ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2013

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Erie County Industrial Development Agency

We have audited the accompanying balance sheets of Erie County Industrial Development Agency (ECIDA), a business-type activity, as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended. We have also audited ECIDA's internal control over financial reporting as of December 31, 2013, 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 and Internal Control over Financial Reporting

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 effective internal control over financial reporting relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to error or fraud. Management is also responsible 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 audits 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 financial statements 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. 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, and 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 Over Financial Reporting

An entity's 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.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ECIDA as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years 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, 2013, based on *Internal Control – Integrated Framework* issued by the COSO.

Other Matters

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.

Supplementary Information
The supplementary information on pages 16 and 17 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2014 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 24, 2014

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, 2013, 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, 2013, 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 24, 2014

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2013
(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 (the County). In accomplishing its mission, ECIDA does not receive any operational funding from Federal, State, County or local sources. Instead, 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, 2013 and 2012. 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 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 decreased by approximately 3.9% from $21.1 million in 2012 to $20.3 million in 2013.
- ECIDA experienced a decrease in net position (net loss) of $0.8 million in 2013 compared to a net profit of $4.0 million in 2012.
- Administrative fees, a key source of revenue for ECIDA, increased from $1.0 million in 2012 to $2.1 million in 2013.
- Earnings from venture capital investments decreased from $5.0 million in 2012, including a $3.7 million gain on sale of investments, to $0.7 million in 2013.
- Operating expenses increased from $2.4 million in 2012 to $2.8 million in 2013.

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, 2013 and 2012
(Amounts in thousands)

	2013	2012	$ Change	% Change
Assets:				
Cash	$ 8,954	$ 12,308	$ (3,354)	-27%
Loans receivable, net of allowance	646	846	(200)	-24%
Special project grants receivable	163	568	(405)	-71%
Capital assets, net	1,933	1,729	204	12%
Restricted cash	4,725	4,308	417	10%
Other assets	9,274	6,984	2,290	33%
Total assets	$ 25,695	$ 26,743	$ (1,048)	-4%
Liabilities:				
Current liabilities	$ 533	$ 1,026	$ (493)	-48%
Funds held on behalf of others	4,539	4,132	407	10%
Other long-term liabilities	366	461	(95)	-21%
Total liabilities	5,438	5,619	(181)	-3%
Net position:				
Net investment in capital assets	1,933	1,729	204	12%
Restricted	9,300	12,313	(3,013)	-24%
Unrestricted	9,024	7,082	1,942	27%
Total net position	20,257	21,124	(867)	-4%
Total liabilities and net position	$ 25,695	$ 26,743	$ (1,048)	-4%

Loans Receivable – Loans receivable represent various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program and conduit receivables. The $200,000 decrease in the loans receivable balance is due to loan repayments received during 2013.

Special Project Grants Receivable – Special project grants receivable represent Brownfield or infrastructure grants awarded to ECIDA by New York State, the County, and other sources, which have not been fully drawn down. The decrease in special grants receivable of $405,000 is due to $208,000 in grant draws received from the JumpStart Western & Central New York project and $191,000 was offset along with the associated unearned revenue as the grant award was not fully used.

Restricted Cash (Funds held on behalf of others) – Restricted cash consists primarily of funds held on behalf of others including the Buffalo Brownfields Redevelopment fund, Regional Redevelopment fund, and the Regionally Significant Project funds. The $417,000 or 10% increase from 2012 is primarily due to an increase of $322,000 in the Regional Redevelopment fund due to the ongoing receipts into the fund.

Other Assets – Other assets include ECIDA's venture capital investments, affiliate receivables, prepaid expenses and other receivables. The increase in other assets of $2,290,000 is primarily caused by receivables due from Erie County associated with the Bethlehem Steel rail relocation project and slight increases in affiliate receivables and prepaid expenses.

Current Liabilities – The $493,000 decrease in current liabilities is due to a $263,000 decrease in unearned revenue on special project grants related to grant expenditures for the JumpStart and Sonwil projects, and a decrease of $228,000 in accounts payable.

Other Long-Term Liabilities – Other long-term liabilities primarily consist of conduit debt and decreased due to payments made in 2013.

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, 2013 and 2012
(Amounts in thousands)

	2013	2012	$ Change	% Change
Revenue:				
Administrative fees	$ 2,134	$ 1,050	$ 1,084	103%
Investment income	681	4,969	(4,288)	497%
Affiliate management fees	322	251	71	28%
Other income	213	213	-	0%
Total revenue	3,350	6,483	(3,133)	-48%
Expenses:				
Salaries and benefits	1,709	1,614	95	6%
General and administrative	918	640	278	43%
Depreciation and other	186	146	40	27%
Total expenses	2,813	2,400	413	17%
Operating income before special project grants	537	4,083	(3,546)	-87%
Special grants and nonoperating revenue:				
Net special project grants	(1,417)	(942)	(475)	50%
Claims received on taxes paid	-	831	(831)	-100%
Interest income	13	11	2	18%
Change in net position	$ (867)	$ 3,983	$ (4,850)	-122%

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 increased by $1,084,000 or 103% in 2013. This increase was primarily due to the increase in the number of tax-exempt projects as well as stronger local economic conditions. In 2013, twenty-five tax incentive projects were approved including Coventus Inc., Harbor Development Corporation, Tishman and Welded Tube. In 2012, twenty-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 2013 with comparisons for 2012:

Table 3
Affiliate Management Fees for the Years ended December 31, 2013 and 2012
(Amounts in thousands)

	2013	2012	$ Change	% Change
Affiliate Management Fees Charged:				
RDC	$ 320	$ 249	$ 71	29%
ILDC	2	2	-	0%
Total Affiliate Management Fees	$ 322	$ 251	$ 71	28%

Affiliate management fees charged to RDC increased due to additional personnel costs from the addition of an Assistant Loan Manager.

Other Income – Other income is comprised of shared services revenue, international division revenues and miscellaneous income.

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 from the sale of stock in Synacor, Inc. and $1.3 million in earnings from an aerospace business investment. In 2013, the $0.7 million is primarily due to earnings associated with the aerospace business investment.

Claims Recovered on Taxes Paid – This amount represents a refund of Federal and State income taxes resulting from the 2009 restructuring of ILDC and Buffalo Niagara Regional Development Corporation. The 2012 refunds represent the final amounts received.

Salaries and Benefits – Payroll costs increased by $95,000 in 2013 due to the addition of a new Assistant Loan Manager. Note that this position is offset by the Agency's Affiliate Management Fee income.

4. Expense Analysis:

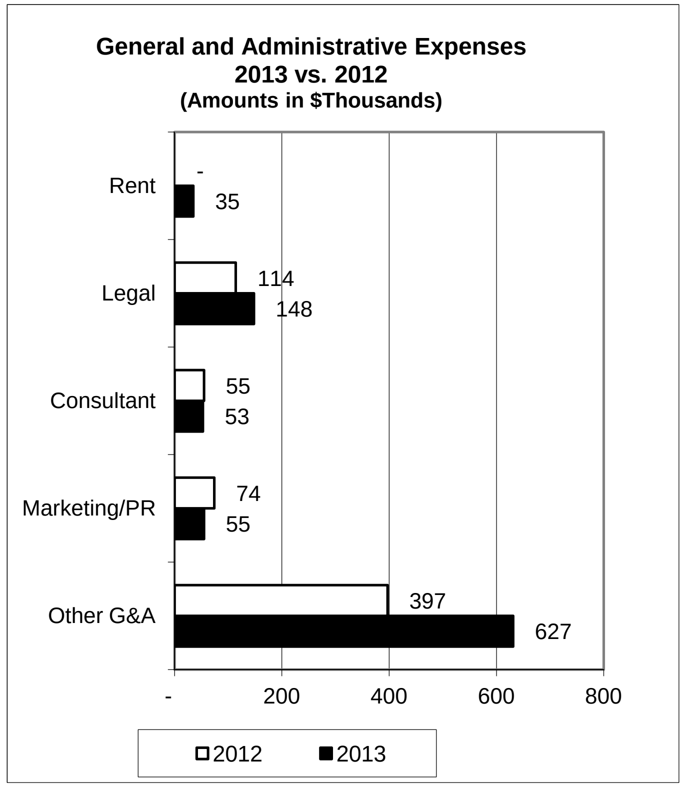
General and Administrative – In 2013, General and Administrative expenses increased by 43% from $640,000 to $918,000. Key expense differences in 2013 include the following:

- Rent expense increased by $35,000 in 2013 due to the move to 95 Perry Street from the facility at 143 Genesee Street. ECIDA owned the facility on Genesee Street, but is now subleasing office space from the Empire State Development Corporation at Perry Street.

- Legal expenses increased by $34,000 due to legal work related to transferring ECIDA's projects from a fee-interest to a lease-interest structure. The transfer was completed to reduce ECIDA's litigation exposure.

- Insurance expenses increased $147,000 from 2012 to 2013 due to a change in carriers after a previous carrier cancelled ECIDA's policy due to a claim. Due to the complexity of ECIDA's business, the new carrier increased the premium in 2013.

- Membership expense increased $40,000 due to a new economic development partnership with the National Development Council (NDC). ECIDA contributed funds to NDC to develop a loan program that specifically benefits the County's "Grow Erie Fund." As part of this loan program, ECIDA purchased NDC services including technical and training services.



Depreciation – Depreciation expense for 2013 and 2012 was $128,000 and $99,000, respectively. The expense increased due to significant leasehold improvements made in 2013 related to the new office location.

Net Special Project Grants – Net Special Project Grants decreased from a $942,000 net loss in 2012 to a $1,417,000 net loss in 2013 due to the funding of several strategic initiatives including $1.0 million in forgivable attraction loans, $300,000 to the Polymer Conversions Project and $150,000 to fund a Governmental Technical Assistance Center.

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 15, 2012. The following table (Table 4) presents an analysis of ECIDA's performance compared to the approved 2013 budget.

Table 4
Budget to Actual Analysis for the year ended December 31, 2013
(Amounts in thousands)

	Actual	Budget	$ Change	% Change
Revenue:				
Administrative fees	$ 2,134	$ 1,500	$ 634	42%
Investment income	681	686	(5)	-1%
Affiliate management fees	322	380	(58)	-15%
Other income	213	117	96	82%
Total revenue	3,350	2,683	667	25%
Expenses:				
Salaries and benefits	1,709	1,761	(52)	-3%
General and administrative	918	826	92	11%
Provision for uncollectible loans	-	25	(25)	-100%
Depreciation and other	186	165	21	13%
Total expenses	2,813	2,777	36	1%
Operating income before special project grants	537	(94)	631	-671%
Net special project grants	(1,417)	(2,200)	783	100%
Interest income	13	28	(15)	-54%
Change in net position	$ (867)	$ (2,266)	$ 1,399	-62%

Budget to Actual Analysis:

Overall, ECIDA exceeded its budgeted increase in net position (net income) for 2013 by $1.4 million. Administrative fees revenue was 42% above the budgeted amount due to more tax-incentive projects approved and closed than anticipated. Salaries and benefits were $52,000 less than the budgeted amount due to a decrease in ECIDA's accrued leave liability for the year. General and administrative expenses and depreciation were relatively 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 consistent with budget. Net special project grants had a positive variance of $783,000 as the Venture Capital Investment program was not funded in 2013.

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,	2013	2012
Assets		
Current assets:		
Cash	$ 8,954,287	$ 12,307,902
Receivables		
Current portion of conduit loans (Note 2)	143,882	150,747
Current portion of loans (Note 3)	53,629	70,596
Affiliates (Note 9)	293,981	201,974
Special project grants (Note 5)	163,469	568,244
Other (Note 4)	3,087,047	402,398
Prepaid expenses	27,568	10,765
	12,723,863	13,712,626
Noncurrent assets:		
Conduit loans receivable (Note 2)	237,413	363,838
Loans receivable, net (Note 3)	211,561	261,074
Capital assets, net (Note 7)	1,932,835	1,728,520
Other assets (Note 8)	5,864,605	6,368,818
Restricted cash (Note 6)	4,724,479	4,307,988
	12,970,893	13,030,238
	$ 25,694,756	$ 26,742,864
Liabilities and Net Position		
Current liabilities:		
Accounts payable	$ 244,001	$ 472,475
Accrued expenses	175,060	176,909
Current portion of conduit debt (Note 3)	113,565	113,565
Unearned revenue from special project grants (Note 5)	-	263,157
	532,626	1,026,106
Noncurrent liabilities:		
Conduit debt (Note 2)	216,283	311,083
Loan participation agreements (Note 3)	150,000	150,000
Funds held on behalf of others (Note 6)	4,538,783	4,131,432
	4,905,066	4,592,515
Net position:		
Net investment in capital assets	1,932,835	1,728,520
Restricted	9,299,890	12,313,316
Unrestricted	9,024,339	7,082,407
	20,257,064	21,124,243
	$ 25,694,756	$ 26,742,864

See accompanying notes.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2013	2012
Operating revenues:		
Administrative fees	$ 2,133,704	$ 1,049,627
Gain on sale of investments	-	3,658,166
Investment income	681,084	1,311,283
Affiliate management fees	322,352	250,859
Rental income	77,745	31,932
Interest	21,190	33,121
Other	113,738	147,809
Total operating revenues	3,349,813	6,482,797
Operating expenses:		
Salaries and benefits	1,708,898	1,614,312
General and administrative	918,305	640,275
Depreciation	127,975	98,747
Other	58,389	46,883
Total operating expenses	2,813,567	2,400,217
Operating income before special project grants	536,246	4,082,580
Special project grants:		
Revenue	4,378,503	516,116
Expenses	(5,795,309)	(1,458,487)
	(1,416,806)	(942,371)
Operating income (loss)	(880,560)	3,140,209
Nonoperating revenues:		
Claims received on taxes paid as unrelated business income	-	831,280
Interest	13,381	11,362
Total nonoperating revenues	13,381	842,642
Change in net position	(867,179)	3,982,851
Net position - beginning	21,124,243	17,141,392
Net position - ending	$ 20,257,064	$ 21,124,243

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2013	2012
Operating activities:		
Cash from fees and rental income	$ 2,211,449	$ 1,081,559
Cash from special project grants	4,329,240	1,073,143
Sale of investments	-	4,078,167
Distributions on equity investment	1,185,297	1,733,806
Loans and loan interest collected	220,960	368,415
Cash received from (paid to) other sources	(2,340,566)	548,267
Payments on conduit loans	(94,800)	(94,800)
Payments to employees, suppliers, and other	(2,932,643)	(2,192,841)
Payments for special project grants	(5,604,428)	(1,458,487)
Net operating activities	(3,025,491)	5,137,229
Capital and related financing activities:		
Purchases of equipment	(332,365)	(29,294)
Investing activities:		
Claims received on taxes paid as unrelated business income	-	769,373
Cash used from restricted cash	(9,140)	(41,294)
Interest	13,381	11,362
Net investing activities	4,241	739,441
Net change in cash	(3,353,615)	5,847,376
Cash - beginning	12,307,902	6,460,526
Cash - ending	$ 8,954,287	$ 12,307,902
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	$ (880,560)	$ 3,140,209
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	127,975	98,747
Loss on disposal of assets	75	-
Changes in other assets and liabilities:		
Receivables	(2,172,111)	1,321,894
Prepaid expenses	(16,803)	30,157
Other assets	504,213	842,524
Accounts payable	(228,474)	131,448
Accrued expenses	(1,849)	(52,976)
Conduit debt	(94,800)	(94,800)
Unearned revenue from special project grants	(263,157)	(279,974)
Net operating activities	$ (3,025,491)	$ 5,137,229

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 as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 accounting standards, which considers 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:

Cash management 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, ECIDA's deposits may not be returned to it. At December 31, 2013, 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:
ECIDA owns vacant property at 143 Genesee Street that was previously used as ECIDA's office space. ECIDA moved to a new building during 2013 and has not yet found a tenant for 143 Genesee Street.

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. Port Terminal Facility rental property assets 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 $589,712,000 and $124,048,000 in 2013 and 2012, 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 $237,721 and $105,250, respectively for the years ended December 31, 2013 and 2012. Bond issuance fees are recognized immediately upon issuance of the related bond. The original value of tax-exempt bonds issued by ECIDA for the years ended December 31, 2013 and 2012 aggregated $86,272,000 and $209,540,000, respectively.

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. 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.

		2013		2012
Conduit receivable:				
Sonwil Distribution Center	**$**	**187,648**	$	187,648
Sonwil Distribution (ESDC)		**7,917**		24,668
General Mills		**142,200**		237,000
TSV, Inc. (Servotronics)		**43,530**		65,269
		381,295		514,585
Less current portion		**143,882**		150,747
	$	**237,413**	$	363,838
Conduit debt:				
Sonwil Distribution Center	**$**	**187,648**	$	187,648
General Mills		**142,200**		237,000
		329,848		424,648
Less current portion		**113,565**		113,565
	$	**216,283**	$	311,083

Aggregate maturities on conduit receivables and debt subsequent to December 31, 2013 are:

		Receivable		**Debt**
2014	$	143,882	$	113,565
2015		106,060		84,930
2016		37,530		37,530
2017		37,530		37,530
2018		56,293		56,293
	$	381,295	$	329,848

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

3. 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. Loans in non-accrual status are fully reserved by the allowance of $170,000 and an offsetting loan participation agreement liability of $150,000. The following is a summary of the loans receivable:

		2013		2012
Current status	**$**	**615,190**	$	181,670
30-90 days past due		**-**		-
Non-accrual		**320,000**		320,000
		935,190		501,670
Less current portion		**53,629**		70,596
		881,561		431,074
Less allowance		**670,000**		170,000
	$	**211,561**	$	261,074

Following is a summary of the activity in the allowance for uncollectible loans during the years ended December 31, 2013 and 2012:

		2013		2012
Balance, beginning of year	**$**	**170,000**	$	170,000
Additions charged to operations		**500,000**		-
	$	**670,000**	$	170,000

During 2013, ECIDA provided a $1,000,000 forgivable loan to a borrower. Half of that amount is immediately forgiven and the other $500,000 shall be forgiven in $100,000 installments from 2019 through 2023 as long as the borrower maintains minimum employment requirements as set forth in the agreement. The full $1,000,000 forgivable loan is included with special project grant expense for the year ended December 31, 2013. In addition, the portion not immediately forgiven is included in loans receivable and fully recognized in the allowance of doubtful loans.

4. Other Receivables:

ECIDA provided the initial funding for the relocation of rail lines at the former Bethlehem Steel site. In agreement with the County, ECIDA will be refunded these amounts upon the County's reimbursement from the DOT. Amounts owed to ECIDA for the project amounted to $2,941,999 and $245,000 for the years ended December 31, 2013 and 2012 and are included in other receivables.

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 with marketing 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.

	2013	2012
Receivable:		
DOT - Sonwil	**$ 23,456**	$ 214,337
DOT - Buffalo Southern	**-**	443
EDA - JumpStart New York Project	**-**	208,022
ESDC - Trade Mission	**140,013**	140,013
National Grid - Exports to Canada	**-**	5,429
	$ 163,469	$ 568,244
Unearned Revenue:		
DOT - Sonwil	**$ -**	$ 190,881
DOT - Buffalo Southern	**-**	77
EDA - JumpStart New York Project	**-**	72,199
	$ -	$ 263,157

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 funds include:

	2013	2012
Erie County Regional Redevelopment Fund	**$ 2,918,408**	$ 2,596,209
Buffalo Brownfields Redevelopment Fund	**1,495,946**	1,420,767
Regionally Significant Project Funds:		
Buffalo Economic Renaissance Corporation	**76,599**	62,581
Buffalo Urban Development Corporation	**42,214**	46,259
Erie Niagara Regional Partnership	**5,616**	5,616
	$ 4,538,783	$ 4,131,432

Restricted cash also includes $185,696 and $176,556 as of December 31, 2013 and 2012, respectively for the Railway Trust Fund, for activities related to two Erie County shortline railroads.

7. Capital Assets:

	Balance January 1, 2013	Increases	Retirements/ Reclassifications	Balance December 31, 2013
Non-depreciable capital assets:				
Land	$ 167,400	$ -	$ -	$ 167,400
Depreciable capital assets:				
Land improvements	838,510	247,913	-	1,086,423
Buildings	2,722,257	12,680	-	2,734,937
Furniture and equipment	373,862	71,772	(36,279)	409,355
Total depreciable assets	3,934,629	332,365	(36,279)	4,230,715
Less accumulated depreciation:				
Land improvements	395,881	52,490	-	448,371
Buildings	1,704,587	35,206	-	1,739,793
Furniture and equipment	273,041	40,279	(36,204)	277,116
Total accumulated depreciation	2,373,509	127,975	(36,204)	2,465,280
Total depreciable assets, net	1,561,120	204,390	(75)	1,765,435
	$ 1,728,520	**$ 204,390**	**$ (75)**	**$ 1,932,835**

	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**

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 2013 and 2012, employees of the LLC exercised membership options resulting in the dilution of ECIDA's interest from 33.33% to 25%. ECIDA's ownership interest at December 31, 2013 and 2012 in the LLC is summarized in the following schedule:

	2013	2012
Balance, beginning of year	**$ 5,652,241**	$ 6,074,764
Earnings	**1,413,461**	2,170,273
Distributions	**(1,185,297)**	(1,733,806)
Dilution loss	**(718,236)**	(858,990)
	$ 5,162,169	$ 5,652,241

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 $702,436 and $716,577 at December 31, 2013 and 2012. 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 $322,352 and $250,859 in affiliate management fees for the years ended December 31, 2013 and 2012. Management fees and related receivables by affiliate are as follows:

	Management Fees		**Receivables**	
	2013	2012	**2013**	2012
RDC	**$ 320,001**	$ 248,838	**$ 291,369**	$ 199,693
ILDC	**2,351**	2,021	**2,612**	2,281
	$ 322,352	$ 250,859	**$ 293,981**	$ 201,974

10. Operating Lease:

In July 2013, ECIDA entered into a lease for new office space. Rent expense for the year ended December 31, 2013 amounted to $35,246.

Future minimum rental payments, including flat annual utility charges, are:

2014	$ 140,985
2015	142,323
2016	146,337
2017	146,337
2018	109,753
	$ 685,735

11. 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 2013 and 2012, ECIDA made discretionary contributions of 7% of eligible employees' salaries. ECIDA's expense for contributing to the plan for the years ended December 31, 2013 and 2012 amounted to $88,964 and $82,812, respectively. Employees are also permitted to participate in the New York State Deferred Compensation Plan but ECIDA does not make contributions to this plan.

12. 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.

13. 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, 2013

	General Account	UDAG Account	Total
Assets			
Current assets:			
Cash	$ 5,500,741	$ 3,453,546	$ 8,954,287
Receivables			
Current portion of conduit loans	143,882	-	143,882
Current portion of loans	-	53,629	53,629
Affiliates	293,981	-	293,981
Special project grants	163,469	-	163,469
Other	3,087,047	-	3,087,047
Prepaid expenses	27,568	-	27,568
	9,216,688	3,507,175	12,723,863
Noncurrent assets:			
Conduit loans receivable	237,413	-	237,413
Loans receivable, net	-	211,561	211,561
Capital assets, net	1,932,835	-	1,932,835
Other assets	133,451	5,731,154	5,864,605
Restricted cash	4,724,479	-	4,724,479
	7,028,178	5,942,715	12,970,893
	$ 16,244,866	$ 9,449,890	$ 25,694,756
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$ 244,001	$ -	$ 244,001
Accrued expenses	175,060	-	175,060
Current portion of conduit debt	113,565	-	113,565
	532,626	-	532,626
Noncurrent liabilities:			
Conduit debt	216,283	-	216,283
Loan participation agreements	-	150,000	150,000
Funds held on behalf of others	4,538,783	-	4,538,783
	4,755,066	150,000	4,905,066
Net position:			
Net investment in capital assets	1,932,835	-	1,932,835
Restricted	-	9,299,890	9,299,890
Unrestricted	9,024,339	-	9,024,339
	10,957,174	9,299,890	20,257,064
	$ 16,244,866	$ 9,449,890	$ 25,694,756

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

For the year ended December 31, 2013

	General Account	UDAG Account	Total
Operating revenues:			
Administrative fees	$ 2,133,704	$ -	$ 2,133,704
Investment income (loss)	(10,938)	692,022	681,084
Affiliate management fees	322,352	-	322,352
Rental income	77,745	-	77,745
Interest	-	21,190	21,190
Other	113,738	-	113,738
Total operating revenues	2,636,601	713,212	3,349,813
Operating expenses:			
Salaries and benefits	1,708,898	-	1,708,898
General and administrative	807,638	110,667	918,305
Depreciation	127,975	-	127,975
Other	58,389	-	58,389
Total operating expenses	2,702,900	110,667	2,813,567
Operating income (loss) before special project grants	(66,299)	602,545	536,246
Special project grants:			
Revenue	4,378,503	-	4,378,503
Expenses	(2,179,338)	(3,615,971)	(5,795,309)
	2,199,165	(3,615,971)	(1,416,806)
Operating income (loss)	2,132,866	(3,013,426)	(880,560)
Nonoperating revenues:			
Interest	13,381	-	13,381
Change in net position	2,146,247	(3,013,426)	(867,179)
Net position - beginning	8,810,927	12,313,316	21,124,243
Net position - ending	$ 10,957,174	$ 9,299,890	$ 20,257,064

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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 *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Erie County Industrial Development Agency

We have audited, in accordance with the 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), a business-type activity, which comprise the balance sheet as of December 31, 2013, 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 24, 2014.

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 24, 2014

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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 financial statements of Erie County Industrial Development Agency (ECIDA), a business-type activity, which comprise the balance sheet as of December 31, 2013, 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 24, 2014.

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, 2013. 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 24, 2014