VILLAGE OF LANCASTER COMMUNITY DEVELOPMENT CORPORATION

Financial Statements
and Supplemental Schedules for the
Years Ended May 31, 2009 and 2008
and Independent Auditors' Reports

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of Village of Lancaster
Community Development Corporation:

We have audited the accompanying statements of financial position of Village of Lancaster Community Development Corporation (the "Corporation") as of May 31, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. 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 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 audits provide 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 the Corporation as of May 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 8 to the financial statements, the Corporation has an outstanding loan, which is due and immediately payable as of August 1, 2009 and a note payable on demand. The Corporation does not have sufficient available resources with which to pay these debts. Management's plans in regards to this matter are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2009 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 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.

The supplemental schedule presented on page 11 is presented for the purpose of additional analysis and is not a required part of the financial statements. This supplementary schedule is also the responsibility of the Corporation's management. Such supplementary information has been subject to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Drescher & Malecki LLP

August 5, 2009

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statements of Financial Position
May 31, 2009 and 2008

ASSETS	2009	2008
Current assets:		
Cash	$ 103,444	$ 76,717
Accounts receivable, net	14,883	25,882
Interest receivable	18	67
Total current assets	118,345	102,666
Non-current assets:		
Land	368,560	368,560
Industrial park land	31,076	31,076
Building	950,000	950,000
Building improvements	244,898	244,898
Less accumulated depreciation	(293,809)	(258,094)
Total non-current assets	1,300,725	1,336,440
Total assets	$ 1,419,070	$ 1,439,106
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 3,406	$ 9,647
Accrued liabilities	9,789	5,034
Notes payable, current portion	514,024	214,024
Tenant security deposits	6,525	7,120
Prepaid rent	595	1,595
Total current liabilities	534,339	237,420
Non-current liabilities:		
Notes payable, less current portion	526,814	865,838
Total liabilties	1,061,153	1,103,258
NET ASSETS		
Unrestricted	357,917	335,848
Total liabilities and net assets	$ 1,419,070	$ 1,439,106

The notes to the financial statements are an integral part to this statement

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statements of Activities and Changes in Net Assets
Years Ended May 31, 2009 and 2008

	2009	2008
Operating revenues:		
Rental income	$ 192,347	$ 203,335
Other income	5,200	5,200
Total operating revenues	197,547	208,535
Operating expenses:		
Program services:		
Lancaster Village Partnership	128,745	194,703
Supporting services:		
Management and general	47,715	57,474
Total operating expenses	176,460	252,177
Operating gain (loss)	21,087	(43,642)
Non-operating revenues:		
Interest income	982	2,067
Total non-operating revenues	982	2,067
Change in net assets	22,069	(41,575)
Net assets—beginning of year	335,848	377,423
Net assets—end of year	$ 357,917	$ 335,848

The notes to the financial statements are an integral part of this statement

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statements of Cash Flows for the
Years Ended May 31, 2009 and 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	2009	2008
Operating gain (loss)	$ 21,087	$ (43,642)
Adjustments to reconcile increase in net assets to net cash provided by operating activites:		
Depreciation	35,715	35,715
Changes in assets and liabilities affecting cash flow:		
Decrease (increase) in accounts receivable, net	10,999	(19,088)
Decrease in interest receivable	49	65
Increase (decrease) in accounts payable	(6,241)	4,992
Increase (decrease) in accrued liabilties	4,755	(2,496)
Decrease in tenant security deposits	(595)	-
Increase (decrease) in prepaid rent	(1,000)	1,595
Total adjustments	43,682	20,783
Net cash provided by (used in) operating activities	64,769	(22,859)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(39,024)	(39,024)
Net cash used for investing activites	(39,024)	(39,024)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest earnings	982	2,067
Net cash provided by investing activites	982	2,067
Net increase (decrease) in cash	26,727	(59,816)
Cash - beginning of year	76,717	136,533
Cash - end of year	$ 103,444	$ 76,717

The notes to the financial statements are an integral part of this statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business—The Corporation was incorporated under Section 402 of the Not-for-Profit Corporation Law. The purposes for which the Corporation was formed are to achieve the following lawful public and quasi-public objectives:

- Developing incentives to promote maintain and expand employment opportunities in the Village of Lancaster, New York.
- Rehabilitating and developing residential and commercial property within the Village of Lancaster, New York.
- Sponsoring and promoting events and activities in the Village that enhance and improve the quality of life for the residents of the Village of Lancaster, New York.
- Providing financial assistance to companies and individuals considering residence in the Village of Lancaster, New York.
- Providing technical, administrative and other assistance to potential businesses in the Village of Lancaster, New York.

Basis of Accounting - The Corporation reports on the accrual basis of accounting. The Corporation presents its financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 117, *Financial Statements for Not-For-Profit Organizations.*

The classification of the organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes net assets: permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently restricted net assets - Contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

Temporarily restricted net assets – Contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations.

Unrestricted net assets – Neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Cash - The Corporation maintains cash in bank deposit accounts which are federally insured. The Corporation deposits are held at quality institutions and have not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash.

Accounts Receivable – Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management periodically evaluates the allowance for doubtful accounts and will make adjustments as necessary. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Accounts receivable are considered past due if any portion of the receivable balance is outstanding for more than 90 days.

Property and Equipment, net - Assets are stated at cost when purchased or at market value at date of donation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

Grants and Contracts – Revenue from grants and contracts are generally recognized as earned, that is, as the related costs are incurred under the grant or contract agreements.

Income Taxes - The Corporation qualifies as a tax-exempt organization under section 501(C)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax.

Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management Fees – Management fees are paid by the Corporation for accounting and administrative services. The cost of these services is $1,500 per month and has been included as an expense in the Corporation's statement of activities. Management fees totaled $18,000 for the years ended May 31, 2009 and 2008.

2. CASH

The Corporation follows New York State investment guidelines. All deposits are carried at fair value.

	2009		2008	
	Bank Balance	Carrying Balance	Bank Balance	Carrying Balance
Insured (FDIC)	$ 110,708	103,444	$ 96,668	76,717
Uninsured:				
Collateral held by bank's agent in the Corporation's name	-	-	-	-
Total	$ 110,708	103,444	$ 96,668	76,717

Custodial Credit Risk - Deposits—Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. As of May 31, 2009, the Corporation's deposits were fully insured by the FDIC.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following components at May 31, 2009 and 2008:

	2009	2008
Tenant - Rents	$ 22,301	47,268
Tenant - Electric	1,264	1,264
Total accounts receivable	23,565	48,532
Less: Allowance for doubtful accounts	(8,682)	(22,650)
Total accounts receivable (net)	$ 14,883	25,882

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following components for the year ended May 31, 2009:

	Balance 6/1/2008	Additions	Deletions	Balance 5/31/2009
Capital assets, not being depreciated:				
Land	$ 368,560	$ -	$ -	$ 368,560
Industrial park land	31,076	-	-	31,076
Total capital assets, not being depreciated	399,636	-	-	399,636
Capital assets, being depreciated:				
Building	950,000	-	-	950,000
Building improvements	244,898	-	-	244,898
Total capital assets, being depreciated	1,194,898	-	-	1,194,898
Less accumulated depreciation	(258,094)	(35,715)	-	(293,809)
Total capital assets, being depreciated, net	936,804	(35,715)	-	901,089
Capital assets, net	$ 1,336,440	$ (35,715)	$ -	$ 1,300,725

5. INDUSTRIAL PARK LAND

Industrial park land is stated at fair market value at the time of contribution of the land plus subsequent costs incurred to improve the land.

As of May 31, 2009 and 2008, the Corporation has 2.31 acres of land available for sale in its industrial park.

6. NOTES PAYABLE

Loans Outstanding—the Corporation has loans outstanding as follows:

- *M&T mortgage note*—Original issuance of $780,469 on October 28, 2003, the note requires the Corporation to pay equal consecutive monthly installments of principal in the amount of $3,252, and interest at 1% over prime (4.25% at May 31, 2009), commencing on December 4, 2004 and ending November 4, 2023. The note is secured by real property at 11 West Main Street, Lancaster, New York.

- *M&T demand note*—Payments of interest only at 1% over prime (4.25% at May 31, 2009), no repayment schedule for principal has been finalized. Original note was for $300,000 there was a principal payment of $125,000 on May 5, 2005.

- *Buffalo Regional Development loan*—During 1999, the Corporation participated in a loan from the Lancaster Industrial Development Agency and the Buffalo and Erie County Regional Development Corporation for $300,000. The loan carries an annual interest rate of 4%. The loan is collateralized by a mortgage (collateral security) and assignment of rents and leases. The Corporation makes payments of interest only until maturity. The loan matures on August 1, 2009, when it is immediately due and payable.

A summary of additions and payments of the Corporation's outstanding loans for the years ended May 31, 2009 and 2008 follows:

	Balance 6/1/2008	**Additions**	**Payments**	**Balance 5/31/2009**
M&T mortgage note	$ 604,862	$ -	$ 39,024	$ 565,838
M&T demand note	175,000	-	-	175,000
Buffalo Regional Development loan	300,000	-	-	300,000
Total loans outstanding	$ 1,079,862	$ -	$ 39,024	$ 1,040,838

	Balance 6/1/2007	**Additions**	**Payments**	**Balance 5/31/2008**
M&T mortgage note	$ 643,886	$ -	$ 39,024	$ 604,862
M&T demand note	175,000	-	-	175,000
Buffalo Regional Development loan	300,000	-	-	300,000
Total loans outstanding	$ 1,118,886	$ -	$ 39,024	$ 1,079,862

Annual principal requirements to amortize all debt outstanding as of May 31, 2009 are as follows:

Year ending May 31,		Outstanding Loan Principal
2010	$	514,024
2011		39,024
2012		39,024
2013		39,024
2014		39,024
Beyond		370,718
	$	1,040,838

7. CONTINGENCIES

The Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Corporation purchases liability insurance to cover such potential risks. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past fiscal year.

The Corporation is involved in litigation arising in the ordinary course of its operations. Management believes that its ultimate liability, if any, in connection with these matters will not have a material effect on its financial condition or results of operations.

8. SUBSEQUENT EVENTS

The Corporation has an outstanding loan from the Buffalo and Erie County Regional Development Corporation for $300,000 that mature on August 1, 2009, and is payable. Additionally, the Corporation has a demand note totaling $175,000 outstanding at May 31, 2009. The Corporation does not have sufficient available resources with which to cover these debts. The Corporation, has however, come to a verbal agreement with the Buffalo and Erie County Regional Development Corporation regarding an extension, however no formal agreement has been signed.

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Village of Lancaster
Community Development Corporation
Schedule of Functional Expenses
Years Ended May 31, 2009 and 2008

	Program Services	Supporting Services		
	LVP Complex	Management & General	2009	2008
Heating and Cooling Repair	$ 4,290	$ -	$ 4,290	$ 345
Janitorial	6,691	-	6,691	4,780
Maintainence	560	-	560	956
Depreciation	35,715	-	35,715	35,715
Building Improvements	-	-	-	5,573
Consulting Fees	9,600	-	9,600	11,400
Legal Fees	-	731	731	5,220
Advertising Fees	-	-	-	25
County Taxes	3,406	-	3,406	2,976
Natural Gas	9,221	-	9,221	12,407
Electric	8,187	-	8,187	20,793
Water	8,379	-	8,379	8,274
Bank Fees	-	335	335	229
Filing Fees	-	110	110	-
Travel and Entertainment	-	239	239	-
Bad Debt Expense	10,501	-	10,501	9,572
Liability Insurance	-	3,721	3,721	3,698
Interest Expense - loan	-	20,329	20,329	26,289
Interest Expense - mortgage	30,605	-	30,605	51,058
Office Supplies	7	-	7	1,366
Audit	-	4,250	4,250	3,750
Management Fee	-	18,000	18,000	18,000
Architectural/Engineer Fee	1,583	-	1,583	29,751
Total	$ 128,745	$ 47,715	$ 176,460	$ 252,177

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Members of the Village of Lancaster
Community Development Corporation:

We have audited the financial statements of Village of Lancaster Community Development Corporation (the "Corporation") as of and for the years ended May 31, 2009 and 2008, and have issued our report thereon dated August 5, 2009 (which report contains a going concern explanatory paragraph). 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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency on the following page to be a significant deficiency in internal control.

Cash receipts. During our audit, we noted a lack of segregation of duties in the area of cash receipts without any compensating control. Currently, each phase of the Corporation's cash receipt process is performed by the same person, including the deposit of cash, reconciliation of the bank statement, and recording of journal entries. In addition, the Corporation does not have a review process over the cash cycle in place.

We recommend that monthly bank reconciliations be sent to the Village Treasurer for review along with any monthly journal entries.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the Corporation in a separate letter dated August 5, 2009.

This report is intended solely for the information and use of members of the Corporation, its management, and the New York State Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Drescher & Malecki LLP

August 5, 2009