BUFFALO URBAN DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo Urban Development Corporation

We have audited the accompanying balance sheets of Buffalo Urban Development Corporation (BUDC), 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 BUDC'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 BUDC'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, 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 BUDC 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, BUDC 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 on pages 5 through 10 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 additional information on page 18 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 BUDC'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 BUDC's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

February 24, 2014

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Buffalo Urban Development Corporation

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Buffalo Urban Development Corporation's (BUDC) 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 BUDC'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, BUDC's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework*.

Buffalo Urban Development Corporation
February 24, 2014

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2013
(UNAUDITED)

Buffalo Urban Development Corporation (BUDC) is a not-for-profit corporation whose mission is to support the urban economic development efforts of the region through acquisition, remediation and management of distressed properties, and to engage in related real estate development activities for the purpose of attracting and/or retaining new and existing businesses to the City of Buffalo, New York (the City) as part of the region. The mission of BUDC also includes supporting the revitalization of the City by serving as the lead management entity for Buffalo Building Reuse Project (BBRP) initiatives, working in collaboration with the Mayor's office of Strategic Planning, including the coordination of financial assistance for downtown adaptive re-use projects and public rights-of-way improvements.

For financial reporting purposes, BUDC is classified as a governmental entity that is required to comply with accounting standards issued by the Governmental Accounting Standards Board (GASB) because a majority of its governing body are officials of local governments or appointed by officials of local governments. Under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, BUDC is required to present management's discussion and analysis (MD&A) to assist readers in understanding BUDC's financial performance.

In compliance with GASB Statement No. 34, we present the attached overview and analysis of the financial activities of BUDC for the years ended December 31, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with BUDC'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 BUDC owns (assets and deferred outflows) and what BUDC owes (liabilities and deferred inflows). The difference between BUDC's assets, deferred outflows, liabilities and deferred inflows (net position) can be one way to measure BUDC's financial position. Over time, increases or decreases in BUDC's net position is one indicator of whether its financial health is improving or deteriorating.

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

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

Financial Highlights

- BUDC's net position decreased by 0.6% from $11.31 million in 2012 to $11.24 million in 2013.
- BUDC experienced a decrease in net position (net loss) of $73,000 in 2013 compared to a net profit of $168,000 in 2012.
- BUDC's total assets and liabilities decreased by $799,000 and $726,000 respectively as it paid liabilities and recognized grant revenue earned during 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 BUDC.

Table 1
Balance Sheets as of December 31, 2013 and 2012
(Amounts in thousands)

	2013	2012	$ Change	% Change
Assets:				
Cash	$ 580	$ 955	$ (375)	-39%
Receivables	707	1,258	(551)	-44%
Restricted cash	1,496	1,421	75	5%
Other assets	57	5	52	1040%
Land and improvements held for sale	9,396	9,396	-	0%
Total assets	$ 12,236	$ 13,035	$ (799)	-6%
Liabilities:				
Current liabilities	$ 737	$ 1,463	$ (726)	-50%
Long-term liabilities	257	257	-	0%
Total liabilities	994	1,720	(726)	-42%
Net position:				
Restricted	1,538	1,449	89	6%
Unrestricted	9,704	9,866	(162)	-2%
Total net position	11,242	11,315	(73)	-1%
Total liabilities and net position	$ 12,236	$ 13,035	$ (799)	-6%

Receivables - Receivables include grant and other receivables owed as a result of BUDC's development projects. The $551,000 decrease is primarily due to the collection of $408,000 under the NYS Department of State (NYS DOS) grant for the South Buffalo Brownfield Opportunity Area (BOA) grant. This grant funded a number of projects in the South Buffalo area, including a new master development plan for the RiverBend Commerce Park (Riverbend). In addition, BUDC collected another $77,000 in remaining Greenway Commision and NYS DOS grant funds related to the completion of the new public park at BUDC's Buffalo Lakeside Commerce Park (BLCP). Finally, two loans totaling $66,000 were received in full during 2013.

Restricted cash - Restricted cash relates primarily to the Buffalo Brownfields Redevelopment Fund (the Fund) held by the Erie County Industrial Development Agency (ECIDA) on behalf of BUDC. The Fund increased by a net $75,000 as a result of $461,000 in net tax receipts plus $2,000 in interest less $388,000 in expenditures for eligible BLCP and RiverBend development costs.

Other assets - Other assets include prepaid insurance and other amounts. The increase of $52,000 primarily relates to a $50,000 receivable for net taxes owed to the Buffalo Brownfields Redevelopment Fund.

Current liabilities - The $726,000 or 50% decrease in current liabilities was primarily due to $684,000 of previously unearned grant revenue being recognized in income in 2013 principally due to various project expenditures related to the South Buffalo BOA grant.

Long-term liabilities - Long-term liabilities consists of a note payable to the former owner of certain BLCP property. As portions of this land are sold by BUDC, the note payable balance is reduced. Since BUDC did not sell any of this land in 2013, there was no reduction in the note payable balance.

2. Change in Net Position:

The following table (Table 2) presents condensed comparative financial information and was derived from BUDC'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:				
Grants	$ 765	$ 382	$ 383	100%
PILOT agreements	567	614	(47)	-8%
Other	31	259	(228)	-88%
Total revenue	1,363	1,255	108	9%
Expenses:				
Development costs	836	217	619	285%
Adjustment to net realizable value	126	389	(263)	-68%
Salaries and benefits	340	272	68	25%
Management fee - ECIDA	41	44	(3)	-7%
General and administrative	97	98	(1)	-1%
Interest	-	70	(70)	-100%
Total expenses	1,440	1,090	350	32%
Operating income (loss)	(77)	165	(242)	-147%
Interest income	4	3	1	33%
Change in net position	$ (73)	$ 168	$ (241)	-143%

3. Revenue and Expense Analysis:

Grants – Grant income includes income from the South Buffalo BOA projects and the new BLCP public park and road infrastructure. Grant income is recognized as the related grant expenses are incurred. In 2013, the majority of grant income, $622,000, was derived from project management and implementation of the South Buffalo BOA. This included a study to determine the feasibility of developing a golf course on two nearby landfills to facilitate the relocation of the South Park Golf Course from the Frederick Law Olmsted-designed park. In 2012, grant income was lower due to minimal South Buffalo BOA grant expenditures and the conclusion of the BLCP public park and road infrastructure grants.

Other income – Other income decreased $228,000 in 2013 as a result of a one-time recovery of $229,000 in 2012 from a loan previously written-off.

Development costs – Development costs include those costs related to various BUDC projects, but excludes certain BLCP and Riverbend development costs that are reflected in "adjustment to net realizable value" as discussed below. The increase in development costs is attributable to the South Buffalo BOA development costs discussed in "Grant income" above as well as the costs associated with the BBRP initiative to re-energize the City of Buffalo's downtown area.

Adjustment to net realizable value – The adjustment to net realizable value represents certain BLCP and Riverbend capitalized development costs. These costs are added to the book value of the land and improvements held for sale, however an offsetting adjustment is recorded to reduce the net book value to equal the estimated net realizable value of each property.

Salaries and benefits – Salaries and benefits increased by $68,000 or 25% primarily due to the hiring of a Downtown Project Coordinator and Manager in 2013 to implement the BBRP project. This new position and other BBRP activities were funded with a $100,000 annual grant from the Erie County Industrial Development Agency (ECIDA).

Management fee - ECIDA – ECIDA's management fee represents costs charged for certain ECIDA staff that spend a portion of their time performing financial, compliance, administrative and property management services on behalf of BUDC.

Interest – Interest expense relates to interest on a short-term construction loan that BUDC utilized to fund the BLCP road improvements prior to receiving the ESDC grant funds. The loan was repaid in September 2012.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2013 budget was presented and approved by the Board of Directors on September 25, 2012. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2013 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2013
(Amounts in thousands)

	Actual	Original Budget	Actual to Budget $ Change	Actual to Budget % Change
Revenue:				
Grants	$ 765	$ 2,590	$ (1,825)	-70%
Brownfield Fund revenue	567	562	5	1%
Other income	31	83	(52)	-63%
Total revenue	1,363	3,235	(1,872)	-58%
Expenses:				
Development projects	962	1,693	(731)	-43%
Salaries and benefits	340	368	(28)	-8%
Management fee - ECIDA	41	45	(4)	-9%
Loss on land sales	-	66	(66)	-100%
General and administrative	97	97	-	0%
Total expenses	1,440	2,269	(829)	-37%
Operating income (loss)	(77)	966	(1,043)	-108%
Interest income	4	4	-	0%
Change in net position	$ (73)	$ 970	$ (1,043)	-108%

Note: The original 2013 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position was below budget by $1,043,000. This was primarily due to BUDC not receiving a $1 million draw under a $3 million grant from Empire State Development Corporation (ESDC) for the establishment of a BBRP loan fund. This grant draw is expected to occur in 2014.

Grant income was $1.825 million below budget as a result of BUDC not recognizing income on the $1 million ESDC grant discussed above, as well as a $500,000 Riverbend shoreline restoration grant and two grants of $125,000 each for a Strategic Downtown Infrastructure Plan. The latter two grants were also the primary reason Development Projects were under budget by $731,000 or 43%.

In the 2013 budget, BUDC had anticipated selling 10 acres of property at BLCP for gross proceeds of $500,000 with a net loss on land sales of $66,000. However, no such land sales occurred in 2013.

5. Economic Factors Impacting BUDC:

BUDC has limited sources of operating funds that can support its ongoing operating costs. As a result, BUDC is reliant upon future land sales occurring at its two business parks (BLCP and Riverbend) to support operations. In January 2014, a memorandum of understanding was signed by the Chairman of BUDC's Board of Directors to sell 88 acres of Riverbend property. It is anticipated that a purchase agreement for this land sale will be finalized in 2014.

6. Requests for Information:

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

Balance Sheets

December 31,	2013	2012
Assets		
Current assets:		
Cash	**$ 580,420**	$ 954,793
Receivables		
Current portion of loans (Note 2)	**-**	65,953
Grants (Note 3)	**707,094**	1,191,912
Restricted cash	**1,495,946**	1,420,767
Other current assets	**57,018**	5,733
	2,840,478	3,639,158
Land and improvements held for sale, net (Note 4)	**9,395,685**	9,395,685
	$ 12,236,163	$ 13,034,843
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 376,903**	$ 439,925
Unearned grant revenue (Note 3)	**360,206**	1,022,776
	737,109	1,462,701
Note payable (Note 5)	**257,381**	257,381
	994,490	1,720,082
Net position:		
Restricted	**1,538,441**	1,448,462
Unrestricted	**9,703,232**	9,866,299
	11,241,673	11,314,761
	$ 12,236,163	$ 13,034,843

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2013	2012
Operating revenues:		
Grants	$ 765,069	$ 381,867
PILOT agreements	566,684	613,955
Loan interest	5,959	11,002
Rental and other	25,292	248,200
Total operating revenues	1,363,004	1,255,024
Operating expenses:		
Development costs	836,102	216,678
Adjustment to net realizable value	125,967	389,466
Salaries and benefits	340,261	272,488
Management fee	41,405	44,149
General and administrative	96,799	97,687
Interest	-	69,637
Total operating expenses	1,440,534	1,090,105
Operating income (loss)	(77,530)	164,919
Nonoperating revenue:		
Interest income	4,442	2,978
Change in net position	(73,088)	167,897
Net position - beginning	11,314,761	11,146,864
Net position - ending	$ 11,241,673	$ 11,314,761

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Statements of Cash Flows

For the years ended December 31,	2013	2012
Operating activities:		
Cash from PILOT agreements	**$ 516,244**	$ 613,955
Cash from grants	**587,317**	4,367,018
Loans and loan interest collected	**71,912**	209,625
Other sources	**25,292**	248,200
Payments to employees, suppliers, and other	**(1,410,551)**	(639,203)
Net operating activities	**(209,786)**	4,799,595
Noncapital financing activities:		
Principal payments on note payable	**-**	(2,298,861)
Capital and related financing activities:		
Payments for land purchases and improvements on property held for sale	**(93,850)**	(1,285,759)
Investing activities:		
Interest	**4,442**	2,978
Change in restricted cash	**(75,179)**	(447,373)
Net investing activities	**(70,737)**	(444,395)
Net change in cash	**(374,373)**	770,580
Cash - beginning	**954,793**	184,213
Cash - ending	**$ 580,420**	$ 954,793
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	**$ (77,530)**	$ 164,919
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Adjustment to net realizable value	**125,967**	389,466
Changes in other assets and liabilities:		
Grants and other receivables	**484,818**	4,347,851
Loans receivable	**65,953**	198,420
Other current assets	**(51,285)**	61,639
Accounts payable and accrued expenses	**(95,139)**	-
Unearned grant revenue	**(662,570)**	(362,700)
Net operating activities	**$ (209,786)**	$ 4,799,595

1. Summary of Significant Accounting Policies:

Nature of Organization:

Buffalo Urban Development Corporation (BUDC), formerly Development Downtown, Inc., was incorporated in 1978 by the City of Buffalo, New York (the City) to facilitate partnership with the private sector in the development of the City, primarily through the administration of Federal Urban Development Action (UDAG) grants.

Funding was initially received from the City, however the City has not allocated direct funding to BUDC for several years and future allocations are not expected. Funding is received primarily from land sales, grant funding, and loan repayments.

In 2005, an agreement between BUDC, Erie County Industrial Development Agency (ECIDA), the City, and Erie County (the County) established the Buffalo Brownfields Redevelopment Fund (the Fund). This Fund dedicates certain payments received in lieu of real estate tax (PILOT) for future eligible project costs. The Fund is administered by ECIDA and reimburses BUDC for eligible project costs incurred. The activity of the Fund is included in these financial statements.

BUDC is the sole member of Riverbend LLC (Riverbend), which was formed in 2008 to purchase 185 acres of land along South Park Avenue in Buffalo, New York. Riverbend is also responsible for maintenance, the administration of site improvements, marketing, leasing, and eventual sale of the property.

In accordance with accounting standards, BUDC is not considered a component unit of another entity.

Basis of Presentation:

The financial statements 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.

Measurement Focus:

BUDC 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. BUDC'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.

BUDC's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those from PILOT payments, grants, or 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 BUDC's interest 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 New York State (the State) laws and as established in BUDC'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 (FDIC). 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 BUDC's deposits may not be returned to it. At December 31, 2013, BUDC's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging bank's agent in BUDC'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 charged 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.

Net Position:

- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets whose 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 the restricted component of net position and therefore are available for general use by BUDC.

Income Taxes:

BUDC is a 501(c)(4) organization exempt from income taxes under §501(a) of the Internal Revenue Code. Management believes BUDC is no longer subject to examination by Federal taxing authorities for years ended prior to December 31, 2010.

Reclassifications:

Certain reclassifications were made to the 2012 financial statements to conform to the 2013 presentation.

2. Loans Receivable:

At December 31, 2012 loans receivable amounted to $65,953 which consisted of two commercial loans made to assist the private sector in City development or to facilitate land sales. Loan terms vary with interest rates ranging from 3% to 4%, and specify periodic principal repayments. Both loans were repaid during 2013.

Excluded from loans receivable is a note in the amount of $536,000 in connection with certain development property. The loan is offset by a $536,000 payable to the City for demolition costs of the original building located on the property. Terms of the loan require that if the façade of the original building is used in future development of the property, the loan will be forgiven. If the façade is not used, the loan is due in full and the proceeds will be used to reimburse the City for the original cost of the demolition. BUDC is not otherwise responsible for the repayment of this loan.

3. Grants Receivable and Unearned Grant Revenue:

In 2011, BUDC was awarded two grants amounting to $1,708,000 from the State Department of State (DOS) for reimbursement of administrative and construction costs incurred at Buffalo Lakeside Commerce Park (BLCP). Grants are recognized at the time awarded, with timing differences resulting from funds spent and earned. The following is a summary of grants receivable and unearned grant revenue:

	2013	2012
Grants receivable:		
DOS	**$ 684,594**	$ 1,136,312
Other	**22,500**	55,600
	$ 707,094	$ 1,191,912
Unearned grant revenue:		
DOS	**$ 334,502**	$ 963,030
Other	**25,704**	59,746
	$ 360,206	$ 1,022,776

4. Land and Improvements Held for Sale:

Buffalo Lakeside Commerce Park:

In 2002, on behalf of the City, BUDC agreed to undertake a multi-phase Brownfield reclamation and redevelopment project at the former Hanna Furnace site and land surrounding the Union Ship Canal, now known as BLCP. BUDC accepted 104 acres of tax-foreclosed property from the City, demolished derelict structures, and constructed approximately 5,000 linear feet of roads and infrastructure. Funding for this work was provided by the State, the City and the County.

With additional funding from the State, BUDC purchased 130 acres of land to add to BLCP and constructed additional roads and infrastructure.

Riverbend, LLC:

In 2008, Riverbend acquired 185 acres of land from Steelfields Ltd for $4,638,250. The City provided this funding through BERC with State funds and the agreement that BUDC would pay for all costs incurred to plan, improve, market, sell, and lease the property. In the event that income exceeded total costs, BUDC would split the net profit equally with BERC. In addition, BERC agreed to split equally the net profit of two properties it owns with BUDC. Riverbend has not generated a net profit since acquisition and, therefore, no amounts are due to BERC at December 31, 2013.

In January 2014, a memorandum of understanding was signed by the Chairman of BUDC's Board of Directors to sell 88 acres. The agreement could require BUDC to return a portion of the sale proceeds to the City. This transaction could reduce BUDC's net position by approximately $700,000. At this time, the sale has not been approved by BUDC's Board of Directors.

Land and improvements held for sale are recorded at net realizable value based on assessment of the fair value of each project, as follows:

	2013	2012
BLCP	**$ 8,971,873**	$ 8,866,781
Riverbend	**5,424,140**	5,403,265
	14,396,013	14,270,046
Less adjustment to net realizable value	**5,000,328**	4,874,361
	$ 9,395,685	$ 9,395,685

5. Notes Payable:

In connection with the purchase of property related to BLCP, BUDC issued a non-interest bearing note payable in the amount equal to the greater of $525,000 ($13,125 per acre) or a percentage of the resale price of the developed property. At December 31, 2013 and 2012, the note payable amounted to $257,381, which represents the remaining 19.61 acres of land at $13,125 per acre.

6. Management Fee:

BUDC has an agreement with ECIDA to provide certain personnel to perform administrative and accounting functions on behalf of BUDC. Total expenses paid to ECIDA amounted to $41,405 and $44,149 for the years ended December 31, 2013 and 2012. Amounts owed to ECIDA under this agreement totaled $42,383 and $58,096 at December 31, 2013 and 2012.

7. Cash Flows Information:

Noncash capital and related financing activities excluded from the 2013 and 2012 statements of cash flows include land improvements purchased with trade payables of $32,117 and $439,925 at December 31, 2013 and 2012.

8. Contingencies:

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

Supplementary Information
Schedules of Revenues and Expenditures of Riverbend LLC

For the years ended December 31,	2013	2012
Revenues:	$ -	$ -
Expenditures:		
Monitoring and maintenance	115,004	95,566
Insurance	16,135	15,327
Utilities	7,925	7,598
General and administrative	-	1,928
Professional fees	20,875	4,248
Total disbursements and excess expenditures	$ 159,939	$ 124,667

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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
Buffalo Urban Development Corporation

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 Buffalo Urban Development Corporation (BUDC), 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 BUDC'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 BUDC's internal control. Accordingly, we do not express an opinion on the effectiveness of BUDC'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 BUDC'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

This 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 BUDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BUDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

February 24, 2014

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
Buffalo Urban Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Buffalo Urban Development Corporation (BUDC), 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 BUDC 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 BUDC'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