

LUMBER CITY DEVELOPMENT
CORPORATION

Financial Statements and
Supplementary Information

December 31, 2010

(With Independent Auditors' Report Thereon)

LUMBER CITY DEVELOPMENT CORPORATION

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

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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, 2010 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 2009 financial statements and, in our report dated June 10, 2010, 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, 2010 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 April 7, 2011, 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 this 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 performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Toski, Schaefer & Co. P.C.

Williamsville, New York
April 7, 2011

LUMBER CITY DEVELOPMENT CORPORATION
Statement of Financial Position
December 31, 2010
with comparative totals for 2009

	<u>Assets</u>	<u>2010</u>	<u>2009</u>
Cash		\$ 162,069	265,645
Receivables:			
Trade		-	9,436
Grants		32,705	34,323
Loans, less allowance of \$151,387 in 2010 and \$250,000 in 2009		<u>1,950,835</u>	<u>1,938,133</u>
Total receivables		<u>1,983,540</u>	<u>1,981,892</u>
Prepaid insurance		3,012	2,936
Equipment, at cost		1,803	1,586
Less accumulated depreciation		<u>(1,498)</u>	<u>(1,147)</u>
Net equipment		<u>305</u>	<u>439</u>
Other assets:			
Utility deposits		500	1,000
Property held for sale		<u>150,000</u>	<u>200,000</u>
Total other assets		<u>150,500</u>	<u>201,000</u>
Total assets		<u>\$ 2,299,426</u>	<u>2,451,912</u>
 <u>Liabilities and Net Assets</u> 			
Liabilities - accounts payable		11,565	62,453
Unrestricted net assets		<u>2,287,861</u>	<u>2,389,459</u>
Total liabilities and net assets		<u>\$ 2,299,426</u>	<u>2,451,912</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statement of Activities

Year ended December 31, 2010

with comparative totals for 2009

	<u>2010</u>	<u>2009</u>
Unrestricted revenue:		
Grant income	\$ 122,705	684,502
Interest income	86,349	86,959
Commitment fees	450	4,850
Contributed services	71,120	71,120
Rental income	<u>587</u>	<u>8,400</u>
Total unrestricted revenue	<u>281,211</u>	<u>855,831</u>
Unrestricted expenses:		
Program services	282,015	650,712
Management and general	<u>100,794</u>	<u>160,694</u>
Total unrestricted expenses	<u>382,809</u>	<u>811,406</u>
Increase (decrease) in unrestricted net assets before loss on impairment	(101,598)	44,425
Loss on impairment	<u>-</u>	<u>(50,000)</u>
Decrease in unrestricted net assets	(101,598)	(5,575)
Unrestricted net assets at beginning of year	<u>2,389,459</u>	<u>2,395,034</u>
Unrestricted net assets at end of year	<u>\$ 2,287,861</u>	<u>2,389,459</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statement of Functional Expenses
Year ended December 31, 2010
with comparative totals for 2009

	Program services	Management and general	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
Contributed services	\$ 9,275	27,825	37,100	37,100
Payroll	29,297	9,766	39,063	36,249
Payroll taxes and employee benefits	7,997	2,666	10,663	9,275
Advertising	8,453	-	8,453	2,436
Grant expense	83,700	-	83,700	233,955
Community development projects	65,091	-	65,091	99,905
Business meetings	-	3,013	3,013	1,267
Legal and professional fees	34,176	11,392	45,568	50,597
Accounting fees	2,810	5,704	8,514	11,520
Consulting fees	24,206	8,069	32,275	34,763
Insurance	-	4,355	4,355	4,670
Office expense	-	6,747	6,747	3,523
Rent	17,010	17,010	34,020	34,020
Bad debts	-	-	-	250,000
Depreciation	-	351	351	318
Miscellaneous	-	3,896	3,896	1,808
Total unrestricted expenses	<u>\$ 282,015</u>	<u>100,794</u>	<u>382,809</u>	<u>811,406</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statement of Cash Flows

Year ended December 31, 2010

with comparative totals for 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	\$ (101,598)	(5,575)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:		
Depreciation expense	351	318
Increase (decrease) in provision for loan losses	(98,613)	250,000
Loss on impairment	-	50,000
Principal payments on loans receivable	493,816	213,366
Loans granted during the year	(407,905)	(643,000)
Changes in:		
Receivables	11,054	24,477
Prepaid insurance	(76)	248
Utility deposits	500	1,080
Accounts payable	<u>(50,888)</u>	<u>(7,483)</u>
Net cash used in operating activities	<u>(153,359)</u>	<u>(116,569)</u>
Cash flows from investing activities:		
Sale of property held for sale	50,000	-
Purchase of equipment	<u>(217)</u>	<u>-</u>
Net cash provided by investing activities	<u>49,783</u>	<u>-</u>
Net decrease in cash	(103,576)	(116,569)
Cash at beginning of year	<u>265,645</u>	<u>382,214</u>
Cash at end of year	<u>\$ 162,069</u>	<u>265,645</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	<u>\$ 34,020</u>	<u>34,020</u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2010

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Lumber City Development Corporation (the Corporation) was formed pursuant to 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 of North Tonawanda. The principal purpose is to encourage and promote economic development in the City of North Tonawanda by distributing and loaning funds to businesses within the corporate limits of the City of North Tonawanda. A majority of the Corporation's revenue stems from grants passed through the City. The Corporation amended its certificate of incorporation to change the name from Lumber City Local Development Corporation to Lumber City Development Corporation.

(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 2010 and 2009.

(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 receivable.

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, 2010 and 2009, 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 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, 2010, and through April 7, 2011, 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.

(2) Concentration of Credit Risk

The Corporation provides funds under a revolving loan program to businesses located within the boundaries of the municipality of North Tonawanda, New York. The Corporation performs ongoing credit evaluations of its loan receivables and substantially all loans require collateral.

(3) Loans Receivable

Loans receivable, which have interest rates ranging from 3% to 6% at December 31, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
286 Oliver Street, LLC	\$ 35,836	42,764
Dockside Inn	24,228	29,427
Signature Salon and Day Spa, Inc.	16,300	21,580
399 Division Street, LLC d/b/a The Hideaway Grill	13,343	20,124
Audubon Machinery Corporation	257,695	296,365
Jacob's Ladder, LLC	32,062	16,330
IDEK, LLC	183,255	208,410

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(3) Loans Receivable, Continued

	<u>2010</u>	<u>2009</u>
Marketing Imprints, Inc. and Impressive Development, Inc.	\$ 83,068	97,609
Sherwood Florist	5,220	8,739
Hodge Podge	23,461	23,461
Jet Group Enterprises, Inc. (formerly Solid Surface Acrylics, Inc.)	74,471	93,446
R.A. Miller Hardwood Co., Inc.	-	244,452
Water Haus Waterjet	29,760	29,139
Ascension Industries, Inc.	272,281	302,393
Prototype Manufacturing Corporation	46,809	55,272
Crazy Jakes, Inc.	35,747	42,509
26 Webster Street, LLC	-	20,747
In & Out Furniture and Décor, Inc.	133,794	146,809
Partners in Art	35,052	40,702
Audubon Machinery Corporation (Starboard Sun)	416,935	447,855
Robert Starr	82,905	-
Vito's Pizzeria	20,000	-
Remington Lofts on the Canal, LLC	200,000	-
Evolution Yoga, LLC	30,000	-
Leon's Studio One	<u>50,000</u>	<u>-</u>
Total loans receivable	2,102,222	2,188,133
Less allowance for loan losses	<u>(151,387)</u>	<u>(250,000)</u>
Net loans receivable	\$ <u>1,950,835</u>	<u>1,938,133</u>

(4) Grant Income

The Corporation received grant income for the years ended December 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Community Development Block Grant	\$ -	566,949
City of North Tonawanda	20,000	20,000
New York State Division of Housing and Community Renewal	<u>102,705</u>	<u>97,553</u>
	\$ <u>122,705</u>	<u>684,502</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

Notes to Financial Statements, Continued

(5) Loss on Impairment

Property held for sale is required to be recorded at the lower of carrying value or fair value, less costs to sell. In accordance with this requirement, the property known as 38 Webster Street, North Tonawanda, New York as owned by the Corporation, has been recorded at fair value which is the lower of carrying value or fair value, less costs to sell. In connection with this valuation, a loss on impairment of property held for sale was recognized amounting to \$50,000 for the year ended December 31, 2009. On January 26, 2010, the property known as 38 Webster Street was sold for \$50,000 to an unrelated entity.

LUMBER CITY DEVELOPMENT CORPORATION
 Schedule of Expenditures of Federal Awards
 Year ended December 31, 2010

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development - Community Development Block Grant	14.228	\$ <u>1,950,835</u>

Basis of Presentation

The schedule of expenditures of Federal awards includes the Federal grant activity of Lumber City Development 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, 2010, and have issued our report thereon dated April 7, 2011. 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.

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.

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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
April 7, 2011

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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 Lumber City Development Corporation's major federal program for the year ended December 31, 2010. Lumber City Development 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 Lumber City Development Corporation's management. Our responsibility is to express an opinion on Lumber City Development 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 Lumber City Development 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 Lumber City Development 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, 2010.

Internal Control Over Compliance

Management of Lumber City Development 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 Lumber City Development 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 Lumber City Development 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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
April 7, 2011

LUMBER CITY DEVELOPMENT CORPORATION
 Schedule of Findings and Questioned Costs
 Year ended December 31, 2010

Part I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

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

Federal Awards:

Internal control over major programs:	
4. Material weakness(es) identified?	____ Yes <u> x </u> No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes <u> x </u> None reported

Type of auditors' report issued on compliance for major programs:	Unqualified
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6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))	____ Yes <u> x </u> No
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7. The Corporation's major program audited was:

<u>Name of Federal Program</u>	CFDA Number
Community Development Block Grants	14.228

8. Dollar threshold used to distinguish between Type A and Type B programs?	\$300,000
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9. Auditee qualified as low-risk auditee?	<u> x </u> Yes ____ No
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Part II - FINDINGS - FINANCIAL STATEMENTS AUDIT

No reportable findings.

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, 2010

There were no audit findings with regard to the prior year financial statements (December 31, 2009).