
Unrestricted net assets		1,454,818	1,571,519
Contingency (note 7)			
Total liabilities and net assets	$	1,559,584	1,673,772

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Activities
Years ended December 31, 2014 and 2013

	2014	2013
Unrestricted revenue:		
Grant income	$ 172,500	79,896
Interest income	22,161	22,728
Contributed services	71,120	71,120
Total unrestricted revenue	265,781	173,744
Unrestricted expenses:		
Program services	208,088	373,475
Management and general	74,394	82,320
Total unrestricted expenses	282,482	455,795
Decrease in unrestricted net assets before other income (expense)	(16,701)	(282,051)
Other income (expense):		
Non-operating income	-	10,108
Repayment of grant made in prior year	(100,000)	(98,250)
Loss on sale of property held for sale	-	(345)
Total other income (expense)	(100,000)	(88,487)
Decrease in unrestricted net assets	(116,701)	(370,538)
Unrestricted net assets at beginning of year	1,571,519	1,942,057
Unrestricted net assets at end of year	$ 1,454,818	1,571,519

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Functional Expenses

Years ended December 31, 2014 and 2013

	2014			2013		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 36,372	-	36,372	194,979	-	194,979
Payroll	56,703	18,901	75,604	76,022	25,341	101,363
Payroll taxes and employee benefits	15,592	5,197	20,789	19,122	6,374	25,496
Stipend - Executive Director	9,735	3,245	12,980	13,466	4,489	17,955
Consulting fees	4,062	1,354	5,416	2,250	750	3,000
Administrative expenses to City	27,825	9,275	37,100	27,825	9,275	37,100
Advertising	30,830	-	30,830	15,746	-	15,746
Business meetings	2,766	922	3,688	2,603	868	3,471
Legal and professional fees	3,328	3,328	6,656	1,287	1,287	2,574
Accounting fees	-	3,600	3,600	-	3,900	3,900
Insurance	-	4,829	4,829	-	6,279	6,279
Office expense	3,865	3,865	7,730	3,165	3,165	6,330
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	55	55	-	43	43
Miscellaneous	-	2,813	2,813	-	3,539	3,539
Total unrestricted expenses	$ 208,088	74,394	282,482	373,475	82,320	455,795

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Decrease in unrestricted net assets	$ (116,701)	(370,538)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	55	43
Loss on sale of property held for sale	-	345
Principal payments on loans receivable	277,477	323,278
Loans granted during the year	(263,500)	(135,000)
Changes in:		
Grants receivable	-	250,000
Prepaid insurance	39	4,617
Accounts payable and accrued expenses	2,513	96,270
Net cash provided by (used in) operating activities	(100,117)	169,015
Cash flows from investing activities - proceeds from sale of property held for sale	-	84,655
Change in cash	(100,117)	253,670
Cash at beginning of year	1,008,562	754,892
Cash at end of year	$ 908,445	1,008,562
Supplemental schedule of non-cash operating activities:		
Contributed services revenue	$ 71,120	71,120
Contributed services expense	$ 37,100	37,100
Rent expense - contributed	$ 34,020	34,020

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 2014 and 2013.

(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 revenues 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) Receivables

Receivables 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, 2014 and 2013, 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) 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.

(j) 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 position 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. The Corporation is no longer subject to tax examination for the years ended December 31, 2010 and prior.

(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, 2014 and 2013, 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 4. 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. The Corporation performs ongoing credit evaluations of its loan receivables 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;
- 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 3% to 6%, are considered to be level 3 assets as described in note 3 and are summarized as follows at December 31, 2014 and 2013:

	2014	2013
286 Oliver Street, LLC	$ 4,390	12,849
Signature Salon and Day Spa, Inc.	-	2,057
Jacob's Ladder, LLC	14,334	18,967

(4) Loans Receivable, Continued

		2014	2013
Marketing Imprints, Inc. and Impressive Development, Inc.	$	17,072	34,825
Hodge Podge		-	16,587
Jet Group Enterprises, Inc. (formerly Solid Surface Acrylics, Inc.)		-	5,833
Jay L. Soemann		28,085	35,057
Prototype Manufacturing Corporation		8,117	18,516
Crazy Jakes, Inc.		6,526	14,157
Partners in Art		10,544	16,957
Vito's Pizzeria		9,319	12,168
Remington Lofts on the Canal, LLC		-	150,000
Evolation Yoga, LLC		42,139	42,139
Leon Tringali d/b/a Leon's Studio One		31,571	40,000
Canalside Creamery		8,426	10,517
Susan Rechin-Fassl		24,116	27,166
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar		350,000	350,000
Draco Management, LLC		35,629	42,378
Risa's Deli & Catering Company		7,396	9,200
Jay L. Soemann - 88 Webster Street		64,396	74,197
Jay L. Soemann - 88 Webster Street		44,033	50,000
26 Webster Street LLC		263,500	-
Total loans receivable		969,593	983,570
Less allowance for loan losses		(321,627)	(321,627)
Net loans receivable	$	647,966	661,943

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, 2014 and 2013:

		2014	2013
Balance at beginning of year	$	983,570	1,171,848
Add loans issued		263,500	135,000
Less amounts repaid		(277,477)	(323,278)
Balance at end of year	$	969,593	983,570

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, 2014 and 2013.

(4) Loans Receivable, Continued

A summary of current and past due loans as of December 31, 2014 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 901,379	32,176	36,038	969,593

(5) Property Held for Sale

During 2013, the Corporation disposed of real property which was being held for sale, recognizing a loss of $345. In prior years, the Corporation reviewed the carrying value of the property for impairment in order to determine whether the carrying amount of the property would be recoverable.

(6) Grant Income

The Corporation received grant income for the years ended December 31, 2014 and 2013 as follows:

	2014	2013
Community Development Block Grant	$ 112,500	19,896
City of North Tonawanda	60,000	60,000
	$ 172,500	79,896

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. Management believes that it would be able to provide support acceptable to the grantor and that any disallowances would not be material.

(7) Contingency

In prior years, the New York State Division of Housing and Community Renewal determined that the Corporation may be required to repay certain New York State Community Development Block Grant funds, amounting to $198,250, received by the Corporation in 2007 and 2008. As discussed in note 9, $98,250 of the grant was repaid in 2014 and the remaining $100,000 will be repaid in 2015. There have been no such determinations made for any subsequent years.

(8) 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, 2014 and 2013, 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 $1,570 and $2,652 for 2014 and 2013, respectively.

(9) Repayment of Grant

As discussed in note 7, the Corporation has received grants from the New York State Division of Housing and Community Renewal in prior years. During 2013, the grantor determined that the Corporation did not meet the grant objectives and requested the return of $98,250 and $100,000, respectively, in grant funds. The Corporation has agreed to this determination and recognized a liability for this repayment at December 31, 2013 and 2014, respectively. $98,250 of the funds were repaid in 2014. The remaining $100,000 is anticipated to be repaid early in 2015.

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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 24, 2015.

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 entity'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.

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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.

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.

Toski & Co., CPAs, P.C.

Williamsville, New York
March 24, 2015