LUMBER CITY DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2015 and 2014

Assets	2015	2014
Cash	$ 807,898	908,445
Loans, less allowance of $321,627 for 2015 and 2014	555,843	647,966
Prepaid insurance	3,156	3,173
Equipment, at cost, less accumulated depreciation of $1,803 in 2015 and 2014	-	-
Total assets	$ 1,366,897	1,559,584

Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	1,635	4,766
Due to other governments	66,154	100,000
Total liabilities	67,789	104,766
Unrestricted net assets	1,299,108	1,454,818
Contingency (note 7)		
Total liabilities and net assets	$ 1,366,897	1,559,584

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Activities

Years ended December 31, 2015 and 2014

	2015	2014
Unrestricted revenue:		
Grant income	$ 258,287	172,500
Interest income	19,019	22,161
Contributed services	71,120	71,120
Total unrestricted revenue	348,426	265,781
Unrestricted expenses:		
Program services	460,090	208,088
Management and general	80,083	74,394
Total unrestricted expenses	540,173	282,482
Decrease in unrestricted net assets before other income (expense)	(191,747)	(16,701)
Other income (expense):		
Non-operating income	2,191	-
Forgiveness of grant disallowance claim recognized in 2014	100,000	-
Repayment of grant disallowance	(66,154)	(100,000)
Total other income (expense)	36,037	(100,000)
Decrease in unrestricted net assets	(155,710)	(116,701)
Unrestricted net assets at beginning of year	1,454,818	1,571,519
Unrestricted net assets at end of year	$ 1,299,108	1,454,818

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Functional Expenses
Years ended December 31, 2015 and 2014

	2015			2014		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 275,051	-	275,051	36,372	-	36,372
Payroll	61,310	20,437	81,747	56,703	18,901	75,604
Payroll taxes and employee benefits	14,567	4,856	19,423	15,592	5,197	20,789
Stipend - Executive Director	10,800	3,600	14,400	9,735	3,245	12,980
Consulting fees	22,878	7,626	30,504	4,062	1,354	5,416
Contributed administrative expenses	27,825	9,275	37,100	27,825	9,275	37,100
Advertising	22,738	-	22,738	30,830	-	30,830
Business meetings	3,157	1,052	4,209	2,766	922	3,688
Legal and professional fees	2,197	2,197	4,394	3,328	3,328	6,656
Accounting fees	-	3,750	3,750	-	3,600	3,600
Insurance	-	4,646	4,646	-	4,829	4,829
Office expense	2,557	2,557	5,114	3,865	3,865	7,730
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	-	-	-	55	55
Miscellaneous	-	3,077	3,077	-	2,813	2,813
Total unrestricted expenses	$ 460,090	80,083	540,173	208,088	74,394	282,482

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 2015 and 2014.

(d) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Accordingly, actual events and results could differ from those assumptions and estimates.

(e) Cash

For purposes of the statements of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) Loans Receivable

Loans receivable 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, 2015 and 2014, the value of contributed services meeting the requirements for recognition in the financial statements amounted to $71,120. These services were provided to the Corporation by the City of North Tonawanda.

(h) Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(i) Subsequent Events

The Corporation has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(j) Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code); therefore, no provision for income taxes is reflected in the financial statements. The Corporation has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The Corporation presently discloses or recognizes income tax position based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the Corporation has taken no uncertain tax positions that require adjustment in its financial statements. U.S. Forms 990 filed by the Corporation are subject to examination by taxing authorities.

(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, 2015 and 2014, 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, New York. The Corporation performs ongoing credit evaluations of its loan receivables and substantially all loans require collateral.

(3) Fair Value Measurements

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- 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, Continued

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, 2015 and 2014:

	2015	2014
Balance at beginning of year	$ 969,593	983,570
Add loans issued	295,800	263,500
Less amounts repaid	(387,923)	(277,477)
Balance at end of year	$ 877,470	969,593

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, 2015 and 2014.

A summary of current and past due loans as of December 31, 2015 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 828,957	-	48,513	877,470

(5) Grant Income

The Corporation received grant income for the years ended December 31, 2015 and 2014 as follows:

	2015	2014
Community Development Block Grant	$ 203,287	112,500
City of North Tonawanda	55,000	60,000
	$ 258,287	172,500

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.

(6) 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, 2015 and 2014, the Corporation contributed 3% of each participant's annual salary to Individual Retirement Accounts established by the respective employees. The Corporation's policy is to fund the current retirement benefit costs accrued. Corporation contributions to the plan totaled $1,025 and $1,570 for 2015 and 2014, respectively.

(7) Contingency

In 2013, the New York State Division of Housing and Community Renewal (NYSDHCR) 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 because it was determined that the Corporation had not met the grant objectives. The Corporation agreed to this determination and recognized a liability for this disallowance at December 31, 2013 and 2014, respectively. $98,250 of the funds were repaid in 2014. In 2015 NYSDHCR determined that a portion of the objectives of the grant had been met and forgave repayment of the remaining $100,000 disallowance. This forgiveness was recognized in the statement of activities during 2015.

During 2015, the NYSDHCR performed a review of other grants made to the Corporation and determined that the Corporation in prior years did not meet the grant objectives of a grant award totaling $66,154. This disallowance was accrued in the Corporation's 2015 financial statements and repaid in January 2016.

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Lumber City Development Corporation (the Corporation), which comprise the statement of financial position as of December 31, 2015, 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 30, 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 Corporation'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.

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 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 30, 2016