

N.F.C. DEVELOPMENT CORP.
(A Discretely Presented Component Unit of the
City of Niagara Falls, New York)

Financial Statements as of
December 31, 2015 and 2014
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

N.F.C. DEVELOPMENT CORP.
(A Discretely Presented Component Unit of the City of Niagara Falls, New York)

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INDEPENDENT AUDITOR'S REPORT

March 14, 2016

To the Board of Directors of
N.F.C. Development Corp:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of N.F.C. Development Corp. (the Corporation), a discretely presented component unit of the City of Niagara Falls, New York, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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 entity'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 entity'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.

100 Corporate Parkway
Suite 200
Amherst, New York 14226
p (716) 250-6600
f (716) 250-6605

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Corporation, as of December 31, 2015 and 2014, and the changes in financial position, and cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016, 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.

N.F.C. DEVELOPMENT CORP.
(A Discretely Presented Component Unit of the City of Niagara Falls, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2015 AND 2014

THE ORGANIZATION

N.F.C. Development Corporation (the Corporation) was created to foster business, industrial and employment retention and development in the City of Niagara Falls, New York (the City). The Corporation is a discretely presented component unit of the City. Accordingly, the financial statements report only the activities of the Corporation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The financial statements of the Corporation include management's discussion and analysis (MD&A) (this section), the statements of net position, statements of activities and change in net position, statement of cash flows, and related notes to the financial statements. The statement of net position presents information on all of the Corporation's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The statement of activities and change in net position presents information showing how the Corporation's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The notes to the financial statements contain information that is essential to the understanding of the financial statements, such as the Corporation's accounting methods and policies.

BASIS OF ACCOUNTING

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when the related cash transactions take place. All of the Corporation's activities are classified as business-type activities.

FINANCIAL HIGHLIGHTS

- The Corporation's net position decreased by \$289,454 in 2015 and decreased by \$149,420 in 2014, as a result of the individual year's operations.
- The assets of the Corporation exceeded its liabilities by \$1,379,400 and \$1,668,854 at December 31, 2015 and 2014, respectively.

FINANCIAL HIGHLIGHTS (Continued)

The analysis below summarizes the statements of net position of the Corporation for the years ended December 31, 2015, 2014 and 2013.

STATEMENT OF NET POSITION

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|-----------------------|---------------------|---------------------|---------------------|
| ASSETS: | | | |
| Cash and equivalents | \$ 946,637 | \$ 1,349,129 | \$ 1,449,525 |
| Loans receivable, net | <u>434,881</u> | <u>326,198</u> | <u>383,070</u> |
| Total assets | <u>1,381,518</u> | <u>1,675,327</u> | <u>1,832,595</u> |
| LIABILITIES: | | | |
| Accounts payable | <u>2,118</u> | <u>6,473</u> | <u>14,321</u> |
| Total liabilities | <u>2,118</u> | <u>6,473</u> | <u>14,321</u> |
| NET POSITION: | | | |
| Unrestricted | <u>1,379,400</u> | <u>1,668,854</u> | <u>1,818,274</u> |
| Total net position | <u>\$ 1,379,400</u> | <u>\$ 1,668,854</u> | <u>\$ 1,818,274</u> |

Assets

The Corporation's cash and cash equivalents decreased by \$402,492 in 2015 from 2014 due to cash disbursed as grants and loans to businesses in the City to foster development and employment during 2015. Cash and cash equivalents decreased by \$100,396 in 2014 from 2013 due to cash disbursed as grants and loans to businesses in the City to foster development and employment during 2014.

FINANCIAL HIGHLIGHTS (Continued)

Table shows the changes in net position for the years ended December 31, 2015, 2014 and 2013.

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--------------------------------------|---------------------|---------------------|---------------------|
| REVENUES: | | | |
| City of Niagara Falls, New York | \$ 696,678 | \$ - | \$ 93,531 |
| Administrative fees | 15,788 | 700 | 1,483 |
| Interest income - lending activities | 13,891 | 17,700 | 21,163 |
| Interest income - other | 582 | 1,518 | 2,866 |
| Miscellaneous income | <u>400</u> | <u>150</u> | <u>1,942</u> |
| Total revenues | <u>727,339</u> | <u>20,068</u> | <u>120,985</u> |
| EXPENSES: | | | |
| General and administrative | 76,316 | 99,488 | 118,594 |
| Grant expense | <u>940,477</u> | <u>70,000</u> | <u>66,803</u> |
| Total expenses | <u>1,016,793</u> | <u>169,488</u> | <u>185,397</u> |
| CHANGE IN NET POSITION | (289,454) | (149,420) | (64,412) |
| NET POSITION - beginning of year | <u>1,668,854</u> | <u>1,818,274</u> | <u>1,882,686</u> |
| NET POSITION - end of year | <u>\$ 1,379,400</u> | <u>\$ 1,668,854</u> | <u>\$ 1,818,274</u> |

Revenues

Funds provided by the City to foster economic development represented 96% of total revenues in 2015. From these funds, the Corporation was able to continue to provide funding for economic development. No amounts were provided by the City in 2014.

Expenses

Grants disbursed to recipients to assist in development projects represented 92% of total expenses in 2015 (41% in 2014 and 36% in 2013).

Change in Net Position

In 2015, net position decreased from the prior year by \$289,454. The decrease is attributable to the lack of revenues available for the City to transfer to the Corporation and the use of unrestricted net position to fund grant and operating expenses. In 2014, net position decreased from the prior year by \$149,420.

REQUEST FOR INFORMATION

This financial report is designed to provide financial statement users with a general overview of the Corporation's finances and to show accountability for the money received. Questions concerning any information within this report or requests for additional information should be addressed to the Office of the City Controller, City of Niagara Falls, 745 Main Street, P.O. Box 69, Niagara Falls, New York 14302.

N.F.C. DEVELOPMENT CORP.**(A Discretely Presented Component Unit of the City of Niagara Falls, New York)****STATEMENTS OF NET POSITION****DECEMBER 31, 2015 AND 2014**

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 946,637 | \$ 1,349,129 |
| Loans receivable, net, current portion | <u>68,266</u> | <u>56,130</u> |
| Total current assets | <u>1,014,903</u> | <u>1,405,259</u> |
| NON-CURRENT ASSETS: | | |
| Loans receivable, net, less current portion | <u>366,615</u> | <u>270,068</u> |
| Total non-current assets | <u>366,615</u> | <u>270,068</u> |
| Total assets | <u>1,381,518</u> | <u>1,675,327</u> |
| LIABILITIES | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | <u>2,118</u> | <u>6,473</u> |
| Total liabilities | <u>2,118</u> | <u>6,473</u> |
| NET POSITION | | |
| Unrestricted | <u>1,379,400</u> | <u>1,668,854</u> |
| Total net position | <u>\$ 1,379,400</u> | <u>\$ 1,668,854</u> |

The accompanying notes are an integral part of these statements.

N.F.C. DEVELOPMENT CORP.**(A Discretely Presented Component Unit of the City of Niagara Falls, New York)****STATEMENTS OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|---------------------|---------------------|
| REVENUES: | | |
| City of Niagara Falls, New York | \$ 696,678 | \$ - |
| Administrative fees | 15,788 | 700 |
| Interest income - lending activities | 13,891 | 17,700 |
| Interest income - other | 582 | 1,518 |
| Miscellaneous income | 400 | 150 |
| | <u>727,339</u> | <u>20,068</u> |
| Total revenues | | |
| EXPENSES: | | |
| General and administrative | 76,316 | 99,488 |
| Grant expense | 940,477 | 70,000 |
| | <u>1,016,793</u> | <u>169,488</u> |
| Total expenses | | |
| CHANGE IN NET POSITION | (289,454) | (149,420) |
| NET POSITION - beginning of year | <u>1,668,854</u> | <u>1,818,274</u> |
| NET POSITION - end of year | <u>\$ 1,379,400</u> | <u>\$ 1,668,854</u> |

The accompanying notes are an integral part of these statements.

N.F.C. DEVELOPMENT CORP.**(A Discretely Presented Component Unit of the City of Niagara Falls, New York)****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|---------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | |
| Change in net position | \$ (289,454) | \$ (149,420) |
| Adjustments to reconcile change in net position to cash provided by operating activities | | |
| Bad debt expense | - | - |
| Changes in: | | |
| Loans receivable, net | (108,683) | 56,872 |
| Accounts payable | <u>(4,355)</u> | <u>(7,848)</u> |
| Net cash flow from operating activities | <u>(402,492)</u> | <u>(100,396)</u> |
| CHANGE IN CASH AND CASH EQUIVALENTS | (402,492) | (100,396) |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>1,349,129</u> | <u>1,449,525</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u>\$ 946,637</u> | <u>\$ 1,349,129</u> |

The accompanying notes are an integral part of these statements.

N.F.C. DEVELOPMENT CORP.
(A Discretely Presented Component Unit of the City of Niagara Falls, New York)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. ORGANIZATION AND REPORTING ENTITY

Reporting Entity

The financial statements of N.F.C. Development Corp. (the Corporation), are intended to present only that portion of the activities that are attributable to the transactions of N.F.C. Development Corp. The financial statements do not purport to, and do not, present the financial position of the City of Niagara Falls, New York (the City), as of December 31, 2015 and 2014, or the changes in its financial position or its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States.

Nature of Operations

The governing body of the Corporation, located in Niagara Falls, New York, is the Board of Directors. The scope of activities included within the accompanying financial statements are those transactions which comprise the Corporation's operations, and are governed, or significantly influenced by the Board of Directors. The Board of Directors of the Corporation is appointed by the City. The Corporation was incorporated on April 3, 1980 under the provisions of Sections 102 and 201 of the Not-For-Profit Corporation Law of the State of New York. Essentially, the primary function of the Corporation is to foster business, industrial, and employment retention and development in the City.

The Corporation is a discretely presented component unit of the City by virtue of certain common board members and management personnel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the cash is received or paid.

Cash and Cash Equivalents

Cash and cash equivalents includes demand deposits, money markets, and certificates of deposit with original maturities of ninety days or less. The Corporation maintains its cash and cash equivalents in bank accounts. Interest and dividend income from cash and cash equivalents is reported in operating revenue in the statements of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable

As part of its economic development activities, the Corporation makes loans available at more favorable terms and interest rates than are generally available in the market. The ultimate fair value of each loan is not readily determinable. Interest on loans is based on the particular loan agreements. Loan balances reflect principal due and excludes any accrued interest and late charges.

Loans receivable are carried at unpaid principal balances. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Corporation reviews outstanding loans receivable for uncollectibility and records an allowance for uncollectible accounts based on that review. When all collection efforts have been exhausted, the account is written-off as uncollectible. The allowance for uncollectible accounts was \$94,880 at December 31, 2015 and 2014.

Capital Assets

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 3 to 5 years.

Net Position

The financial statements display net position in three components as follows:

- **Net Investment in Capital Assets**

This net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted Net Position**

This net position consists of resources with constraints placed on their use either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or law through constitutional provisions or enabling legislation.

- **Unrestricted Net Position**

This net position consists of all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

Income Taxes

The Corporation is exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1992 C.C. 418 as a governmental unit or affiliate of a governmental unit as described in the Procedure.

Revenues

Revenues consist principally of funding provided by the City, which is recognized as revenue when received.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

Demand deposits at year-end were entirely covered by FDIC insurance or secured by trust companies located within the State. At December 31, 2015 and 2014, cash and cash equivalents are composed entirely of a demand deposit account and a money market account. All deposits are carried at cost, which approximates fair value.

Policies

The Corporation follows an investment and deposit policy, the overall objective of which is to adequately safeguard the funds of the Corporation and funds under the control of the Corporation; to provide sufficient liquidity of invested funds in order to meet obligations as they become due; and to earn the maximum yield possible given the objectives previously listed. Oversight of investment activity is the responsibility of the Executive Director. The Corporation's monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies as designated by the Board of Directors. Permissible investments include: a) obligations of the United States or of federal agencies whose principal and interest payments are fully guaranteed by the federal or state government, b) obligations of New York State or in general obligations of the State's political subdivisions, c) certificates of deposits or deposits with banks with an investment grade rating by a Rating Agency, d) commercial paper rated Prime-1 and/or A-1, e) and money market funds with AAA ratings.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. At December 31, 2015, the bank balance of the Corporation's cash and cash equivalents was exposed to custodial credit risk as follows:

| <u>Description</u> | <u>Bank Balance</u> | <u>Carrying Amount</u> |
|--|-------------------------|----------------------------|
| Cash and cash equivalents | <u>\$ 949,073</u> | <u>\$ 946,637</u> |
| Category 1: Covered by FDIC insurance | \$ 250,000 | |
| Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name | <u>713,056</u> | |
| | <u>\$ 963,056</u> | |

3. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk (Continued)

At December 31, 2014, the bank balance of the City's cash and cash equivalents was exposed to custodial credit risk as follows:

| <u>Description</u> | <u>Bank Balance</u> | <u>Carrying Amount</u> |
|---|-------------------------|----------------------------|
| Cash and cash equivalents | <u>\$ 1,349,702</u> | <u>\$ 1,349,104</u> |
| Category 1: Covered by FDIC insurance | \$ 250,000 | |
| Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name | <u>1,121,698</u> | |
| | <u>\$ 1,371,698</u> | |

4. LOANS RECEIVABLE

Loans receivable consisted of the following at December 31:

| <u>Borrower</u> | <u>Date of Issue</u> | <u>Original Loan</u> | <u>Rate of Interest</u> | <u>Maturity Date</u> | <u>Balance at 12/31/2015</u> | <u>Balance at 12/31/2014</u> |
|--------------------------------------|--------------------------|--------------------------|-----------------------------|--------------------------|----------------------------------|----------------------------------|
| Como Restaurant | 12/2008 | \$ 100,000 | 3.00% | 12/2023 | \$ 60,966 | \$ 67,387 |
| Cafe Lola | 1/2009 | 55,000 | 3.00% | 1/2019 | 47,684 | 47,684 |
| T-Krow Inc. | 12/2009 | 30,000 | 5.00% | 12/2015 | 28,187 | 28,187 |
| Wine on 3rd, LLC. | 12/2009 | 45,000 | 5.00% | 12/2016 | 4,953 | 13,304 |
| PEMCO, Inc. | 6/2011 | 30,000 | 5.00% | 4/2017 | 9,277 | 14,446 |
| Kandola Group, Inc. | 5/2011 | 35,000 | 5.00% | 6/2016 | 4,532 | 11,416 |
| Franks Vacuum Truck Service, Inc. | 5/2012 | 200,000 | 5.00% | 12/2021 | 151,460 | 170,996 |
| Nazim, Inc. | 1/2012 | 25,000 | 5.00% | 2/2017 | 14,465 | 14,465 |
| Yvonne's Bakery | 8/2012 | 20,000 | 5.00% | 8/2019 | 19,009 | 19,009 |
| Jimbo's Fish House, Inc. | 10/2012 | 35,000 | 5.00% | 10/2019 | 21,075 | 25,829 |
| WNY Tents & Awning | 7/2013 | 9,960 | 5.00% | 7/2020 | 7,046 | 8,355 |
| Flip Burger, Inc. | 6/2015 | 15,000 | 3.25% | 6/2025 | 14,638 | - |
| Romas Properties- Subway | 8/2015 | 19,030 | 3.25% | 8/2025 | 19,030 | - |
| Kandola Group | 10/2015 | 98,057 | 3.25% | 10/2025 | 98,057 | - |
| Niagara Rapid Ent. DBA Royal Café | 10/2015 | <u>30,000</u> | 5.00% | 10/2022 | <u>29,382</u> | - |
| Total | | <u>\$ 747,047</u> | | | 529,761 | 421,078 |
| Allowance for uncollectable accounts | | | | | <u>(94,880)</u> | <u>(94,880)</u> |
| Total, net | | | | | <u>\$ 434,881</u> | <u>\$ 326,198</u> |

4. LOANS RECEIVABLE (Continued)

The amount to be received over the next five years is as follows:

| <u>Principal Repayment Schedule</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>Thereafter</u> | <u>Total</u> |
|---|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Como Restaurant | \$ 6,617 | \$ 6,819 | \$ 7,026 | \$ 7,240 | \$ 7,460 | \$ 25,804 | \$ 60,966 |
| Cafe Lola | 5,890 | 6,070 | 6,255 | 29,469 | - | - | 47,684 |
| T-Krow Inc. | 28,187 | - | - | - | - | - | 28,187 |
| Wine on 3rd, LLC. | 4,953 | - | - | - | - | - | 4,953 |
| PEMCO, Inc. | 5,550 | 3,727 | - | - | - | - | 9,277 |
| Kandola Group, Inc. | 4,532 | - | - | - | - | - | 4,532 |
| Frank's Vacuum Truck Service, Inc. | 20,535 | 21,585 | 22,690 | 23,851 | 25,071 | 37,728 | 151,460 |
| Nazim, Inc. | 4,437 | 10,028 | - | - | - | - | 14,465 |
| Yvonne's Bakery | 2,879 | 3,026 | 3,181 | 9,923 | - | - | 19,009 |
| Jimbo's Fish House, Inc. | 4,996 | 5,252 | 5,520 | 5,307 | - | - | 21,075 |
| WNY Tents & Awning | 1,375 | 1,445 | 1,519 | 1,597 | 1,110 | - | 7,046 |
| Flip Burger, Inc. | 1,312 | 1,355 | 1,400 | 1,446 | 1,494 | 7,631 | 14,638 |
| Romas Properties- Subway | 1,682 | 1,738 | 1,795 | 1,854 | 1,915 | 10,046 | 19,030 |
| Kandola Group | 8,575 | 8,857 | 9,150 | 9,451 | 9,763 | 52,261 | 98,057 |
| Niagara Rapid Ent. DBA Royal Café | <u>3,702</u> | <u>3,892</u> | <u>4,091</u> | <u>4,300</u> | <u>4,520</u> | <u>8,877</u> | <u>29,382</u> |
| Total | 105,222 | 73,794 | 62,627 | 94,438 | 51,333 | 142,347 | 529,761 |
| Allowance for uncollectable accounts | <u>(36,956)</u> | <u>(9,096)</u> | <u>(9,436)</u> | <u>(39,392)</u> | <u>-</u> | <u>-</u> | <u>(94,880)</u> |
| Total, net | <u>\$ 68,266</u> | <u>\$ 64,698</u> | <u>\$ 53,191</u> | <u>\$ 55,046</u> | <u>\$ 51,333</u> | <u>\$ 142,347</u> | <u>\$ 434,881</u> |

5. GRANTS

Grants are made under the market rate apartment rental rehabilitation and small business significant economic impact programs. These grants were made possible with initial funding from the City. The grants are recorded as an expense by the Corporation when disbursed to the grantees. Grant expense was \$940,477 and \$70,000 for the years ended December 31, 2015 and 2014, respectively.

5. GRANTS (Continued)

The grantees have each executed promissory notes with the City that outline specific repayment requirements if certain criteria for the grant are not met during the grant period. Any amounts subsequently repaid as a result of failing to meet the grant obligations are recorded as grant recovery revenue in the year received. Grants subject to such contingent repayment requirements at December 31, 2015 are as follows:

| <u>Grantee</u> | <u>Date of Final Disbursement</u> | <u>Original Grant</u> | <u>Term(Years)</u> | <u>Maturity Date</u> |
|-----------------------------------|-----------------------------------|-----------------------|--------------------|----------------------|
| Hampton inn (RECH1, Inc.) | 1/2013 | 10,000 | 3 | 1/2016 |
| Dijah's Natural Hair Creations | 4/2013 | 10,000 | 3 | 4/2016 |
| Niagara's Honeymoon Sweets | 5/2013 | 10,000 | 3 | 5/2016 |
| WNY Tents & Awnings | 7/2013 | 10,000 | 3 | 7/2016 |
| Mario's Pizza | 8/2013 | 15,000 | 3 | 8/2016 |
| Makeup Palace | 8/2013 | 10,000 | 3 | 8/2016 |
| Outer Beauty Salon & Boutique | 3/2014 | 10,000 | 3 | 3/2017 |
| Ventry's Pizza & Subs | 3/2014 | 10,000 | 3 | 3/2017 |
| 454-460 Third St - RRH | 9/2014 | 40,000 | 3 | 9/2017 |
| Greater Niagara Building Center | 7/2014 | 10,000 | 3 | 7/2017 |
| Prince of Wales Shoppe | 2/2015 | 5,775 | 3 | 2/2018 |
| Cataract Development – 435 Third | 2/2015 | 40,000 | 3 | 2/2018 |
| Sass Beauty Salon | 4/2015 | 7,000 | 3 | 4/2018 |
| The River Pub, LLC | 4/2015 | 10,000 | 3 | 4/2018 |
| Mom's Family Restaurant, Inc. | 5/2015 | 10,000 | 3 | 5/2018 |
| Merani Holdings-Holiday Inn | 6/2015 | 280,500 | 3 | 6/2018 |
| JR Professional Landscaping, Inc. | 6/2015 | 5,120 | 3 | 6/2018 |
| Cataract Develop-437 Third | 8/2015 | 40,000 | 3 | 8/2018 |
| Plati Niagara-Wingate Hotel RRH | 8/2015 | 150,000 | 3 | 8/2018 |
| Royal Café | 10/2015 | 10,000 | 3 | 10/2018 |
| Indian Ocean Corp- Marriott | 11/2015 | 225,000 | 3 | 11/2018 |
| NFNY Hotel Mgmt-Rainforest Café | 12/2015 | <u>150,000</u> | 3 | 12/2018 |
| Total | | <u>\$ 1,068,395</u> | | |

6. CAPITAL ASSETS

Capital assets consisted of the following at December 31:

| | <u>2015</u> | <u>2014</u> |
|---|-----------------|-----------------|
| Furniture and fixtures | \$ 65,830 | \$ 65,830 |
| Less: Accumulated depreciation and amortization | <u>(65,830)</u> | <u>(65,830)</u> |
| | <u>\$ -</u> | <u>\$ -</u> |

As of December 31, 2015 and 2014 the assets were fully depreciated.

7. COMMITMENTS AND CONTINGENCIES

The Corporation faces a potential liability for total reimbursement of project costs related to a 2001 Industrial Access Project with the State of New York (the State) if certain jobs and investment objectives are not met. No liability is reflected on the financial statements as it is believed that the State will not likely seek repayment of these funds.

The Corporation's Board approved a contract with Joseph Collura for consulting services to the Corporation for a period extending to March 31, 2016. Funds committed to the remaining term of this contract total \$26,000 at December 31, 2015.

The Corporation's Board approved a contract for Web-Site Creation for the Corporation. Funds committed to the remaining term of this contract total \$15,000 at December 31, 2015.

The Corporation's Board approved a contract for Local Business Marketing Small Business Advocate for the Corporation. Funds committed to the remaining term of this contract total \$5,000 at December 31, 2015.

8. NET POSITION

The Corporation's Board has adopted resolutions committing funds for grants or loans to the following recipients, but at year-end no monies had been disbursed for that purpose:

| <u>Borrower/Grantee</u> | <u>Agenda Date</u> | <u>Amount to be Issued</u> |
|--|--------------------|----------------------------|
| Holiday Inn Retail Project | 7/2011 | \$ 269,500 |
| Cataract Coffee & Market Place-RRH | 1/2014 | 10,000 |
| 444 Third Street-RRH | 1/2014 | 10,000 |
| Market Rate Rental Rehab Program (balance @ YE 2014) | 7/2014 | 30,000 |
| Cataract Development-537 Third Street-RRH | 7/2014 | 30,000 |
| Ciara Holdings-1217 Main Street-RRH | 7/2014 | 20,000 |
| Mansour's Market | 12/2014 | 10,000 |
| Subway | 12/2014 | 119,930 |
| Courtyard by Marriott | 3/2015 | 25,000 |
| Kandola Group, Inc | 3/2015 | 32,443 |
| Micro Enterprise Grant | 7/2015 | 100,000 |
| Galyn, LLC - 435 Third Street | 7/2015 | 10,000 |
| Scipione Catering, LLC | 9/2015 | 10,000 |
| Third Street Retreat, LLC | 12/2015 | 20,000 |
| The Shop | 12/2015 | <u>5,430</u> |
| Total | | <u>\$ 702,303</u> |

These amounts are reported as a component of unrestricted net position at year-end. Total available and uncommitted net position was as follows at December 31:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|-------------------|--------------------|
| Unrestricted net position | \$ 1,379,400 | \$ 1,668,854 |
| Loans committed per above | (162,373) | (30,000) |
| Grants committed per above | <u>(539,930)</u> | <u>(1,111,775)</u> |
| Available unrestricted net position | <u>\$ 677,097</u> | <u>\$ 527,079</u> |

INDEPENDENT AUDITOR'S 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

March 14, 2016

To the Board of Directors of
N.F.C. Development Corp:

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 the business-type activities of N.F.C Development Corp. (the Corporation), a discretely presented component unit of the City of Niagara Falls, New York, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated March 14, 2016.

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.

100 Corporate Parkway
Suite 200
Amherst, New York 14226
p (716) 250-6600
f (716) 250-6605

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S 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*

(Continued)

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.