

LUMBER CITY DEVELOPMENT
CORPORATION

Financial Statements and
Supplementary Information

December 31, 2011

(With Independent Auditors' Report Thereon)

LUMBER CITY DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lumber City Development
Corporation:

We have audited the accompanying statement of financial position of Lumber City Development Corporation as of December 31, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2010 financial statements and, in our report dated April 7, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2012, on our consideration of Lumber City Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Williamsville, New York
February 20, 2012

LUMBER CITY DEVELOPMENT CORPORATION
Statement of Financial Position
December 31, 2011
with comparative totals for 2010

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
Cash		\$ 605,158	162,069
Receivables:			
Grants		188,500	32,705
Loans, less allowance of \$121,627 in 2011 and \$151,387 in 2010		<u>1,357,764</u>	<u>1,950,835</u>
Total receivables		<u>1,546,264</u>	<u>1,983,540</u>
Prepaid insurance		<u>6,121</u>	<u>3,012</u>
Equipment, at cost		1,803	1,803
Less accumulated depreciation		<u>(1,662)</u>	<u>(1,498)</u>
Net equipment		<u>141</u>	<u>305</u>
Other assets:			
Utility deposits		270	500
Property held for sale		<u>150,000</u>	<u>150,000</u>
Total other assets		<u>150,270</u>	<u>150,500</u>
Total assets		<u>\$ 2,307,954</u>	<u>2,299,426</u>
 <u>Liabilities and Net Assets</u> 			
Liabilities - accounts payable		12,285	11,565
Unrestricted net assets		<u>2,295,669</u>	<u>2,287,861</u>
Total liabilities and net assets		<u>\$ 2,307,954</u>	<u>2,299,426</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statement of Activities
Year ended December 31, 2011
with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
Unrestricted revenue:		
Grant income	\$ 687,973	122,705
Interest income	62,248	86,349
Contributed services	71,120	71,120
Commitment fees	-	450
Rental income	-	587
Total unrestricted revenue	<u>821,341</u>	<u>281,211</u>
Unrestricted expenses:		
Program services	743,283	307,013
Management and general	<u>70,250</u>	<u>75,796</u>
Total unrestricted expenses	<u>813,533</u>	<u>382,809</u>
Increase (decrease) in unrestricted net assets	7,808	(101,598)
Unrestricted net assets at beginning of year	<u>2,287,861</u>	<u>2,389,459</u>
Unrestricted net assets at end of year	<u>\$ 2,295,669</u>	<u>2,287,861</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statement of Functional Expenses
Year ended December 31, 2011
with comparative totals for 2010

	Program services	Management and general	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
Community development projects	\$ 609,158	-	609,158	180,426
Payroll	47,171	15,723	62,894	39,063
Payroll taxes and employee benefits	10,112	3,370	13,482	10,663
Consulting fees	43,787	14,595	58,382	67,670
Advertising	7,792	-	7,792	8,453
Business meetings	2,930	977	3,907	1,513
Legal and professional fees	1,181	1,181	2,362	17,138
Accounting fees	-	5,953	5,953	8,514
Insurance	-	4,739	4,739	4,355
Office expense	4,142	4,141	8,283	6,747
Rent	17,010	17,010	34,020	34,020
Depreciation	-	164	164	351
Miscellaneous	-	2,397	2,397	3,896
	<u>\$ 743,283</u>	<u>70,250</u>	<u>813,533</u>	<u>382,809</u>
Total unrestricted expenses				

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended December 31, 2011

with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ 7,808	(101,598)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation expense	164	351
Principal payments on loans receivable	800,386	395,203
Loans granted during the year	(333,500)	(407,905)
Loan discount charged to expense	126,185	-
Changes in:		
Grants receivable	(155,795)	11,054
Prepaid insurance	(3,109)	(76)
Utility deposits	230	500
Accounts payable	720	(50,888)
Net cash provided by (used in) operating activities	<u>443,089</u>	<u>(153,359)</u>
Cash flows from investing activities:		
Sale of property held for sale	-	50,000
Purchase of equipment	-	(217)
Net cash provided by investing activities	<u>-</u>	<u>49,783</u>
Net increase (decrease) in cash	443,089	(103,576)
Cash at beginning of year	<u>162,069</u>	<u>265,645</u>
Cash at end of year	<u>\$ 605,158</u>	<u>162,069</u>
Supplemental schedule of non-cash operating activities:		
Contributed services revenue	<u>\$ 71,120</u>	<u>71,120</u>
Contributed services expense	<u>\$ 37,100</u>	<u>37,100</u>
Rent expense - contributed	<u>\$ 34,020</u>	<u>34,020</u>
Loans written off to allowance for bad debts	<u>\$ 29,760</u>	<u>98,613</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2011

(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 2011 and 2010.

(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 statement 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. Loans receivable written off in 2011 and 2010 amounted to \$29,760 and \$98,613, respectively.

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Contributed Services

During the years ended December 31, 2011 and 2010, 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.

(h) Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement 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, 2011, and through February 20, 2012, 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; 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 year ended December 31, 2007 and prior.

(k) Reclassifications

Reclassifications have been made to certain 2010 balances in order to conform them to the 2011 presentation.

(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, 2011 and 2010, 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 are also concentrated as all the loans are to businesses located within the boundaries of the City. The Corporation performs ongoing credit evaluations of its loan receivables and substantially all loans require collateral.

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(3) Loans Receivable

Loans receivable, which have interest rates ranging from 3% to 6% at December 31, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
286 Oliver Street, LLC	\$ 28,553	35,836
Dockside Inn	20,456	24,228
Signature Salon and Day Spa, Inc.	11,853	16,300
399 Division Street, LLC d/b/a The Hideaway Grill	6,217	13,343
Audubon Machinery Corporation	-	257,695
Jacob's Ladder, LLC	27,827	32,062
IDEK, LLC	156,813	183,255
Marketing Imprints, Inc. and Impressive Development, Inc.	67,782	83,068
Sherwood Florist	1,521	5,220
Hodge Podge	23,461	23,461
Jet Group Enterprises, Inc. (formerly Solid Surface Acrylics, Inc.)	56,813	74,471
Jay L. Soemann	48,389	-
Water Haus Waterjet	-	29,760
Ascension Industries, Inc.	240,629	272,281
Prototype Manufacturing Corporation	37,862	46,809
Crazy Jakes, Inc.	28,768	35,747
In & Out Furniture and Décor, Inc.	120,303	133,794
Partners in Art	29,210	35,052
Audubon Machinery Corporation (Starboard Sun)	-	416,935
Robert Starr	77,156	82,905
Vito's Pizzeria	18,154	20,000
Remington Lofts on the Canal, LLC	150,000	200,000
Evolution Yoga, LLC	45,657	30,000
Leon Tringali d/b/a Leon's Studio One	56,119	50,000
Calgon Carbon Corporation	178,331	-
Canalside Creamery	14,517	-
Susan Rechin-Fassl	<u>33,000</u>	<u>-</u>
Total loans receivable	1,479,391	2,102,222
Less allowance for loan losses	<u>(121,627)</u>	<u>(151,387)</u>
Net loans receivable	<u>\$ 1,357,764</u>	<u>1,950,835</u>

In 2011, a discount of 20% was offered to Audubon Machinery Corporation as an incentive for Audubon to repay their loan early. This discount, amounting to \$126,185 for the year ended December 31, 2011 was charged to community development projects expense.

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(4) Property Held for Sale

The Corporation owns land and a building, known as 62 Webster Street, which it is holding for sale. This property is recorded at cost of \$150,000, which approximates the fair value of the property, less the cost to sell. The Corporation reviews this property for impairment whenever events or changes in circumstances indicate that the carrying amount of the property may not be recoverable. No impairment loss has been recognized by the Corporation for the years ended December 31, 2011 and 2010.

(5) Grant Income

The Corporation received grant income for the years ended December 31, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Community Development Block Grant	\$ 397,632	-
City of North Tonawanda	20,000	20,000
New York State Division of Housing and Community Renewal	<u>270,341</u>	<u>102,705</u>
	\$ <u>687,973</u>	<u>122,705</u>

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.

LUMBER CITY DEVELOPMENT CORPORATION
 Schedule of Expenditures of Federal Awards
 Year ended December 31, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development - passed through City of North Tonawanda - Community Development Block Grant	14.228	\$ <u>397,632</u>

Basis of Presentation

The schedule of expenditures of Federal awards includes the Federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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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 the financial statements of Lumber City Development Corporation as of and for the year ended December 31, 2011, and have issued our report thereon dated February 20, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lumber City Development Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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, detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We believe the following deficiency is a significant deficiency.

An audit adjustment, material to the financial statements, was necessary to record grants receivable at December 31, 2011.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lumber City Development Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

We noted a matter that we have reported to the management of the Corporation in a separate letter dated February 20, 2012.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williamsville, New York
February 20, 2012

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors
Lumber City Development
Corporation:

Compliance

We have audited the compliance of Lumber City Development Corporation (the Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Corporation's major federal program for the year ended December 31, 2011. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, Lumber City Development Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williamsville, New York
February 20, 2012

LUMBER CITY DEVELOPMENT CORPORATION
 Schedule of Findings and Questioned Costs
 Year ended December 31, 2011

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
1. Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
2. Significant deficiency(ies) identified not considered to be material weakness(es)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> None reported
3. Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None reported

Type of auditors' report issued on compliance for major programs:	Unqualified
6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
7. The Corporation's major program audited was Community Development Block Grants, CFDA No. 14.228	
8. Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
9. Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Part II - FINDINGS - FINANCIAL STATEMENTS AUDIT

See page 12.

Part III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No reportable findings.

LUMBER CITY DEVELOPMENT CORPORATION
Status of Prior Audit Findings
December 31, 2011

There were no audit findings with regard to the prior year financial statements (December 31, 2010).