LUMBER CITY DEVELOPMENT CORPORATION

Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

LUMBER CITY DEVELOPMENT CORPORATION

Contents

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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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, 2013 and 2012, 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 of 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 audits 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, 2013 and 2012, 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 19, 2014, 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 19, 2014

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2013 and 2012

Assets	2013	2012
Cash	$ 1,008,562	754,892
Receivables:		
Grants	-	250,000
Loans, less allowance of $321,627 in 2013 and 2012	661,943	850,221
Total receivables	661,943	1,100,221
Prepaid insurance	3,212	7,829
Equipment, at cost	1,803	1,803
Less accumulated depreciation	(1,748)	(1,705)
Net equipment	55	98
Property held for sale	-	85,000
Total assets	$ 1,673,772	1,948,040
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	4,003	5,983
Due to other governments	98,250	-
Total liabilities and net assets	102,253	5,983
Unrestricted net assets	1,571,519	1,942,057
Commitment and contingency (note 7)		
Total liabilities and net assets	$ 1,673,772	1,948,040

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Activities
Years ended December 31, 2013 and 2012

	2013	2012
Unrestricted revenue:		
Grant income	$ 79,896	323,347
Interest income	22,728	43,510
Contributed services	71,120	71,120
Total unrestricted revenue	173,744	437,977
Unrestricted expenses:		
Program services	373,475	647,165
Management and general	82,320	79,424
Total unrestricted expenses	455,795	726,589
Decrease in unrestricted net assets before other income (expense)	(282,051)	(288,612)
Other income (expense):		
Non-operating income	10,108	-
Repayment of grant made in prior year	(98,250)	-
Loss on disposition of property held for sale	(345)	-
Loss on impairment of property held for sale	-	(65,000)
Total other income (expense)	(88,487)	(65,000)
Decrease in unrestricted net assets	(370,538)	(353,612)
Unrestricted net assets at beginning of year	1,942,057	2,295,669
Unrestricted net assets at end of year	$ 1,571,519	1,942,057

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statement of Functional Expenses

Years ended December 31, 2013 and 2012

	2013			2012		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 194,979	-	194,979	493,118	-	493,118
Payroll	76,022	25,341	101,363	63,731	21,244	84,975
Payroll taxes and employee benefits	19,122	6,374	25,496	17,346	5,782	23,128
Stipend - Executive Director	13,466	4,489	17,955	-	-	-
Consulting fees	2,250	750	3,000	13,925	4,659	18,584
Administrative expenses to City	27,875	9,275	37,150	27,875	9,275	37,150
Advertising	15,746	-	15,746	6,011	-	6,011
Business meetings	2,603	868	3,471	3,017	1,006	4,023
Legal and professional fees	1,287	1,287	2,574	1,916	1,917	3,833
Accounting fees	-	3,900	3,900	-	3,850	3,850
Insurance	-	6,279	6,279	-	7,687	7,687
Office expense	3,165	3,165	6,330	3,216	3,216	6,432
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	43	43	-	43	43
Miscellaneous	-	3,539	3,539	-	3,735	3,735
Total unrestricted expenses	$ 373,525	82,320	455,845	647,165	79,424	726,589

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Cash Flows
Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Decrease in unrestricted net assets	$ (370,538)	(353,612)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by operating activities:		
Depreciation expense	43	43
Loss on sale of property held for sale	345	-
Principal payments on loans receivable	323,278	707,543
Loans granted during the year	(135,000)	(400,000)
Forgiveness of loans receivable	-	200,000
Loss on impairment of property held for sale	-	65,000
Changes in:		
Grants receivable	250,000	(61,500)
Prepaid insurance	4,617	(1,708)
Utility deposits	-	270
Accounts payable and accrued expenses	96,270	(6,302)
Net cash provided by operating activities	169,015	149,734
Cash flows from investing activities - proceeds from sale of property held for sale	84,655	-
Change in cash	253,670	149,734
Cash at beginning of year	754,892	605,158
Cash at end of year	$ 1,008,562	754,892
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 2013 and 2012.

(d) 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 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, 2013 and 2012, 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 events after December 31, 2013, and through March 19, 2014, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(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, 2009 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, 2013 and 2012, 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. 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 Agency 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, 2013 and 2012:

	2013	2012
286 Oliver Street, LLC	$ 12,849	20,897
Signature Salon and Day Spa, Inc.	2,057	7,092
Jacob's Ladder, LLC	18,967	23,464
IDEK, LLC	-	129,019

(4) Loans Receivable, Continued

		2013	2012
Marketing Imprints, Inc. and Impressive Development, Inc.	$	34,825	51,715
Hodge Podge		16,587	20,822
Jet Group Enterprises, Inc. (formerly Solid Surface Acrylics, Inc.)		5,833	28,730
Jay L. Soemann		35,057	41,823
Prototype Manufacturing Corporation		18,516	28,431
Crazy Jakes, Inc.		14,157	21,571
Partners in Art		16,957	23,179
Robert Starr		-	74,752
Vito's Pizzeria		12,168	15,235
Remington Lofts on the Canal, LLC		150,000	150,000
Evolation Yoga, LLC		42,139	45,338
Leon Tringali d/b/a Leon's Studio One		40,000	48,181
Canalside Creamery		10,517	12,545
Susan Rechin-Fassl		27,166	30,127
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar		350,000	350,000
Draco Management, LLC		42,378	48,927
Risa's Deli & Catering Company		9,200	-
Jay L. Soemann - 88 Webster Street		74,197	-
Jay L. Soemann - 88 Webster Street		50,000	-
Total loans receivable		983,570	1,171,848
Less allowance for loan losses		(321,627)	(321,627)
Net loans receivable	$	661,943	850,221

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, 2013 and 2012:

		2013	2012
Balance at beginning of year	$	1,171,848	1,479,391
Add loans issued		135,000	400,000
Less amounts repaid		(323,278)	(707,543)
Balance at end of year	$	983,570	1,171,848

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, 2013 and 2012.

(4) Loans Receivable, Continued

A summary of current and past due loans as of December 31, 2013 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 942,503	2,176	38,891	983,570

(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. An impairment loss of $65,000 was recognized by the Corporation during the year ended December 31, 2012 (note 8).

(6) Grant Income

The Corporation received grant income for the years ended December 31, 2013 and 2012 as follows:

	2013	2012
Community Development Block Grant	$ 19,896	146,392
City of North Tonawanda	60,000	55,000
New York State Division of Housing and Community Renewal	-	121,955
	$ 79,896	323,347

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.

(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 10, $98,250 of the grant will be repaid in 2014. The status of the remaining amount of $100,000 continues to remain undetermined at this time, as the Corporation continues discussions with the grantor agency.

(8) Loss on Impairment

Accounting Standards Codification (ACS) No. 360 - "Accounting for the Impairment or Disposal of Long-Lived Assets" requires that long-lived assets be regularly tested for impairment and that when found to be impaired, be recorded at the lower of carrying value or fair value, less costs to sell. In accordance with this statement, a building and land being held for sale, have been recorded at fair value at December 31, 2012, which is the lower of carrying value or fair value, less costs to sell. The fair value for the property was determined based upon an offer made by a prospective buyer to the Corporation in negotiations for the sale of the property in 2012. In connection with this, a $65,000 impairment loss has been recognized for the year ended December 31, 2012. This property was sold in 2013, resulting in an actual loss of $345.

(9) 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, 2013 and 2012, 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 $2,652 and $1,921 for 2013 and 2012, respectively.

(10) Repayment of Grant

As discussed in note 6, the Corporation received a grant 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 objectives of the grant and requested the return of $98,250 in grant funds. The Corporation has agreed to this determination and recognized a liability for this repayment at December 31, 2013. It is anticipated that the funds will be returned to the grantor early in 2014.

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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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 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, 2013, 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, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 19, 2014