ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements. We have also audited ECIDA's internal control over financial reporting as of December 31, 2014, 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 fraud or error. 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, 2014 and 2013 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, 2014, 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 March 3, 2015 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. 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

March 3, 2015

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 expenses 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, 2014, 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, 2014, ECIDA's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework*.

Erie County Industrial Development Agency
March 3, 2015

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2014
(UNAUDITED)

Erie County Industrial Development Agency (ECIDA) is a public benefit corporation that provides tax incentives, financing programs, international trade 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, 2014 and 2013. 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 of resources) and what ECIDA owes (liabilities and deferred inflows of resources). The difference between ECIDA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources (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 increased by 4.4% from $20.3 million in 2013 to $21.2 million in 2014.
- ECIDA experienced an increase in net position of $0.9 million in 2014 compared to a net loss of $0.9 million in 2013.
- Administrative fees, a key source of revenue for ECIDA, remained consistent at $2.1 million for 2013 and 2014.
- Earnings from venture capital investments increased from $0.7 million in 2013 to $1.1 million in 2014.
- Operating expenses decreased from $2.8 million in 2013 to $2.7 million in 2014.

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, 2014 and 2013
(Amounts in thousands)

	2014	2013	$ Change	% Change
Assets:				
Cash	$ 13,181	$ 8,954	$ 4,227	47%
Loans receivable, net of allowance	399	646	(247)	-38%
Special project grants receivable	23	163	(140)	-86%
Capital assets, net	1,821	1,933	(112)	-6%
Other assets	6,242	9,274	(3,032)	-33%
Restricted cash	4,254	4,725	(471)	-10%
Total assets	$ 25,920	$ 25,695	$ 225	1%
Liabilities:				
Current liabilities	$ 362	$ 533	$ (171)	-32%
Funds held on behalf of others	4,058	4,539	(481)	-11%
Other long-term liabilities	316	366	(50)	-14%
Total liabilities	4,736	5,438	(702)	-13%
Net position:				
Net investment in capital assets	1,821	1,933	(112)	-6%
Restricted	10,431	9,300	1,131	12%
Unrestricted	8,932	9,024	(92)	-1%
Total net position	21,184	20,257	927	5%
Total liabilities and net position	$ 25,920	$ 25,695	$ 225	1%

Cash – ECIDA's cash balance increased 47% or $4.2 million due to the receipt of a $3 million outstanding receivable related to the Bethlehem Steel rail relocation project. Also, the ECIDA received $1.2 million in payments from one of its venture capital investments.

Loans Receivable – Loans receivable represent various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program and conduit receivables. The $250,000 decrease in the loans receivable balance is due to loan repayments received during 2014.

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 is due to $139,000 in grant draws received under various trade expo grants.

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 $471,000 or 10% decrease from 2013 is primarily due to $1.4 million in payments for the approved uses of the funds offset by $904,000 in ongoing receipts into the fund.

Other Assets – Other assets include ECIDA's venture capital investments, affiliate receivables, prepaid expenses, and other receivables. The decrease in other assets of $3 million is primarily caused by receivables due from Erie County associated with the Bethlehem Steel rail relocation project. These receivables were received in 2014.

Current Liabilities – The $171,000 decrease in current liabilities is due to a decrease of $58,000 in accounts payable. Accounts payable was higher at the end of 2013 due to outstanding bills related to the move to 95 Perry Street. Also, ECIDA received and paid $145,000 related to conduit debt during 2014.

Other Long-Term Liabilities – Other long-term liabilities primarily consist of conduit debt and decreased due to payments made in 2014.

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, 2014 and 2013
(Amounts in thousands)

Revenue:				
Administrative fees	$ 2,057	$ 2,134	$ (77)	-4%
Investment income	1,137	681	456	67%
Affiliate management fees	330	322	8	2%
Other income	234	213	21	10%
Total revenue	$ 3,758	$ 3,350	$ 408	12%
Expenses:				
Salaries and benefits	$ 1,679	$ 1,709	$ (30)	-2%
General and administrative	901	918	(17)	-2%
Depreciation and other	152	186	(34)	-18%
Total expenses	2,732	2,813	(81)	-3%
Operating income before special project grants	1,026	537	489	91%
Special grants and nonoperating revenue				
Net special project grants	(109)	(1,417)	1,308	-92%
Interest income	10	13	(3)	-23%
Change in net position	$ 927	$ (867)	$ 1,794	-207%

3. Revenue Analysis:

Administrative Fees – Administrative fees are primarily collected from the issuance of various forms of tax abatements and tax-exempt financing. ECIDA relies on these fees to cover its operating costs; however, the amount of fees collected in any given year is largely dependent upon the local economic climate. Administrative fees decreased a minimal amount ($77,000 or 4%) in 2014. In 2014, twenty-two tax incentive projects were approved including Unifrax, 500 Seneca and the Curtiss Hotel. In 2013, twenty-five 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 2014 with comparisons for 2013:

Table 3
Affiliate Management Fees for the Years ended December 31, 2014 and 2013
(Amounts in thousands)

	2014	2013	$ Change	% Change
Affiliate Management Fees Charged:				
RDC	$ 329	$ 320	$ 9	3%
ILDC	1	2	(1)	-50%
Total Affiliate Management Fees	$ 330	$ 322	$ 8	2%

Affiliate management fees charged to RDC increased slightly due to increases in personnel costs.

Other Income – Other income is comprised of rental income, international division revenues, loan interest, and miscellaneous income.

Investment Income – Investment income includes ECIDA's proportionate share of net income derived from its venture capital investments. The income is comprised of earnings from an aerospace business investment of $1.1 million in 2014 and $0.7 million in 2013.

Salaries and Benefits – Payroll costs decreased by $30,000 in 2014 primarily due to the ECIDA having 0.5 less FTE employees than in the prior year.

4. Expense Analysis:

General and Administrative – In 2014, General and Administrative expenses decreased by 2% from $918,000 to $901,000. Key expense differences in 2014 include the following:

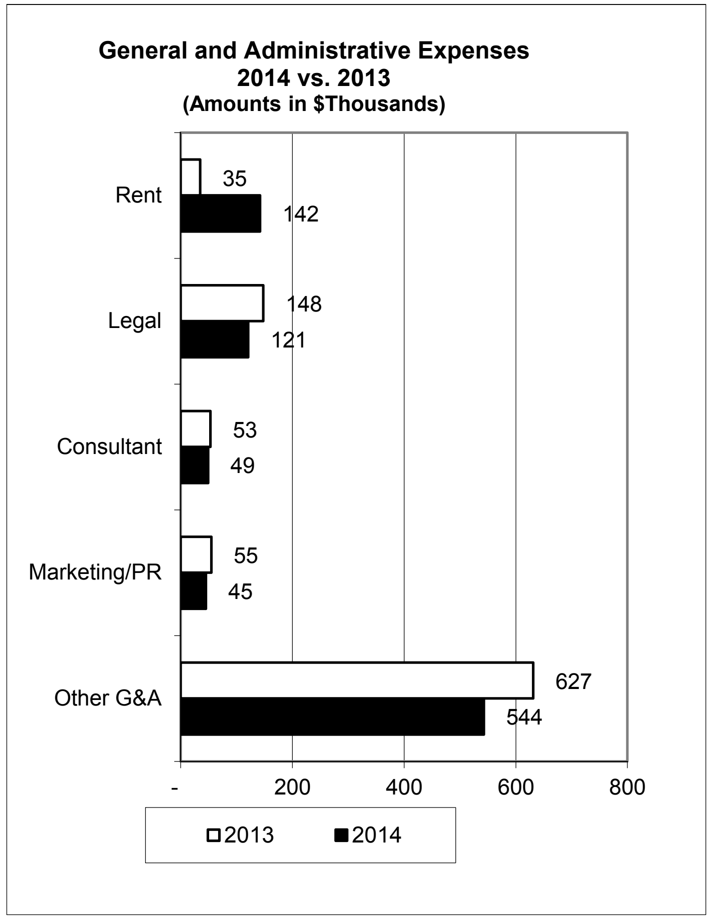
- Rent expense increased by $107,000 in 2014 due to the move to 95 Perry Street from the facility at 143 Genesee Street. In 2013, the agency rented the facility for three months and in 2014 it was for a full year.

- Other G&A expenses decreased by $83,000 primarily as a result of the following three significant changes:

  a) Maintenance and repair expense decreased by $21,000 as compared to 2013 as the agency has moved from an owned facility at 143 Genesee Street to a leased space at 95 Perry Street.

  b) Insurance expenses decreased $109,000 from 2013 to 2014 due to a change in the premium from the carrier. The premium change was due to the carrier gaining increasing comfort over the complexity of the agency's business.

  c) Travel expenses increased $33,000 from the prior year due to an increase in attendance at seminars and conferences.



Depreciation – Depreciation expense for 2014 and 2013 was $124,000 and $128,000, respectively.

Net Special Project Grants – Net Special Project Grants decreased from a $1.4 million net loss in 2013 to a $109,000 net loss in 2014 due to the funding of a $1.0 million forgivable attraction loan in 2013. There were no attraction loans funded in 2014.

5. Budget Analysis:

ECIDA prepares an annual budget which was presented and approved by the Board of Directors on October 21, 2013. The following table (Table 4) presents an analysis of ECIDA's performance compared to the approved 2014 budget.

Table 4
Budget to Actual Analysis for the year ended December 31, 2014
(Amounts in thousands)

	Actual	Budget	$ Change	% Change
Revenue:				
Administrative fees	$ 2,057	$ 1,650	$ 407	25%
Investment income	1,137	550	587	107%
Affiliate management fees	330	402	(72)	-18%
Other income	234	215	19	9%
Total revenue	3,758	2,817	941	33%
Expenses:				
Salaries and benefits	1,679	1,824	(145)	-8%
General and administrative	901	915	(14)	-2%
Depreciation and other	152	210	(58)	-28%
Total expenses	2,732	2,949	(217)	-7%
Operating income before special project grants	1,026	(132)	1,158	-877%
Net special project grants	(109)	(2,985)	2,876	100%
Interest income	10	20	(10)	-50%
Change in net position	$ 927	$ (3,097)	$ 4,024	-130%

Budget to Actual Analysis:

Overall, ECIDA exceeded its budgeted increase in net position (net income) for 2014 by $4 million. Administrative fees revenue was 25% above the budgeted amount due to more tax-incentive projects approved and closed than anticipated. Salaries and benefits were $145,000 less than the budgeted amount due to one-half of a FTE less than anticipated, lower than expected accrued leave costs and a decrease in expected health insurance costs. General and administrative expenses and depreciation were relatively consistent with budget. Other expenses are less than budgeted as they represent export assistance program expenses. This program did not continue into the 2014 fiscal year. Investment income was higher than budget as ECIDA's investments performed better than anticipated. Net special project grants had a positive variance of $2.9 million as many of the budgeted special projects were not funded in 2014 such as the Venture Capital Investment program, forgivable loan program, and the manufacturing initiative.

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.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Balance Sheets

December 31,		2014		2013
Assets				
Current assets:				
Cash	$	13,180,692	$	8,954,287
Receivables				
Current portion of conduit loans (Note 2)		18,765		143,882
Current portion of loans (Note 3)		22,327		53,629
Affiliates (Note 9)		301,035		293,981
Special project grants (Note 5)		23,456		163,469
Other (Note 4)		164,024		3,087,047
Prepaid expenses		26,586		27,568
		13,736,885		12,723,863
Noncurrent assets:				
Conduit loans receivable (Note 2)		168,883		237,413
Loans receivable, net (Note 3)		188,952		211,561
Capital assets, net (Note 7)		1,820,897		1,932,835
Other assets (Note 8)		5,750,593		5,864,605
Restricted cash (Note 6)		4,253,538		4,724,479
		12,182,863		12,970,893
	$	25,919,748	$	25,694,756
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	185,600	$	244,001
Accrued expenses		157,745		175,060
Current portion of conduit debt (Note 2)		18,465		113,565
		361,810		532,626
Noncurrent liabilities:				
Conduit debt (Note 2)		166,183		216,283
Loan participation agreements (Note 3)		150,000		150,000
Funds held on behalf of others (Note 6)		4,058,467		4,538,783
		4,374,650		4,905,066
Net position:				
Net investment in capital assets		1,820,897		1,932,835
Restricted		10,430,826		9,299,890
Unrestricted		8,931,565		9,024,339
		21,183,288		20,257,064
	$	25,919,748	$	25,694,756

See accompanying notes.

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2014	2013
Operating revenues:		
Administrative fees	$ 2,057,252	$ 2,133,704
Investment income	1,136,750	681,084
Affiliate management fees	329,668	322,352
Rental income	91,364	77,745
Loan interest	13,614	21,190
Other	128,805	113,738
Total operating revenues	3,757,453	3,349,813
Operating expenses:		
Salaries and benefits	1,678,667	1,708,898
General and administrative	900,522	918,305
Depreciation	123,580	127,975
Other	29,046	58,389
Total operating expenses	2,731,815	2,813,567
Operating income before special project grants	1,025,638	536,246
Special project grants:		
Revenue	39,084	4,378,503
Expenses	(148,649)	(5,795,309)
	(109,565)	(1,416,806)
Operating income (loss)	916,073	(880,560)
Nonoperating revenues:		
Interest	10,151	13,381
Change in net position	926,224	(867,179)
Net position - beginning	20,257,064	21,124,243
Net position - ending	$ 21,183,288	$ 20,257,064

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2014	2013
Operating activities:		
Cash from fees and rental income	$ 2,148,616	$ 2,211,449
Cash from special project grants	179,097	4,329,240
Distributions received from equity investments	1,203,130	1,185,297
Loans and loan interest collected	261,172	220,960
Cash received from (paid to) other sources	3,422,074	(2,340,566)
Payments on conduit loans	(145,200)	(94,800)
Payments to employees, suppliers, and other	(2,680,573)	(2,932,643)
Payments for special project grants	(148,649)	(5,604,428)
Net operating activities	4,239,667	(3,025,491)
Capital and related financing activities:		
Purchases of capital assets	(14,038)	(332,365)
Investing activities:		
Cash used from restricted cash	(9,375)	(9,140)
Interest	10,151	13,381
Net investing activities	776	4,241
Net change in cash	4,226,405	(3,353,615)
Cash - beginning	8,954,287	12,307,902
Cash - ending	$ 13,180,692	$ 8,954,287
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	$ 916,073	$ (880,560)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	123,580	127,975
Loss on disposal of assets	2,396	75
Changes in other assets and liabilities:		
Receivables	3,303,540	(2,172,111)
Prepaid expenses	982	(16,803)
Other assets	114,012	504,213
Accounts payable	(58,401)	(228,474)
Accrued expenses	(17,315)	(1,849)
Conduit debt	(145,200)	(94,800)
Unearned revenue from special project grants	-	(263,157)
Net operating activities	$ 4,239,667	$ (3,025,491)

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 and RDC shares a common board with ECIDA. 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.

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 is 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. Policies permit management to use demand accounts and certificates of deposit for daily operating funds. Invested resources are limited to 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, 2014, ECIDA's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's agent in ECIDA's name.

Loans Receivable:

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

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

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

Capital Assets:

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

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

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

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

ECIDA also owns its former office space at 143 Genesee Street. This property is recorded at cost and leased to a third party (Note 10).

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 $226,961,000 and $589,712,000 in 2014 and 2013, 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 ILDC. During 2014, there were no bonds issued and, respectively, no fees received from ILDC. Such fees totaled $237,721 for the year ended December 31, 2013. Bond issuance fees are recognized immediately upon issuance of the related bond. The original value of tax-exempt bonds issued by ECIDA for the year ended December 31, 2013 aggregated $86,272,000. There were no bonds issued during 2014.

Grants:

Grants are recognized at the time awarded, with timing differences resulting from funds spent and earned. ECIDA receives special project grants from the Federal Economic Development Administration (EDA), the County, and various State departments, including the Department of Transportation (DOT) and Empire State Development Corporation (ESDC). 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 with 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 $469,119 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 remaining balance was paid during 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. The remaining balance was paid during 2014.
- *TSV, Inc. (Servotronics)* – ESDC loaned $351,600 to ECIDA for use in the construction of a manufacturing facility for Servotronics. The remaining balance was paid during 2014.

	2014	2013
Conduit receivable:		
Sonwil Distribution Center	**$ 187,648**	$ 187,648
Sonwil Distribution (ESDC)	**-**	7,917
General Mills	**-**	142,200
TSV, Inc. (Servotronics)	**-**	43,530
	187,648	381,295
Less current portion	**18,765**	143,882
	$ 168,883	$ 237,413
Conduit debt:		
Sonwil Distribution Center	**$ 184,648**	$ 187,648
General Mills	**-**	142,200
	184,648	329,848
Less current portion	**18,465**	113,565
	$ 166,183	$ 216,283

Aggregate maturities on conduit receivables and debt subsequent to December 31, 2014 are:

	Receivable	Debt
2015	$ 18,765	$ 18,465
2016	37,530	36,930
2017	37,530	36,930
2018	37,530	36,930
2019	56,293	55,393
	$ 187,648	$ 184,648

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 an allowance of $150,000 and a loan participation agreement liability of $150,000. The following is a summary of the loans receivable:

	2014	2013
Current status	**$ 561,279**	$ 615,190
30-90 days past due	**-**	-
Non-accrual	**300,000**	320,000
	861,279	935,190
Less current portion	**22,327**	53,629
	838,952	881,561
Less allowance	**650,000**	670,000
	$ 188,952	$ 211,561

Following is a summary of the activity in the allowance for uncollectible loans during the years ended December 31, 2014 and 2013:

	2014	2013
Balance, beginning of year	**$ 670,000**	$ 170,000
Additions charged to operations	-	500,000
Write-offs	**(20,000)**	-
	$ 650,000	$ 670,000

During 2013, ECIDA provided a $1,000,000 forgivable loan to a manufacturing company. 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 within 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. During 2014, ECIDA was refunded these amounts, from the County, upon the County's reimbursement from the DOT.

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.
- *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.

	2014	2013
Receivable:		
DOT - Sonwil	**$ 23,456**	$ 23,456
ESDC - Trade Mission	**-**	140,013
	$ 23,456	$ 163,469

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:

	2014	2013
Erie County Regional Redevelopment Fund	**$ 2,265,378**	$ 2,918,408
Buffalo Brownfields Redevelopment Fund	**1,692,276**	1,495,946
Regionally Significant Project Funds:		
Buffalo Economic Renaissance Corporation	**31,740**	76,599
Buffalo Urban Development Corporation	**63,457**	42,214
Erie Niagara Regional Partnership	**5,616**	5,616
	$ 4,058,467	$ 4,538,783

Restricted cash also includes $195,071 and $185,696 as of December 31, 2014 and 2013, respectively for the Railway Trust Fund, for activities related to two Erie County shortline railroads.

7. Capital Assets:

	Balance January 1, 2014	Increases	Retirements/ Reclassifications	Balance December 31, 2014
Non-depreciable capital assets:				
Land	$ 167,400	$ -	$ -	$ 167,400
Depreciable capital assets:				
Land improvements	1,086,423	-	-	1,086,423
Buildings	2,734,937	-	-	2,734,937
Furniture and equipment	409,355	14,038	(2,995)	420,398
Total depreciable assets	4,230,715	14,038	(2,995)	4,241,758
Less accumulated depreciation:				
Land improvements	448,371	52,490	-	500,861
Buildings	1,739,793	35,206	-	1,774,999
Furniture and equipment	277,116	35,884	(599)	312,401
Total accumulated depreciation	2,465,280	123,580	(599)	2,588,261
Total depreciable assets, net	1,765,435	(109,542)	(2,396)	1,653,497
	$ 1,932,835	**$ (109,542)**	**$ (2,396)**	**$ 1,820,897**

	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**

8. Other Assets:

ECIDA owns 25 membership units in a limited liability corporation (the LLC), originally purchased for $500,000. ECIDA has declined a seat on the Board of Managers and does not participate in the operations or management decisions. During 2013, 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, 2014 and 2013 in the LLC is summarized in the following schedule:

	2014	2013
Balance, beginning of year	**$ 5,162,169**	$ 5,652,241
Earnings	**1,161,135**	1,413,461
Distributions	**(1,250,762)**	(1,185,297)
Dilution loss	**-**	(718,236)
	$ 5,072,542	$ 5,162,169

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 $678,051 and $702,436 at December 31, 2014 and 2013.

9. Related Party Transactions:

Affiliate Management Fees:

ECIDA allocates a portion of personnel and rental costs to its affiliates, RDC and ILDC. ECIDA earned $329,668 and $322,352 in affiliate management fees for the years ended December 31, 2014 and 2013. Management fees and related receivables by affiliate are as follows:

	Management Fees		Receivables	
	2014	2013	**2014**	2013
RDC	**$ 328,728**	$ 320,001	**$ 300,095**	$ 291,369
ILDC	**940**	2,351	**940**	2,612
	$ 329,668	$ 322,352	**$ 301,035**	$ 293,981

10. Operating Leases:

In July 2013, ECIDA entered into a lease for new office space. Rent expense for the years ended December 31, 2014 and 2013 amounted to $142,243 and $35,246, respectively.

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

2015	$ 142,323
2016	146,337
2017	146,337
2018	109,753
	$ 544,750

ECIDA leases its former office space and recognized $11,800 of rental income for the year ended December 31, 2014. The carrying value of the leased property is approximately $1,371,000 at December 31, 2014.

Future annual rental receipts anticipated under this noncancelable lease are:

2015	$ 133,250
2016	199,875
2017	199,875
2018	206,537
2019	209,869
Thereafter	489,694
	$ 1,439,100

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 2014 and 2013, ECIDA made discretionary contributions of 7% of eligible employees' salaries. ECIDA's expense for contributing to the plan for the years ended December 31, 2014 and 2013 amounted to $89,171 and $88,964, 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, 2014

	General Account	UDAG Account	Total
Assets			
Current assets:			
Cash	$ 8,685,990	$ 4,494,702	$ 13,180,692
Receivables			
Current portion of conduit loans	18,765	-	18,765
Current portion of loans	-	22,327	22,327
Affiliates	301,035	-	301,035
Special project grants	23,456	-	23,456
Other	116,392	47,632	164,024
Prepaid expenses	26,586	-	26,586
	9,172,224	4,564,661	13,736,885
Noncurrent assets:			
Conduit loans receivable	168,883	-	168,883
Loans receivable, net	-	188,952	188,952
Capital assets, net	1,820,897	-	1,820,897
Other assets	118,451	5,632,142	5,750,593
Restricted cash	4,253,538	-	4,253,538
	6,361,769	5,821,094	12,182,863
	$ 15,533,993	$ 10,385,755	$ 25,919,748
Liabilities and Net Position			
Current liabilities:			
Accounts payable	$ 185,600	$ -	$ 185,600
Accrued expenses	157,745	-	157,745
Current portion of conduit debt	18,465	-	18,465
	361,810	-	361,810
Noncurrent liabilities:			
Conduit debt	166,183	-	166,183
Loan participation agreements	-	150,000	150,000
Funds held on behalf of others	4,058,467	-	4,058,467
	4,224,650	150,000	4,374,650
Net position:			
Net investment in capital assets	1,820,897	-	1,820,897
Restricted	195,071	10,235,755	10,430,826
Unrestricted	8,931,565	-	8,931,565
	10,947,533	10,235,755	21,183,288
	$ 15,533,993	$ 10,385,755	$ 25,919,748

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

For the year ended December 31, 2014

	General Account	UDAG Account	Total
Operating revenues:			
Administrative fees	$ 2,057,252	$ -	$ 2,057,252
Investment income (loss)	(15,000)	1,151,750	1,136,750
Affiliate management fees	329,668	-	329,668
Rental income	91,364	-	91,364
Loan interest	-	13,614	13,614
Other	89,135	39,670	128,805
Total operating revenues	2,552,419	1,205,034	3,757,453
Operating expenses:			
Salaries and benefits	1,678,667	-	1,678,667
General and administrative	750,480	150,042	900,522
Depreciation	123,580	-	123,580
Other	29,046	-	29,046
Total operating expenses	2,581,773	150,042	2,731,815
Operating income (loss) before special project grants	(29,354)	1,054,992	1,025,638
Special project grants:			
Revenue	39,084	-	39,084
Expenses	(29,522)	(119,127)	(148,649)
	9,562	(119,127)	(109,565)
Operating income (loss)	(19,792)	935,865	916,073
Nonoperating revenues:			
Interest	10,151	-	10,151
Change in net position	(9,641)	935,865	926,224
Net position - beginning	10,957,174	9,299,890	20,257,064
Net position - ending	$ 10,947,533	$ 10,235,755	$ 21,183,288

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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, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements. We have also audited ECIDA's internal control over financial reporting as of December 31, 2014, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We have issued our combined report thereon dated March 3, 2015.

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

Lumsden & McCormick, LLP

March 3, 2015

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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, 2014, 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 March 3, 2015.

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, 2014. 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

March 3, 2015