LUMBER CITY DEVELOPMENT CORPORATION

Financial Statements and
Independent Auditors' Report

December 31, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, 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 Auditor's 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.

Auditor’s 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 auditor’s 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 though the audit.
- 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 audit 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 audit.

EFPR Group, CPAs, PLLC

Williamsville, New York
March 16, 2022

LUMBER CITY DEVELOPMENT CORPORATION

Statements of Financial Position

December 31, 2021 and 2020

Assets	2021	2020
Cash	$ 398,441	567,401
Grants receivable	29,500	16,250
Loans receivable, less allowance of $672,468 in 2021 and $663,236 in 2020	401,452	335,957
Prepaid insurance	3,264	3,264
Equipment, at cost, less accumulated depreciation of $2,330 in 2021 and $2,206 in 2020	93	217
Total assets	$ 832,750	923,089
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	751	3,580
Deferred revenue	5,000	-
Total liabilities	5,751	3,580
Net assets without donor restrictions	826,999	919,509
Total liabilities and net assets without donor restrictions	$ 832,750	923,089

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Activities
Years ended December 31, 2021 and 2020

	2021	2020
Revenue:		
Grant income	$ 208,267	57,500
Interest income	9,692	11,487
Contributed services	71,120	71,120
Total revenue	289,079	140,107
Expenses:		
Program services	296,127	227,578
Management and general	85,963	78,535
Total expenses	382,090	306,113
Change in net assets without donor restrictions before other non-operating income	(93,011)	(166,006)
Other non-operating income	501	3,413
Change in net assets without donor restrictions	(92,510)	(162,593)
Net assets without donor restrictions at beginning of year	919,509	1,082,102
Net assets without donor restrictions at end of year	$ 826,999	919,509

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Functional Expenses
Years ended December 31, 2021 and 2020

	2021			2020		
	Program services	Management and general	Total	Program services	Management and general	Total
Community development projects	$ 165,814	-	165,814	68,995	-	68,995
Payroll	46,053	15,351	61,404	69,073	23,024	92,097
Payroll taxes and employee benefits	9,869	3,290	13,159	16,337	5,445	21,782
Stipend - Executive Director	9,900	3,300	13,200	10,800	3,600	14,400
Contributed administrative expenses	27,825	9,275	37,100	27,825	9,275	37,100
Advertising	11,806	-	11,806	10,494	-	10,494
Business meetings	1,394	465	1,859	2,024	675	2,699
Legal and professional fees	2,415	2,415	4,830	1,901	1,900	3,801
Accounting fees	-	5,025	5,025	-	4,700	4,700
Insurance	-	4,441	4,441	-	4,311	4,311
Office expense	4,041	4,041	8,082	3,119	3,118	6,237
Rent	17,010	17,010	34,020	17,010	17,010	34,020
Depreciation	-	124	124	-	124	124
Miscellaneous	-	21,226	21,226	-	5,353	5,353
Total expenses	$ 296,127	85,963	382,090	227,578	78,535	306,113

See accompanying notes to financial statements.

LUMBER CITY DEVELOPMENT CORPORATION
Statements of Cash Flows
Years ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets without donor restrictions	$ (92,510)	(162,593)
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by (used in) operating activities:		
Depreciation	124	124
Principal payments on loans receivable	100,253	104,925
Loans granted during the year	(174,980)	-
Change in allowance for doubtful accounts	9,232	(16,252)
Changes in:		
Grants receivable	(13,250)	83,996
Prepaid insurance	-	23
Accounts payable and accrued expenses	(2,829)	2,339
Deferred revenue	5,000	-
Net cash provided by (used in) operating activities	(168,960)	12,562
Cash at beginning of year	567,401	554,839
Cash at end of year	$ 398,441	567,401

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 two classes of net assets: with donor restrictions and without donor restrictions. At December 31, 2021 and 2020, 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.

(1) Summary of Significant Accounting Policies, Continued

(g) Contributed Services

During the years ended December 31, 2021 and 2020, 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 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) Risks and Uncertainties

The United States is presently in the midst of a national health emergency related to the COVID-19 virus. The overall consequences on a national, regional and local level are unknown, but have the potential to result in a significant economic impact. The impact of this situation on the Corporation and its future results and financial position is not presently determinable.

(2) Liquidity

The Corporation has $427,941 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures, consisting of $398,441 of cash and $29,500 of grants receivable. None of these financial assets are subject to donor or contractual restrictions that make them unavailable for general expenditure within one year of the 2021 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, 2021 and 2020, 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.

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.

(4) Fair Value Measurements, Continued

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, 2021 and 2020:

	2021	2020
Sherwood Florist, Inc.	$ 3,601	5,856
Susan Rechin-Fassl	952	4,686
Delaware Restaurant Holdings, LLC d/b/a Remington Tavern and Oyster Bar	219,549	240,499
Jay L. Soemann - 88 Webster Street	-	663
Canalside Bistro and Creamery, Inc.	5,738	7,815
Canal Club 62, LLC	-	25,745
Lou Riggio - JFLR Enterprises	50,000	50,000
Thomas Pickles - Shirt Pickle, Inc.	9,842	12,610
Uncorked Café, Inc.	16,780	16,687
Pencil in the River	9,018	12,325
Superior Tool - Ameri-cut	41,255	47,014
Platter's Chocolate	14,959	21,299
Woodcock Brothers Brewing	475,830	490,471
Canalside Wine and Spirits	35,125	35,525
Lumber City Winery, LLC	27,549	27,998
El Gringo Mexican Cantina	90,339	-
El Gringo Mexican Cantina	24,980	-
Huron Sprinklers	48,403	-
Total loans receivable	1,073,920	999,193
Less allowance for loan losses	(672,468)	(663,236)
Net loans receivable	$ 401,452	335,957

(5) 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, 2021 and 2020:

	2021	2020
Balance at beginning of year	$ 999,193	1,104,118
Add loans issued	174,980	-
Less amounts repaid	(100,253)	(104,925)
Balance at end of year	$ 1,073,920	999,193

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, 2021 and 2020.

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, 2021 and 2020.

In 2020, a payment settlement was reached with Uncorked Café, Inc. for their delinquent balance of $34,187. $19,208 was repaid to the Corporation of which $17,500 was applied to the loan balance and $1,708 was for reimbursement of settlement related expenses. In 2020, the loan receivable from 500 Fitness, Inc. was written off due to the debtor filing for bankruptcy.

A summary of current and past due loans as of December 31, 2021 are as follows:

Category	Current	30 - 90 days past due	Over 90 days past due	Total
Commercial	$ 1,023,993	2,231	47,696	1,073,920

(6) Grant Income

The Corporation received grant income for the years ended December 31, 2021 and 2020 as follows:

	2021	2020
Community Development Block Grant	$ 146,767	-
City of North Tonawanda	57,000	57,500
Erie Canalway Heritage Fund, Inc.	3,500	-
Project Pride of North Tonawanda	1,000	-
	$ 208,267	57,500

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.

(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, 2021 and 2020, 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 $1,534 and $2,754 for 2021 and 2020, respectively.