

THE CHEEKTOWAGA ECONOMIC
DEVELOPMENT CORPORATION

Financial Statements

March 31, 2018

(With Independent Auditors' Report Thereon)

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 13
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 <u>Government Auditing Standards</u>	14 - 15
Schedule of Findings and Questioned Costs	16
Status of Prior Year Audit Findings	17

* * * * *

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Cheektowaga Economic Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of The Cheektowaga Economic Development Corporation (the Corporation) (a nonprofit organization), which comprise the statement of financial position as of March 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Cheektowaga Economic Development Corporation as of March 31, 2018, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Cheektowaga Economic Development Corporation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited financials statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2019, 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 solely 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 effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 4, 2019

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION
Statement of Financial Position
March 31, 2018
with comparative totals for 2017

	<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash:			
Checking account		\$ 390,392	838,222
Savings account		66,989	66,970
Total cash		457,381	905,192
Certificates of deposit		235,429	235,350
Amount due from HUD		-	178
Accrued interest receivable		221,036	215,000
Loans receivable:			
Walden Commerce Exchange		130,535	130,535
Global Asset Management Solutions, Inc. less allowance for doubtful accounts of \$25,000 in 2018		15,333	60,526
Gordon Companies, Inc.		227,686	242,456
930 Bailey Avenue, LLC		8,391	8,391
John and Sue of WNY, Inc.		34,078	41,423
Buffalo Bread Company, Inc. less allowance for doubtful account of \$200,000 in 2018 and 2017		-	-
Latina Boulevard Foods, LLC		458,809	-
Total loans receivable		874,832	483,331
Total assets		\$ 1,788,678	1,839,051
<u>Liabilities and Net Assets</u>			
Liabilities:			
Accounts payable and accrued expenses		46,789	26,910
Amount due to Comtec of W.N.Y., Inc.		-	2,619
Amounts due to HUD		-	378
Total liabilities		46,789	29,907
Unrestricted net assets		1,741,889	1,809,144
Total liabilities and net assets		\$ 1,788,678	1,839,051

See accompanying notes to financial statements.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Statement of Activities

Year ended March 31, 2018
with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenue:		
Loan interest	\$ 9,027	12,583
Miscellaneous	5,323	6,674
Loan recovery - SMG/GCI, LLC	<u>-</u>	<u>31,287</u>
Total unrestricted revenue	<u>14,350</u>	<u>50,544</u>
Unrestricted expenses:		
Program services	65,952	232,081
Management and general	<u>15,653</u>	<u>5,565</u>
Total unrestricted expenses	<u>81,605</u>	<u>237,646</u>
Decrease in unrestricted net assets	(67,255)	(187,102)
Unrestricted net assets at beginning of year	<u>1,809,144</u>	<u>1,996,246</u>
Unrestricted net assets at end of year	<u>\$ 1,741,889</u>	<u>1,809,144</u>

See accompanying notes to financial statements.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION
Statement of Functional Expenses
Year ended March 31, 2018
with comparative totals for 2017

	Program services	Management and general	<u>Total</u>	
			<u>2018</u>	<u>2017</u>
Payroll	\$ 20,398	-	20,398	9,978
Professional fees	-	12,198	12,198	5,300
Consulting	19,687	-	19,687	19,555
Business meetings	463	-	463	1,252
Advertising	404	-	404	1,296
Bad debt expense	25,000	-	25,000	200,000
Miscellaneous	-	3,455	3,455	265
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total unrestricted expenses	\$ <u>65,952</u>	<u>15,653</u>	<u>81,605</u>	<u>237,646</u>

See accompanying notes to financial statements.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Statement of Cash Flows
 Year ended March 31, 2018
 with comparative totals for 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	\$ (67,255)	(187,102)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:		
Increase in provision for doubtful accounts	25,000	-
Decrease in amount due from HUD	178	-
Increase in accrued interest receivable	(6,036)	(7,258)
Principal payments on loans receivable	83,499	66,652
Loan granted during the year	(500,000)	-
Increase in accounts payable and accrued expenses	19,879	13,505
Decrease in due to Comtec of W.N.Y., Inc.	(2,619)	-
Decrease in amount due to HUD	(378)	-
Net cash used in operating activities	(447,732)	(114,203)
Cash flows from investing activities - change in certificates of deposit	(79)	(287)
Net decrease in cash	(447,811)	(114,490)
Cash at beginning of year	905,192	1,019,682
Cash at end of year	<u>\$ 457,381</u>	<u>905,192</u>

See accompanying notes to financial statements.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements

March 31, 2018

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

The Cheektowaga Economic Development Corporation (the Corporation) was formed on June 10, 1983 pursuant to resolution of the Town Board of the Town of Cheektowaga, New York (the Town), as a quasi-public local development corporation under the New York Not-For-Profit Corporation Law. The Corporation was intended to combat community deterioration, protect and increase the local tax base, retain and create private sector employment in the municipality and lessen the burdens upon local government by operating a program to retain and attract private sector industry and business to the Town.

The Corporation has been designated by the Town's Community Development Program under the Department of Housing and Urban Development (HUD) regulation as a sub-recipient to carry out community economic development under the Community Development Block Grant Program. Funds have been obligated by the Town under its Community Development Block Grant Program to fund a revolving loan program to be administered by the Corporation, permitting the financing of a portion of the costs of private industrial relocation or expansion taking place within the boundaries of the municipality. Funds generated through the loan program, in the nature of interest and principal payments on loans made, are returned to the loan program and are used for making additional approved loans and payment of administrative costs of the program, as permitted under HUD regulations.

(b) Basis of Presentation

The financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, 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 2018 and 2017.

(c) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) 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.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Concentrations of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and equivalent accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(f) Loans Receivable and Allowance for Doubtful Loans

Loans receivable are stated at their principal amount outstanding, less an allowance for doubtful loans. Interest income and commitment fees on loans are accrued as earned. The allowance for doubtful loans is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential loan losses based on their evaluation of past loan experience, current economic conditions and known risks in the loan portfolio. Interest is not accrued on loans receivable when management believes that the borrower's financial condition, after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. In such cases, interest is recognized on a cash basis when collection occurs.

(g) Contributed Services

During the years ended March 31, 2018 and 2017, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the Corporation.

(h) 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.

(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.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(2) 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.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(3) Certificates of Deposit

Certificates of deposit at March 31, 2018 and 2017 are considered to be level 1 assets as described in note 2 and consist of the following:

	<u>2018</u>	<u>2017</u>
0.10% due September 22, 2018	\$ 135,429	-
0.03% due October 2, 2018	50,000	-
0.03% due October 2, 2018	50,000	-
0.03% due April 4, 2017	-	50,000
0.03% due April 4, 2017	-	50,000
0.10% due August 22, 2017	-	<u>135,350</u>
	<u>\$ 235,429</u>	<u>235,350</u>

(4) Concentrations of Credit Risk

The Corporation provides funds under a revolving loan program to businesses located within the boundaries of the municipality of Cheektowaga, New York. The Corporation performs ongoing credit evaluations of its loans receivable and substantially all loans require collateral (note 5).

(5) Loans Receivable

Loans receivable at March 31, 2018 and 2017 are considered to be level 3 assets as described in note 2 and consist of the following:

	<u>2018</u>	<u>2017</u>
<u>Walden Commerce Exchange (Note 6)</u>		
The original amount of this loan, issued May 26, 1993, was \$100,000 and was later amended to \$150,000; however, at March 31, 2018, only \$130,535 has been disbursed. The loan is unsecured and bears interest at a rate of 2% in excess of the prime rate offered by a local bank. The note is payable on demand.	\$ 130,535	130,535
<u>Global Asset Management Solutions, Inc.</u>		
The original amount of this loan, issued June 6, 2013, was \$200,000, and is secured by a collateral security mortgage on certain real property, a general security interest - in other assets, and a personal guarantee of the company's owners. The note bears interest at .50% per annum. The note has a term of 5.5 years and is payable in monthly interest only installments of \$83.33 for the first six months and \$3,375.87 each month thereafter. During 2018, an allowance for doubtful accounts was established for \$25,000.	15,333	60,526

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(5) Loans Receivable, Continued

	<u>2018</u>	<u>2017</u>
<u>Gordon Companies, Inc.</u>		
The original amount of this loan, issued February 7, 2013, was \$300,000, and is secured by a collateral security mortgage on the property, a general security interest in other assets, proceeds of all life insurance policies, and the personal guarantee of the company's owner. The life insurance interest is subordinate to the interests in the proceeds and shall be granted in favor of Five Star Bank and Amazon Capital Services, Inc. The note bears interest at .5% per annum. The note has a term of 5 years and is payable in monthly installments of \$1,314 with a balloon payment of \$227,788 due by March 31, 2018. In November 2017 this loan was extended another 5 years.	\$ 227,686	242,456
<u>930 Bailey Avenue, LLC</u>		
The original amount of this loan, issued April 4, 2012, was \$500,000, and is secured by a collateral security mortgage on the property, and a corporate security interest in other assets of the company. The collateral security mortgage is subordinate to the interests in the proceeds and shall be granted in favor of a local bank. The note bears interest at .5% per annum. The note has a term of 5 years and is payable in monthly installments of \$8,440.	8,391	8,391
<u>John and Sue of WNY, Inc.</u>		
The original amount of this loan, issued May 23, 2012, was \$80,000, and is secured by all corporate assets, the personal guarantee of the company's owners and the second position mortgage on the owners' personal residence. The note bears interest at .5% per annum. The note has a term of 10 years and is payable in monthly installments of \$684.	34,078	41,423
<u>Buffalo Bread Company, Inc.</u>		
The original amount of the loan, issued September 30, 2016, was \$200,000, and is secured by all corporate assets, the personal and unconditional guarantee of the company's owner. The note bears interest at .5% per annum. The note has a term of 5 years and is payable in monthly installments of \$3,375. During 2017, an allowance for doubtful accounts was established for the entire loan balance.	-	-

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(5) Loans Receivable, Continued

	<u>2018</u>	<u>2017</u>
<u>Latina Boulevard Foods, LLC</u>		
The original amount of the loan, issued September 6, 2017 was \$500,000 and is secured by all present and future assets of the borrower and an assignment of rents and leases at another real property. The note bears interest at .05% per annum. The note has a term of 5 years and is payable in equal monthly payments of principal and interest.	\$ <u>458,809</u>	<u>-</u>
Total loans receivable	\$ <u>874,832</u>	<u>483,331</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 March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 483,331	549,983
Add loans issued	500,000	-
Less allowance for doubtful accounts	(25,000)	-
Less amounts repaid	<u>(83,499)</u>	<u>(66,652)</u>
Balance at end of year	\$ <u>874,832</u>	<u>483,331</u>

A summary of current, past due and nonaccrual loans as of March 31, 2018 are as follows:

<u>Category</u>	<u>Current</u>	<u>30 - 90 days past due</u>	<u>Nonaccrual</u>	<u>Total</u>
Commercial	\$ <u>866,441</u>	<u>8,391</u>	<u>-</u>	<u>874,832</u>

(6) Related Party

Walden Commerce Exchange is a joint venture between the Corporation and Ciminelli Development Company, Inc. formed for the purpose of acquiring, developing and leasing or selling certain real property located in the Town. The Corporation accounts for this investment using the equity method of accounting. At March 31, 2018 and 2017, there was no investment balance with regard to the Walden Commerce Exchange under the equity method.

The Corporation provided a loan receivable to Walden Commerce Exchange in 1993 (note 5). On February 24, 2000, the approved loan amount was amended to \$150,000. The balance outstanding on the loan as of March 31, 2018 and 2017 amounted to \$130,535. Accrued interest receivable at March 31, 2018 and 2017 amounted to \$221,036 and \$215,000, respectively.

THE CHEEKTOWAGA ECONOMIC DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(7) Litigation

The Corporation is involved in litigation arising in the ordinary course of its operations. The Corporation 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.