ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

An Independent Member of the BDO Seidman Alliance

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Erie County Industrial Development Agency

We have audited the accompanying financial statements of Erie County Industrial Development Agency (ECIDA), a business-type activity, which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. We have also audited ECIDA's internal control over financial reporting as of December 31, 2012, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting.*

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on ECIDA's internal control over financial reporting based on our audits. We conducted our audit of the financial statements 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 and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing other such procedures as we considered necessary in the circumstances.

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

Definitions and Inherent Limitations of Internal Control

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ECIDA as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, ECIDA maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on *Internal Control – Integrated Framework* issued by the COSO.

Other Matters

As described in Note 2 to the financial statements, ECIDA adopted GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities* in 2012.

The financial statements of ECIDA as of December 31, 2011 were audited by other auditors whose report dated February 12, 2012 expressed an unmodified opinion on those statements.

Supplementary Information
The supplementary information on pages 15 and 16 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Management's Discussion and Analysis
Accounting principles generally accepted in the United States of America require that management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2013 on our consideration of ECIDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 ECIDA's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

February 11, 2013

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Erie County Industrial Development Agency's (ECIDA) internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of ECIDA's internal control over financial reporting as of December 31, 2012, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on that assessment, management concluded that, as of December 31, 2012, ECIDA's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework*.

Erie County Industrial Development Agency
February 11, 2013

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2012
(UNAUDITED)

Erie County Industrial Development Agency (ECIDA) is a public-benefit corporation that provides tax incentives, financing programs, export assistance, land development and other economic development services to the City of Buffalo and Erie County, New York. In accomplishing its mission, the ECIDA does not receive any operational funding from Federal, State, County or local sources. Instead, the ECIDA relies primarily upon administrative fees charged to those businesses that utilize its products and services.

As a public benefit corporation, ECIDA is required to comply with accounting standards issued by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, ECIDA is required to present management's discussion and analysis (MD&A) to assist readers in understanding ECIDA's financial performance.

In compliance with GASB Statement No. 34, we present the attached overview and analysis of the financial activities of ECIDA as of and for the years ended December 31, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with ECIDA's audited financial statements.

Basic Overview of the Financial Statements

Included in this Annual Report are the following financial statements:

1) Balance Sheets - The Balance Sheets show the reader what ECIDA owns (assets and deferred outflows) and what ECIDA owes (liabilities and deferred inflows). The difference between ECIDA's assets, deferred outflows, liabilities, and deferred inflows (net position) can be one way to measure ECIDA's financial position. Over time, increases or decreases in ECIDA's net position are an indicator of whether its financial health is improving or deteriorating.

2) Statements of Revenues, Expenses, and Changes in Net Position - This statement reports the ECIDA's operating and nonoperating revenues by major source along with operating and nonoperating expenses. The difference between total revenues and expenses can be one way to measure ECIDA's operating results for the year.

3) Statements of Cash Flows - This statement reports ECIDA's cash flows from operating, capital and related financing, and investing activities.

Financial Highlights

- ECIDA's total net position increased by approximately 23% from $17.1 million in 2011 to $21.1 million in 2012.
- ECIDA experienced an increase in net position or a net profit of $4.0 million in 2012 compared to a net profit of $3.7 million in 2011.
- Administrative fees, a key source of revenue for ECIDA, decreased from $1.6 million in 2011 to $1.0 million in 2012.
- Earnings from venture capital investments increased from $0.8 million in 2011 to $5.0 million in 2012.
- Operating expenses decreased from $2.9 million in 2011 to $2.4 million in 2012.

Condensed Comparative Financial Statements:

1. Balance Sheets:

The following table (Table 1) presents condensed comparative financial information and was derived from the audited balance sheets of ECIDA.

Table 1
Balance Sheets as of December 31, 2012 and 2011
(Amounts in thousands)

	2012	2011	$ Change	% Change
Assets:				
Cash	$ 12,308	$ 6,461	$ 5,847	90%
Capital assets, net	1,729	1,798	(69)	-4%
Special project grants receivable	568	1,405	(837)	-60%
Loans receivable, net of allowance	846	1,182	(336)	-28%
Restricted Cash	4,308	2,749	1,559	57%
Other assets	6,984	8,006	(1,022)	-13%
Total assets	$ 26,743	$ 21,601	$ 5,142	24%
Liabilities:				
Current liabilities	$ 1,026	$ 1,271	$ (245)	-19%
Funds held on behalf of others	4,132	2,614	1,518	58%
Other long-term liabilities	461	575	(114)	-20%
Total liabilities	5,619	4,460	1,159	26%
Net position:				
Net investment in capital assets	1,729	1,798	(69)	-4%
Restricted	12,313	11,375	938	8%
Unrestricted	7,082	3,968	3,114	78%
Total net position	21,124	17,141	3,983	23%
Total liabilities and net position	$ 26,743	$ 21,601	$ 5,142	24%

Special Project Grants Receivable - Special project grants receivable represent Brownfield or infrastructure grants awarded to ECIDA by New York State, Erie County and other sources, which have not been fully drawn down. The decrease in special grants receivable of $837,000, or 60%, is due to $715,000 and $127,000 in grant draws received from the Buffalo Southern and JumpStart project grants, respectively.

Loans Receivable - Loans receivable represent various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program. The $336,000 decrease in the loans receivable balance is due to loan repayments received during 2012.

Restricted Cash (Funds held on behalf of others) – Restricted cash represents funds held on behalf of others including the Buffalo Brownfields Redevelopment fund, Regional Redevelopment fund, and the Regionally Significant Project funds. The $1,559,000 or 57% increase from 2011 is due to a $1.3 million increase in the Brownfields Redevelopment fund due to the ongoing receipts into the fund and the return of funds previously set aside as collateral for a bank loan.

Other Assets – Other assets include ECIDA's venture capital investments, affiliate receivables, prepaid expenses and other receivables. The decrease in other assets of $1,022,000, or 13% is primarily due to the sale of one of ECIDA's venture capital investments whose recorded value was $420,000, a $422,000 decrease in the book value of another equity investment, and small decreases in affiliate receivables and prepaids.

Current Liabilities – The $245,000 or 19% decrease in current liabilities is due to a $280,000 decrease in deferred revenue on special project grants, related to grant expenditures for the JumpStart project.

Long-Term Liabilities - Long-term liabilities primarily consist of conduit debt. The decrease in long-term liabilities is primarily due to payments made.

2. Change in Net Position:

The following table (Table 2) presents condensed, comparative financial information and was derived from ECIDA's audited statements of revenues, expenses, and changes in net position.

Table 2
Change in Net Position for the Years ended December 31, 2012 and 2011
(Amounts in thousands)

	2012	2011	$ Change	% Change
Revenue:				
Administrative fees	$ 1,050	$ 1,644	$ (594)	-36%
Investment income	4,969	832	4,137	497%
Affiliate management fees	251	299	(48)	-16%
Other income	213	681	(468)	-69%
Total revenue	6,483	3,456	3,027	88%
Expenses:				
Salaries and benefits	1,614	1,979	(365)	-18%
General and administrative	640	703	(63)	-9%
Provision for uncollectible loans	-	113	(113)	-100%
Depreciation and other	146	148	(2)	-1%
Total expenses	2,400	2,943	(543)	-18%
Operating income before special project grants	4,083	513	3,570	696%
Special grants and nonoperating revenue:				
Net special project grants	(942)	31	(973)	-3139%
Claims received on taxes paid	831	1,416	(585)	-41%
Interest income	11	7	4	57%
Capital contributions	-	1,737	(1,737)	-100%
Change in net position	$ 3,983	$ 3,704	$ 279	8%

3. Revenue Analysis:

Administrative Fees - Administrative fees are primarily collected from the issuance of various forms of tax abatements and tax-exempt financing. ECIDA relies on these fees to cover its operating costs; however, the amount of fees collected in any given year is largely dependent upon the local economic climate. Administrative fees decreased by $594,000 or 36% in 2012. This decrease was primarily due to the reduction in the number of tax-exempt projects as well the ongoing impact of current economic conditions. In 2012, only twenty-one tax incentive projects were approved including Welded Tube and Derrick Corporation. In 2011, thirty-one tax incentive projects were approved.

Affiliate Management Fees - Affiliate management fees represent salaries and overhead costs charged to the following ECIDA affiliates for services that ECIDA's employees provide to these organizations:

- Buffalo & Erie County Regional Development Corporation ("RDC") - a lending corporation affiliated with ECIDA.
- Buffalo & Erie County Industrial Land Development Corporation ("ILDC") - a lending corporation affiliated with ECIDA.

The following table (Table 3) illustrates the amounts charged to ECIDA's affiliated corporations in 2012 with comparisons for 2011:

Table 3
Affiliate Management Fees for the Years ended December 31, 2012 and 2011
(Amounts in thousands)

	2012	2011	$ Change	% Change
Affiliate Management Fees Charged:				
RDC	$ 249	$ 295	$ (46)	-16%
ILDC	2	4	(2)	-50%
Total Affiliate Management Fees	$ 251	$ 299	$ (48)	-16%

Affiliate management fees charged to RDC decreased due to a decrease in personnel costs spent on the administration and reporting requirements for the loans of the Corporation.

Other Income - Other income is comprised of shared services revenue, international division revenues and miscellaneous income. The $468,000 or 69% decrease in other income is due to a $348,000 decrease in shared services revenue and $116,000 decrease in miscellaneous income. Shared services revenue decreased as a result of the transfer of two former ECIDA employees to a co-located entity, Buffalo Urban Development Corporation, effective January 1, 2012.

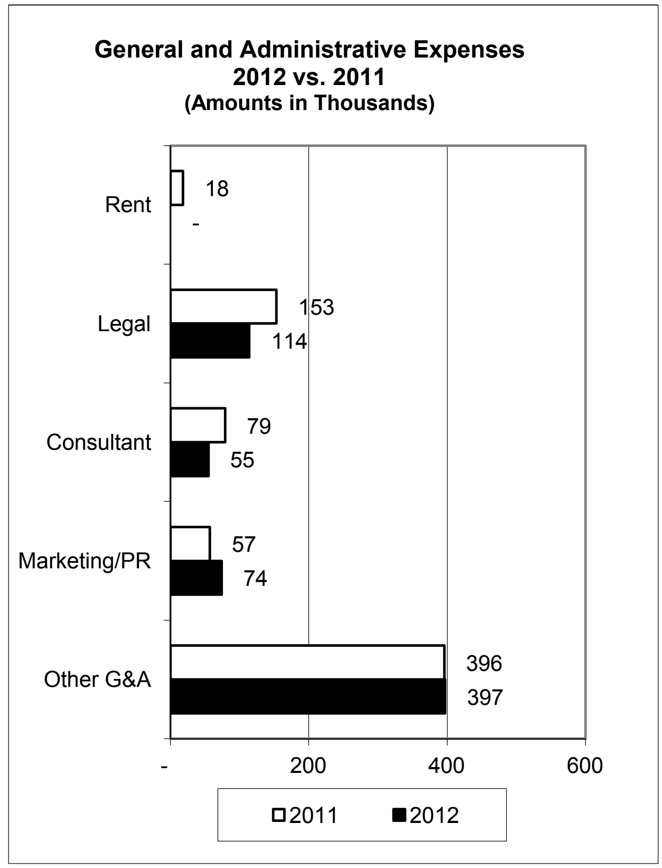
Investment Income – Investment income includes ECIDA's proportionate share of net income derived from its venture capital investments. In 2012, earnings are comprised of $3.7 million due to the sale of stock in Synacor, Inc. and $1.3 million in earnings from a business that provides airframe assembly automation equipment to the aerospace industry.

Claims Recovered on Taxes Paid – This amount represents a refund of Federal and State income taxes resulting from the 2009 restructuring of ILDC and RDC. The 2012 refunds represent the last year these amounts will be received.

Salaries and Benefits - Payroll costs decreased by $365,000 or 18% in 2012 due to the transfer of two former ECIDA employees to BUDC as discussed in "Other Income" above. Note that ECIDA was reimbursed for these costs and the related income was reported as shared services revenue.

4. Expense Analysis:

General and Administrative:
In 2012, General and Administrative expenses decreased by 9% from $703 thousand to $640 thousand. Key expense differences in 2012 include the following:



- Rent decreased by $18,000 or 100% due to the February 2011 transfer by a related entity, ATC of Buffalo Erie County, Inc. ("ATC") of the ECIDA-leased facility to ECIDA as part of the dissolution of ATC. Rent was therefore paid by ECIDA for 1 ½ months in 2011, prior to ATC's dissolution.

- Legal expenses decreased by $33,000 in 2012 due to the resolution of a litigation matter in early 2012 as well as ongoing efficiencies due to the length of the general counsel's tenure.

- Consultant expenses decreased by $24,000 or 30%. In 2011, a recruiting firm was used to assist with the hiring of two new employees. ECIDA also hired an HR consulting firm to perform a compensation study. These firms were not utilized as much in 2012.

- Marketing/public relation expenses increased by $17,000 or 30% due to one-time costs that occurred in 2012 that were related to an industrial development agency awareness campaign that published advertisements in a local business journal. These costs were not incurred in 2011.

Provision for Uncollectible Loans – Provision for uncollectible loans represents the impact of additional reserves set up to reflect losses expected from various notes receivable. The underlying assets are reviewed quarterly by an internal committee and yearly by a Board Committee and adjustments to the reserves are made accordingly.

Depreciation – Depreciation expense for 2012 and 2011 was $99,000 and $97,000, respectively. The expense remained static as no significant purchases or disposals were made in 2012.

Net Special Project Grants – Net Special Project Grants decreased from $31,000 in net income in 2011 to a $942,000 net loss in 2012 due to the funding of the Grow Erie County Fund in conjunction with the National Development Council in the amount of $940,000.

5. Budget Analysis:

Each year, ECIDA prepares a budget for ECIDA and its affiliated organizations (RDC and ILDC). Since ECIDA does not control its affiliated organizations, separate unconsolidated budgets are prepared for each entity. ECIDA's unconsolidated budget was presented and approved by the Board of Directors on October 17, 2011. The following table (Table 4) presents an analysis of ECIDA's performance compared to the approved 2012 budget.

Table 4
Budget to Actual Analysis for the year ended December 31, 2012
(Amounts in thousands)

	Actual	Budget	$ Change	% Change
Revenue:				
Administrative fees	$ 1,050	$ 1,850	$ (800)	-43%
Investment Income	4,969	498	4,471	898%
Affiliate management fees	251	276	(25)	-9%
Other income	213	168	45	27%
Total revenue	6,483	2,792	3,691	132%
Expenses:				
Salaries and benefits	1,614	1,768	(154)	-9%
General and administrative	640	619	21	3%
Provision for uncollectible loans	-	25	(25)	-100%
Depreciation and other	146	139	7	5%
Total expenses	2,400	2,551	(151)	-6%
Operating income before special project grants	4,083	241	3,842	1594%
Claims received on taxes paid	831	62	769	1240%
Net special project grants	(942)	(623)	(319)	51%
Interest income	11	22	(11)	-50%
Change in net position	$ 3,983	$ (298)	$ 4,281	-1437%

Note: The original budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, ECIDA exceeded its budgeted increase in net position (net income) for 2012 by $4.3 million. Administrative fees revenue was 43% below the budgeted amount due to less tax-incentive projects approved and closed than anticipated. Affiliate management fees were consistent with budget with only 9% variance. Salaries and benefits were $154,000 less than the budgeted amount due to one less FTE during 2012 as well as a change in the vacation policy which reduced the outstanding liability. General and administrative expenses and depreciation were consistent with budget. The provision for uncollectible loans was lower than budget due to no changes in the loan fund reserves as ECIDA's loan portfolio continues to be wound down. Investment income was higher than budgeted due to better than expected financial performance of the underlying venture capital investments, including the sale of a venture investment that was not anticipated. Net special project grants had a negative variance due to the funding of the Grow Erie County Fund in conjunction with the National Development Council in the amount of $940,000.

6. Economic Factors Impacting ECIDA:

ECIDA relies extensively upon administrative fees to generate the majority of its annual revenue. As a result of current uncertain economic conditions and potential legislative/board actions, ECIDA's ability to generate the administrative fees necessary to support operations may be limited in the future.

7. Requests for Information:

This financial report is designed to provide a general overview of ECIDA's finances. Questions concerning any of the financial information provided in this report should be addressed to the Controller of ECIDA at (716) 856-6525. General information relating to ECIDA can be found at its website, www.ecidany.com.

Balance Sheets

December 31,		2012		2011
Assets				
Current assets:				
Cash	$	12,307,902	$	6,460,526
Receivables				
Current portion of conduit loans (Note 3)		150,747		130,922
Current portion of loans (Note 4)		70,596		129,267
Affiliates (Note 9)		201,974		217,820
Special project grants (Note 5)		568,244		1,405,245
Other		402,398		536,151
Prepaid expenses		10,765		40,922
		13,712,626		8,920,853
Noncurrent assets:				
Conduit loans receivable (Note 3)		363,838		513,316
Loans receivable, net of allowance of $170,000 (Note 4)		261,074		408,044
Capital assets, net (Note 7)		1,728,520		1,797,973
Other assets (Note 8)		6,368,818		7,211,342
Restricted cash (Note 6)		4,307,988		2,749,154
		13,030,238		12,679,829
	$	26,742,864	$	21,600,682
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	472,475	$	341,027
Accrued expenses		176,909		291,792
Current portion of conduit debt (Note 4)		113,565		94,800
Unearned revenue from special project grants (Note 3)		263,157		543,131
		1,026,106		1,270,750
Noncurrent liabilities:				
Conduit debt (Note 4)		311,083		424,648
Loan participation agreements		150,000		150,000
Funds held on behalf of others (Note 6)		4,131,432		2,613,892
		4,592,515		3,188,540
Net position:				
Net investment in capital assets		1,728,520		1,797,973
Restricted		12,313,316		11,375,246
Unrestricted		7,082,407		3,968,173
		21,124,243		17,141,392
	$	26,742,864	$	21,600,682

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2012	2011
Operating revenues:		
Administrative fees	$ 1,049,627	$ 1,643,908
Gain on sale of investments	3,658,166	-
Investment income	1,311,283	831,607
Affiliate management fees	250,859	299,069
Rental income	31,932	50,540
Interest income	33,121	21,302
Other	147,809	608,920
Total operating revenues	6,482,797	3,455,346
Operating expenses:		
Salaries and benefits	1,614,312	1,978,945
General and administrative	640,275	702,893
Provision for uncollectible loans	-	112,500
Depreciation	98,747	96,587
Other	46,883	52,158
Total operating expenses	2,400,217	2,943,083
Operating income before special project grants	4,082,580	512,263
Special project grants:		
Revenue	516,116	1,766,721
Expenses	(1,458,487)	(1,735,967)
	(942,371)	30,754
Operating income	3,140,209	543,017
Nonoperating revenues:		
Claims received on taxes paid as unrelated business income	831,280	1,416,359
Interest income	11,362	7,410
Total nonoperating revenues	842,642	1,423,769
Capital contributions (Note 7)	-	1,736,803
Change in net position	3,982,851	3,703,589
Net position - beginning	17,141,392	13,437,803
Net position - ending	$ 21,124,243	$ 17,141,392

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2012	2011
Operating activities:		
Cash received from fees and rental income	$ 1,081,559	$ 1,880,651
Cash received from special project grants	1,073,143	1,243,801
Sale of investments	4,078,167	-
Distributions on equity investment	1,733,806	319,844
Loans and loan interest collected	368,415	398,314
Cash received from other sources	548,267	368,062
Payments on conduit loans	(94,800)	(160,126)
Payments to employees, suppliers, and other	(2,192,841)	(2,892,951)
Payments for special project grants	(1,458,487)	(1,895,450)
Net operating activities	5,137,229	(737,855)
Capital and related financing activities:		
Purchases of equipment	(29,294)	(193,953)
Cash contribution from affiliate	-	456,729
Net capital and related financing activities	(29,294)	262,776
Investing activities:		
Claims received on taxes paid as unrelated business income	769,373	369,479
Cash payments used from restricted cash	(41,294)	(43,473)
Interest income	11,362	7,410
Net investing activities	739,441	333,416
Net change in cash	5,847,376	(141,663)
Cash - beginning	6,460,526	6,602,189
Cash - ending	$ 12,307,902	$ 6,460,526
Reconciliation of operating income to net cash flows from operating activities:		
Operating income	$ 3,140,209	$ 543,017
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation	98,747	96,587
Provision for uncollectible loans	-	112,500
Changes in other assets and liabilities:		
Receivables	1,321,894	(499,632)
Prepaid expenses	30,157	19,751
Other assets	842,524	(511,763)
Accounts payable	131,448	(195,043)
Accrued expenses	(52,976)	16,337
Conduit debt	(94,800)	(160,126)
Unearned revenue from special project grants	(279,974)	(159,483)
Net operating activities	$ 5,137,229	$ (737,855)

See accompanying notes.

1. Summary of Significant Accounting Policies

Nature of Organization:

Erie County Industrial Development Agency (ECIDA) was created in 1970 by an act of the Legislature of the State of New York (the State) for the purpose of encouraging financially sound companies to establish themselves and prosper in Erie County (the County).

ECIDA has related party relationships with Buffalo and Erie County Industrial Land Development Corporation (ILDC) and Buffalo and Erie County Regional Development Corporation (RDC). All three entities are managed by the same personnel. These entities share the same business objective which is the stimulation of the local economy through the funding of ventures which ultimately result in job creation, retention and/or investment in the County.

Basis of Presentation:

The financial statements of ECIDA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. ECIDA applies all GASB pronouncements as well as applicable accounting and financial reporting guidance of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Financial Reporting Entity:

In evaluating how to define ECIDA for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in ECIDA's reporting entity is based on several criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and 61, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no additional entities included in ECIDA's financial statements.

Measurement Focus:

ECIDA reports as a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. ECIDA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

ECIDA's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for services and payments made to purchase those goods or services. Certain other transactions are reported as nonoperating activities and include interest income and claims received on taxes paid as unrelated business income.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash:

Investment policies are governed by State laws and as established in ECIDA's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Management is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. At December 31, 2012, ECIDA's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institutions' trust departments or agents in ECIDA's name.

Loans Receivable:

Loans receivable are stated at the principal amount outstanding, net of an allowance for uncollectible loans. The allowance method is used to compute the provision for uncollectible loans.

Determination of the balance of the allowance for uncollectible loans is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses. Loans are written off when, in management's judgment, no legal recourse is available to collect the amount owed.

Interest on loans receivable is accrued as required by the terms of the agreement; management considers that collection is probable based on the current economic condition of the borrower. Interest accrual stops when management adjusts a loan reserve to 50% or more of the loan's outstanding balance.

Capital Assets:

Operating:
Capital assets are recorded at cost. Depreciation is provided over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds to determine which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization policy	Estimated Useful life
Buildings and improvements	$ 1,000	5-40 years
Furniture and equipment	$ 1,000	3-10 years

Rental Property:
In 1989, ECIDA developed a public warehouse and trans-shipment facility (the Port Terminal Facility) at the Gateway Metroport facility in the City of Lackawanna. The Port Terminal Facility provides enclosed storage facilities and materials handling services for the trans-shipment of goods by water, rail and truck. The facility is owned by ECIDA and is operated by Gateway Trade Center, Inc. Rental property is recorded at cost which includes all costs incurred during the development stage, net of accumulated depreciation. Rental property assets subject to depreciation are fully depreciated.

Other Assets:

Other assets include venture capital investments made by ECIDA in order to spur local economic growth. The Urban Development Action Grant (UDAG) Account includes an investment in a limited liability corporation which ECIDA accounts for using the equity method.

The General Account includes other venture capital investments that do not have a readily determinable fair market value and are therefore recorded at cost.

Net Position:

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws.

- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use by ECIDA.

Stock Options:

In connection with certain loans, ECIDA has received, at no cost, stock purchase options from the borrowers. The borrower is sometimes given the right to repurchase these options from ECIDA at a predetermined price. ECIDA also receives rights to convert certain loans to equity of the borrower.

Tax-Incentive Transactions:

ECIDA maintains an economic development incentive program to provide sales, property and/or mortgage recording tax benefits for qualified construction, renovation or expansion projects or other economic development activities within Erie County. Under this program, ECIDA may take title to or a leasehold interest in the real and/or personal property involved in the project for the term of the incentive period. ECIDA simultaneously leases the property under a lease agreement to the company undertaking the project (lessee). ECIDA receives administrative fees from the lessee for providing these tax incentives which are recognized according to the terms of the fee agreement. The original value of the property leased by ECIDA under this program aggregated $124,048,000 and $866,387,000 in 2012 and 2011, respectively.

Tax-Exempt Bond Transactions:

ECIDA is an issuer of tax-exempt bond financing for qualified manufacturers and low-income housing projects. These bonds are obligations of the borrower. Since ECIDA has no obligation to repay the principal and interest of such bonds, they are not reflected as liabilities in the accompanying financial statements. ECIDA receives bond issuance fees from the borrower for providing this service. ECIDA also has a shared services agreement with ILDC under which administrative and staffing services are provided to ILDC in connection with its bond issuances in exchange for the related bond issuance fees received by the ILDC. Such fees totaled $105,250 and $71,250, respectively for the years ended December 31, 2012 and 2011. Bond issuance fees are recognized immediately upon issuance of the related bond. The original value of tax-exempt bonds issued by ECIDA aggregated $209,540,000 in 2012. No bonds were issued during 2011.

Grants:

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures. ECIDA receives special project grants from the Federal Economic Development Administration (EDA), the County, and various State departments, including the Department of Transportation (DOT), Empire State Development Corporation (ESDC), and Department of Environmental Conservation (DEC). ECIDA also acts as a pass-through entity for certain companies who receive funding from DOT and ESDC. In certain cases, funding is received in the form of a combination of a grant and a loan. One year after completion of the specified program and State approval and acceptance, companies begin repaying the loan. A long-term liability and repayment plan receivable are established as the companies receiving the funding from the State are contractually obligated to repay ECIDA for its debt service requirements to the State. The payment terms of the conduit receivables are equivalent to the terms of ECIDA's loans to the State.

2. Change in Accounting Principle

In 2012, ECIDA adopted GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities.* These statements require reporting of deferred outflows and inflows of resources separately from assets and liabilities and replace net assets with net position. In addition, certain items previously reported as assets and liabilities are now recognized as outflows or inflows of resources. Other than renaming net assets with net position, these statements had no impact on ECIDA's financial position or results of operations. Separately, operating revenues and expenses have been aligned to more appropriately reflect the nature of ECIDA's operations.

3. Conduit Receivables and Conduit Debt

ECIDA serves as a pass-through entity to provide local businesses with State sources of funding. For disbursements through DOT, the local business is required to repay 40% of the amount to ECIDA, who in turn must repay DOT. A summary of these transactions is as follows:

- *Sonwil Distribution Center* – DOT disbursed $445,663 to ECIDA for use in the construction of 1,900 linear feet of rail siding at a Sonwil warehouse and distribution facility. Terms require five annual payments commencing one year from the date the completed project is accepted by DOT; no interest is payable on the loan.
- *Sonwil Distribution Center (ESDC)* – ESDC loaned $240,000 to ECIDA for use in infrastructure development for a warehouse for Sonwil Distribution Center, Inc. The loan bears interest at 3% per year and is payable in monthly principal and interest installments of $1,331 through 2014.
- *General Mills* – DOT disbursed $1,185,000 to ECIDA for use in the reconstruction of 1,100 linear feet of rail siding at the General Mills Cereal Facility. Terms require five annual payments commencing one year from the date the completed project is accepted by DOT; no interest is payable on the loan.
- *TSV, Inc. (Servotronics)* – ESDC loaned $351,600 to ECIDA for use in the construction of a manufacturing facility for Servotronics. The loan bears interest at 3% per year and is payable in monthly principal and interest installments of $1,950 through 2015.

		2012		2011
Conduit receivable:				
Sonwil Distribution Center	**$**	**187,648**	$	187,648
Sonwil Distribution (ESDC)		**24,668**		38,424
General Mills		**237,000**		331,800
TSV, Inc. (Servotronics)		**65,269**		86,366
		514,585		644,238
Less current portion		**150,747**		130,922
	$	**363,838**	$	513,316
Conduit debt:				
Sonwil Distribution Center	**$**	**187,648**	$	187,648
General Mills		**237,000**		331,800
		424,648		519,448
Less current portion		**113,565**		94,800
	$	**311,083**	$	424,648

Aggregate maturities on conduit receivables and debt subsequent to December 31, 2012 are:

		Receivable		**Debt**
2013	$	150,747	$	113,565
2014		210,693		179,730
2015		59,322		37,530
2016		37,530		37,530
2017		56,293		56,293
	$	514,585	$	424,648

No interest payments are due as the loans are noninterest-bearing.

4. Loans Receivable:

Loans are made to local businesses to complement private financing at interest rates ranging from 4% to 18% with varying repayment terms. All loans are classified as commercial loans. The following is a summary of the loans receivable:

		2012		2011
Current	**$**	**181,670**	$	387,311
30-90 days past due		**-**		-
Non-accrual		**320,000**		320,000
		501,670		707,311
Less current portion		**70,596**		129,267
		431,074		578,044
Less allowance		**170,000**		170,000
	$	**261,074**	$	408,044

Following is a summary of the activity in the allowance for uncollectible loans:

		2012		2011
Balance, beginning of year	**$**	**170,000**	$	465,301
Additions charged to operations		**-**		112,500
Write-offs		**-**		(407,801)
	$	**170,000**	$	170,000

5. Special Project Grants

ECIDA's responsibilities relating to special project grants are to provide services in accordance with the grant requirements and to contract with external parties for services. Certain transactions as well as interest earnings on grant funds create project revenue which can only be used to pay for qualified project costs. A summary of special project grants is as follows:

- *DOT – Sonwil* – Funding represents a grant awarded by DOT to construct a rail siding to provide access to the new Sonwil warehouse and distributions facility.
- *DOT – Buffalo Southern* – Funding represents a grant awarded by DOT to rehabilitate the track and structure of the Buffalo Southern Railroad mail line.
- *EDA – JumpStart New York Project* – Funding represents a grant from U.S. Department of Commerce, Economic Development Administration (EDA) to partially fund projects to transform entrepreneurship in upstate New York into a significant engine for regional economic growth adapting the successful Northeast Ohio JumpStart, Inc. model.
- *ESDC – Trade Mission* – Funding represents a grant from ESDC to assist companies market their products at various international trade shows to enhance their ability to compete internationally.
- *National Grid – Exports to Canada* – Funding represents a grant from National Grid to assist ECIDA in their Exports to Canada program, which helps local businesses increase their level of exports across the border.

	2012	2011
Receivable:		
DOT - Sonwil	**$ 214,337**	$ 214,337
DOT - Buffalo Southern	**443**	715,654
EDA - JumpStart New York Project	**208,022**	335,241
ESDC - Trade Mission	**140,013**	140,013
National Grid - Exports to Canada	**5,429**	-
	$ 568,244	$ 1,405,245
Unearned Revenue:		
DOT - Sonwil	**$ 190,881**	$ 190,881
DOT - Buffalo Southern	**77**	5,096
EDA - JumpStart New York Project	**72,199**	347,154
	$ 263,157	$ 543,131

6. Funds Held on Behalf of Others:

ECIDA acts as a fiduciary for certain cash held for various development activities. ECIDA disburses these funds when given the appropriate authorization. The following is a summary of these assets:

	2012	2011
Erie County Regional Redevelopment Fund	**$ 2,596,209**	$ 2,278,688
Buffalo Brownfields Redevelopment Fund	**1,420,767**	242,486
Regionally Significant Project Funds:		
Buffalo Economic Renaissance Corporation	**62,581**	48,674
Buffalo Urban Development Corporation	**46,259**	25,428
Erie Niagara Regional Partnership	**5,616**	18,616
	$ 4,131,432	$ 2,613,892

Restricted cash also includes $176,556 and $135,262 as of December 31, 2012 and 2011, respectively for the Railway Trust Fund, for activities related to two Erie County shortline railroads.

7. Capital Assets:

	Balance January 1, 2012	Increases	Retirements/ Reclassifications	Balance December 31, 2012
Non-depreciable capital assets:				
Land	$ 167,400	$ -	$ -	$ 167,400
Depreciable capital assets:				
Land improvements	838,510	-	-	838,510
Buildings	2,721,407	850	-	2,722,257
Furniture and equipment	400,965	28,444	(55,547)	373,862
Total depreciable assets	3,960,882	29,294	(55,547)	3,934,629
Less accumulated depreciation:				
Land improvements	368,182	27,699	-	395,881
Buildings	1,669,698	34,889	-	1,704,587
Furniture and equipment	292,429	36,159	(55,547)	273,041
Total accumulated depreciation	2,330,309	98,747	(55,547)	2,373,509
Total depreciable assets, net	1,630,573	(69,453)	-	1,561,120
	$ 1,797,973	**$ (69,453)**	**$ -**	**$ 1,728,520**

	Balance January 1, 2011	Increases	Retirements/ Reclassifications	Balance December 31, 2011
Non-depreciable capital assets:				
Land	$ 144,000	$ -	$ 23,400	$ 167,400
Depreciable capital assets:				
Land improvements	2,550	-	835,960	838,510
Buildings	1,383,424	169,364	1,168,619	2,721,407
Furniture and equipment	35,494	24,286	341,185	400,965
Total depreciable assets	1,421,468	193,650	2,345,764	3,960,882
Less accumulated depreciation:				
Land improvements	2,550	24,132	341,500	368,182
Buildings	1,383,424	31,099	255,175	1,669,698
Furniture and equipment	30,191	41,356	220,882	292,429
Total accumulated depreciation	1,416,165	96,587	817,557	2,330,309
Total depreciable assets, net	5,303	97,063	1,528,207	1,630,573
	$ 149,303	**$ 97,063**	**$ 1,551,607**	**$ 1,797,973**

Effective February 16, 2011, ATC of Buffalo and Erie County, Inc. (ATC) dissolved and transferred its assets and liabilities to ECIDA. ECIDA received $1,736,803 of cash and capital assets, net of various liabilities.

8. Other Assets:

ECIDA owns 25 membership units in a limited liability corporation (the LLC), originally purchased for $500,000 for a one-third ownership interest. ECIDA has declined a seat on the Board of Managers and does not participate in the operations or management decisions. During 2012, employees of the LLC exercised membership options resulting in the dilution of ECIDA's interest from 33.33% to 28.57%. ECIDA's ownership interest at December 31, 2012 and 2011 in the LLC is summarized in the following schedule:

	2012	2011
Balance, beginning of year	**$ 6,074,764**	$ 5,484,664
Earnings	**2,170,273**	831,607
Distributions	**(1,733,806)**	(241,507)
Dilution loss	**(858,990)**	-
	$ 5,652,241	$ 6,074,764

ECIDA also owns investments in other local businesses that do not have readily determinable fair market values. As such, the lower of cost or market value is $716,577 and $1,136,578 at December 31, 2012 and 2011. During 2012, one of these companies filed with the Securities and Exchange Commission and became publicly traded. As part of the initial public offering, ECIDA sold all shares of its stock with a cost basis of $420,001 during 2012 for $4,069,996, net of transaction fees of $8,171.

9. Related-Party Transactions

Affiliate Management Fees:

ECIDA allocates a portion of personnel and rental costs to its affiliates, RDC and ILDC. ECIDA earned $250,859 and $299,069 in affiliate management fees for the years ended December 31, 2012 and 2011. Management fees and related receivables by affiliate are as follows:

	Management Fees		Receivables	
	2012	2011	2012	2011
RDC	**$ 248,838**	$ 295,272	**$ 199,693**	$ 208,633
ILDC	**2,021**	3,797	**2,281**	9,187
	$ 250,859	$ 299,069	**$ 201,974**	$ 217,820

10. Pension

ECIDA maintains a defined contribution simplified employee pension (SEP) plan covering all of its employees. Employees are eligible to participate upon employment, with employer contributions vesting immediately. During 2012 and 2011 ECIDA made discretionary contributions of 7% of eligible employees' salaries. ECIDA's expense for contributing to the plan for the years ending December 31, 2012 and 2011 amounted to $82,812 and $104,045, respectively. Employees are also permitted to participate in the New York State Deferred Compensation Plan but ECIDA does not make contributions to this plan.

11. Risk Management

ECIDA purchases commercial insurance for various risks of loss due to torts, theft, damage, injuries to employees, and natural disasters in addition to insurance purchased to indemnify directors and officers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

12. Commitments and Contingencies

Grants:

ECIDA receives financial assistance from federal, state, and local agencies in the form of grants and fiduciary agreements. Managing these funds generally requires compliance with the terms and conditions specified in the agreements and may be subject to audit by the grantor agencies. Disallowed claims resulting from such audits could become a liability of ECIDA. Based on prior experience, management expects any such amounts to be immaterial.

Litigation

ECIDA is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of ECIDA.

Supplementary Information
Schedule of Balance Sheets

December 31, 2012

	General Account	UDAG Account	Total
Assets			
Current assets:			
Cash	$ 6,229,628	$ 6,078,274	$ 12,307,902
Receivables			
Current portion of conduit loans	150,747	-	150,747
Current portion of loans	-	70,596	70,596
Affiliates	201,974	-	201,974
Special project grants	568,244	-	568,244
Other	402,398	-	402,398
Prepaid expenses	10,765	-	10,765
	7,563,756	6,148,870	13,712,626
Noncurrent assets:			
Conduit loans receivable	363,838	-	363,838
Loans receivable, net of allowance of $170,000	-	261,074	261,074
Capital assets, net	1,728,520	-	1,728,520
Other assets	144,389	6,224,429	6,368,818
Restricted cash	4,307,988	-	4,307,988
	6,544,735	6,485,503	13,030,238
	$ 14,108,491	$ 12,634,373	$ 26,742,864
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$ 301,418	$ 171,057	$ 472,475
Accrued expenses	176,909	-	176,909
Current portion of conduit debt	113,565	-	113,565
Unearned revenue from special project grants	263,157	-	263,157
	855,049	171,057	1,026,106
Noncurrent liabilities:			
Conduit debt	311,083	-	311,083
Loan participation agreements	-	150,000	150,000
Funds held on behalf of others	4,131,432	-	4,131,432
	4,442,515	150,000	4,592,515
Net position:			
Net investment in capital assets	1,728,520	-	1,728,520
Restricted	-	12,313,316	12,313,316
Unrestricted	7,082,407	-	7,082,407
	8,810,927	12,313,316	21,124,243
	$ 14,108,491	$ 12,634,373	$ 26,742,864

Supplementary Information
Schedule of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2012

	General Account	UDAG Account	Total
Operating revenues:			
Administrative fees	$ 1,049,627	$ -	$ 1,049,627
Gain on sale of investments	3,658,166	-	3,658,166
Investment income	-	1,311,283	1,311,283
Affiliate management fees	250,859	-	250,859
Rental income	31,932	-	31,932
Interest income	-	33,121	33,121
Other income	147,809	-	147,809
Total operating revenues	5,138,393	1,344,404	6,482,797
Operating expenses:			
Salaries and benefits	1,614,312	-	1,614,312
General and administrative	554,418	85,857	640,275
Depreciation	98,747	-	98,747
Other	46,883	-	46,883
Total operating expenses	2,314,360	85,857	2,400,217
Operating income before special project grants	2,824,033	1,258,547	4,082,580
Special project grants:			
Revenue	516,116	-	516,116
Expenses	(306,730)	(1,151,757)	(1,458,487)
	209,386	(1,151,757)	(942,371)
Operating income	3,033,419	106,790	3,140,209
Nonoperating revenues:			
Refund of taxes	-	831,280	831,280
Interest income	11,362	-	11,362
Total nonoperating revenues	11,362	831,280	842,642
Change in net position	3,044,781	938,070	3,982,851
Net position - beginning	5,766,146	11,375,246	17,141,392
Net position - ending	$ 8,810,927	$ 12,313,316	$ 21,124,243

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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*

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Erie County Industrial Development Agency

We have audited, 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, the financial statements of Erie County Industrial Development Agency (ECIDA), which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ECIDA'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 ECIDA's internal control. Accordingly, we do not express an opinion on the effectiveness of ECIDA'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 entity'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 ECIDA'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 ECIDA'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

February 11, 2013

Lumsden McCormick LLP
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SECTION 2925 (3)(f) OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW

The Board of Directors
Erie County Industrial Development Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of Erie County Industrial Development Agency (ECIDA), which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated February 11, 2013.

In connection with our audit, nothing came to our attention that caused us to believe that ECIDA failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended December 31, 2012. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding ECIDA's noncompliance with the above rules and regulations.

The purpose of this report is solely to describe the scope and results of our testing. This communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

February 11, 2013