

LUMBER CITY DEVELOPMENT  
CORPORATION  
Financial Statements  
December 31, 2022 and 2021  
(with Independent Auditor's Report)

LUMBER CITY DEVELOPMENT CORPORATION

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Lumber City Development Corporation:

### Opinion

We have audited the accompanying financial statements of Lumber City Development Corporation (the Corporation), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statement's section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are condition or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism through the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence of the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

EFPR Group, CPAs, PLLC

Williamsville, New York  
February 28, 2023

LUMBER CITY DEVELOPMENT CORPORATION  
 Statements of Financial Position  
 December 31, 2022 and 2021

<u>Assets</u>	<u>2022</u>	<u>2021</u>
Cash	\$ 697,209	398,441
Loans receivable, less allowance of \$487,874 in 2022 and \$677,849 in 2021	468,090	401,452
Other receivables	36,458	29,500
Prepaid insurance	3,264	3,264
Equipment, at cost, less accumulated depreciation of \$2,423 in 2022 and \$2,330 in 2021	-	93
Total assets	\$ 1,205,021	832,750
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	20,063	751
Deferred revenue	-	5,000
Total liabilities	20,063	5,751
Net assets without donor restrictions	1,184,958	826,999
Total liabilities and net assets without donor restrictions	\$ 1,205,021	832,750

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION  
 Statements of Activities  
 Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenue:		
Grant income	\$ 698,413	208,267
Interest income	11,965	9,692
Contributed nonfinancial assets	<u>71,120</u>	<u>71,120</u>
Total revenue	<u>781,498</u>	<u>289,079</u>
Expenses:		
Program services	374,568	296,127
Management and general	<u>53,459</u>	<u>85,963</u>
Total expenses	<u>428,027</u>	<u>382,090</u>
Change in net assets without donor restrictions before other non-operating income	353,471	(93,011)
Other non-operating income	<u>4,488</u>	<u>501</u>
Change in net assets without donor restrictions	357,959	(92,510)
Net assets without donor restrictions at beginning of year	<u>826,999</u>	<u>919,509</u>
Net assets without donor restrictions at end of year	<u><u>\$ 1,184,958</u></u>	<u><u>826,999</u></u>

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION  
 Statements of Functional Expenses  
 Years ended December 31, 2022 and 2021

	2022			2021		
	<u>Program services</u>	<u>Management and general</u>	<u>Total</u>	<u>Program services</u>	<u>Management and general</u>	<u>Total</u>
Community development projects	\$ 286,520	-	286,520	165,814	-	165,814
Payroll	17,033	5,678	22,711	46,053	15,351	61,404
Payroll taxes and employee benefits	2,683	894	3,577	9,869	3,290	13,159
Stipend - Executive Director	10,800	3,600	14,400	9,900	3,300	13,200
Contributed nonfinancial assets:						
Administrative services	27,825	9,275	37,100	27,825	9,275	37,100
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Advertising	6,205	-	6,205	11,806	-	11,806
Business meetings	947	315	1,262	1,394	465	1,859
Legal and professional fees	3,175	3,175	6,350	2,415	2,415	4,830
Accounting fees	-	5,225	5,225	-	5,025	5,025
Insurance	-	4,119	4,119	-	4,441	4,441
Office expense	2,370	2,369	4,739	4,041	4,041	8,082
Depreciation	-	93	93	-	124	124
Miscellaneous	-	1,706	1,706	-	21,226	21,226
Total expenses	\$ 374,568	53,459	428,027	296,127	85,963	382,090

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION  
 Statements of Cash Flows  
 Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets without donor restrictions	\$ 357,959	(92,510)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by (used in) operating activities:		
Depreciation	93	124
Principal payments on loans receivable	400,857	100,253
Loans granted during the year	(277,520)	(174,980)
Change in allowance for doubtful accounts	(189,975)	9,232
Changes in:		
Other receivables	(6,958)	(13,250)
Accounts payable and accrued expenses	19,312	(2,829)
Deferred revenue	<u>(5,000)</u>	<u>5,000</u>
Net cash provided by (used in) operating activities	298,768	(168,960)
Cash at beginning of year	<u>398,441</u>	<u>567,401</u>
Cash at end of year	<u>\$ 697,209</u>	<u>398,441</u>

See accompanying notes to financial statements.



# LUMBER CITY DEVELOPMENT CORPORATION

## Notes to Financial Statements

December 31, 2022 and 2021

### (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 two classes of net assets: with donor restrictions and without donor restrictions. At December 31, 2022 and 2021, the Corporation had only net assets without donor restrictions.

#### (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 revenue 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.

## LUMBER CITY DEVELOPMENT CORPORATION

### Notes to Financial Statements, Continued

#### (1) Summary of Significant Accounting Policies, Continued

##### (g) Contributed Nonfinancial Assets

In September 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-07, "Presentation and Disclosures for Not-for-Profit Entities for Contributed Nonfinancial Assets." ASU 2020-07 requires new presentation and disclosures for gift-in-kind donations to improve transparency on how those assets are used and valued. These financial statements and notes reflect retroactive adoption of this new standard.

During the years ended December 31, 2022 and 2021, the value of contributed nonfinancial assets meeting the requirements for recognition in the financial statements amounted to \$71,120 and 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 statements of activities and in the statements of functional expenses. Accordingly, certain costs including professional fees, office expense and rent have been allocated among the programs and supporting services benefited. Other costs such as advertising and community development projects are allocated entirely to program services.

##### (i) 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 positions 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.

##### (j) Subsequent Events

The Corporation has evaluated all events through the date these financial statements were available to be issued, and has determined that there are no subsequent events that require recording or disclosure.

##### (k) Reclassifications

Reclassifications have been made to certain 2021 balances in order to conform them to the 2022 presentation.

## LUMBER CITY DEVELOPMENT CORPORATION

### Notes to Financial Statements, Continued

#### (2) Liquidity

The Corporation has \$733,667 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of \$697,209 of cash and \$36,458 of other receivables. None of these financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditure within one year of the 2022 statement of financial position date.

#### (3) 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, 2022 and 2021, 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 6. Credit risk for loans receivable is also concentrated as all the loans are to businesses located within the boundaries of the City. The Corporation performs ongoing credit evaluations of its loans receivable and substantially all loans require collateral.

#### (4) 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.

## LUMBER CITY DEVELOPMENT CORPORATION

### Notes to Financial Statements, Continued

#### (4) Fair Value Measurements, Continued

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.

#### (5) Loans Receivable

Loans receivable, which have interest rates ranging from 0.00% to 4.25%, are considered to be Level 3 assets as described in note 4 and are summarized as follows at December 31, 2022 and 2021:

LUMBER CITY DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(5) Loans Receivable, Continued

	<u>2022</u>	<u>2021</u>
Sherwood Florist, Inc.	\$ -	3,601
Susan Rechin-Fassl	-	952
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar	-	219,549
Canalside Bistro and Creamery, Inc.	4,382	5,738
Lou Riggio - JFLR Enterprises	50,000	50,000
Thomas Pickles - Shirt Pickle, Inc.	6,436	9,842
Uncorked Café, Inc.	16,780	16,780
Pencil in the River	5,609	9,018
Pencil in the River	7,714	-
Superior Tool - Ameri-cut	-	41,255
Platter's Chocolate	-	14,959
Woodcock Brothers Brewing Company, Inc.	464,513	475,830
Canalside Wine and Spirits	-	35,125
Lumber City Winery, LLC	32,930	32,930
El Gringo Mexican Cantina	197,586	90,339
El Gringo Mexican Cantina	120,000	24,980
Huron Sprinklers	-	48,403
First-N-Ten	8,000	-
Webster's Restaurant LLC	11,563	-
Just Say Cheesecake Bakery & Café	11,498	-
A1 Appliance	8,283	-
The Vegan Grocery Store	<u>10,670</u>	<u>-</u>
Total loans receivable	955,964	1,079,301
Less allowance for loan losses	<u>(487,874)</u>	<u>(677,849)</u>
Net loans receivable	\$ <u>468,090</u>	<u>401,452</u>

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 1,079,301	1,004,574
Add loans issued	277,520	174,980
Less amounts repaid	<u>(400,857)</u>	<u>(100,253)</u>
Balance at end of year	\$ <u>955,964</u>	<u>1,079,301</u>

LUMBER CITY DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(5) Loans Receivable, Continued

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 had been included in the allowance for uncollectible loans at December 31, 2021. During the year ended December 31, 2022, the loan was paid off and the \$200,000 was forgiven.

In 2019, a loan was issued to Woodcock Brothers Brewing Company, Inc. in the amount of \$500,000. The first \$100,000 of the loan is to be repaid over the next 7 years in equal monthly payments of principal and interest with the remaining balance of \$400,000 to be deferred until the end of the loan term. At the end of the loan term, the deferred portion of the loan and any interest owing thereon shall be forgiven by the Corporation. Because the balance is anticipated to be forgiven by the Corporation at the maturity date, the \$400,000 has been included in the allowance for uncollectible loans at December 31, 2022 and 2021.

A summary of current and past due loans as of December 31, 2022 are as follows:

<u>Category</u>	<u>Current</u>	<u>30 - 90 days past due</u>	<u>Over 90 days past due</u>	<u>Total</u>
Commercial	\$ <u>947,330</u>	<u>572</u>	<u>8,062</u>	<u>955,964</u>

(6) Grant Income

The Corporation received grant income for the years ended December 31, 2022 and 2021 as follows:

	<u>2022</u>	<u>2021</u>
Community Development Block Grant	\$ 633,446	146,767
City of North Tonawanda	57,500	57,000
Erie Canalway Heritage Fund, Inc.	7,467	3,500
Project Pride of North Tonawanda	<u>-</u>	<u>1,000</u>
	<u>\$ 698,413</u>	<u>208,267</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.

LUMBER CITY DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(7) 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, 2022 and 2021, 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 amounted to \$1,272 and \$1,534 for 2022 and 2021, respectively.