

BUFFALO URBAN DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2014

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, 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 BUDC'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 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 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.

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, 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, BUDC 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 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 supplementary 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 March 3, 2015 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. 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

March 3, 2015

Buffalo Urban Development Corporation

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

Buffalo Urban Development Corporation
March 3, 2015

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2014

(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 right-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, 2014 and 2013. 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 5.2% from \$11.24 million in 2013 to \$10.65 million in 2014.
- BUDC experienced a decrease in net position (net loss) of \$594,000 in 2014 compared to a net loss of \$73,000 in 2013.
- BUDC's total assets and liabilities increased by \$5,458,000 and \$6,052,000 respectively due to recognition of a \$6,700,000 grant receivable and a similar increase in unearned revenue for the portion not yet earned during 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 BUDC.

Table 1
Balance Sheets as of December 31, 2014 and 2013
(Amounts in thousands)

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Cash	\$ 3,807	\$ 580	\$ 3,227	556%
Receivables	7,785	707	7,078	1001%
Restricted cash	1,714	1,496	218	15%
Other current assets	41	57	(16)	-28%
Land and improvements held for sale	4,347	9,396	(5,049)	-54%
Total assets	\$ 17,694	\$ 12,236	\$ 5,458	45%
Liabilities:				
Current liabilities	\$ 6,789	\$ 737	\$ 6,052	821%
Long-term liabilities	257	257	-	0%
Total liabilities	7,046	994	6,052	609%
Net position:				
Restricted	1,538	1,538	-	0%
Unrestricted	9,110	9,704	(594)	-6%
Total net position	10,648	11,242	(594)	-5%
Total liabilities and net position	\$ 17,694	\$ 12,236	\$ 5,458	45%

Cash – Cash increased due to the sale of 184.65 acres of land at the Riverbend redevelopment site to Fort Schuyler Management Corporation for \$5.3 million. Also, in an agreement with the City of Buffalo, \$1.3 million was paid to the City related to the sale of the land.

Receivables - Receivables include grant and other receivables owed as a result of BUDC's development projects. The \$7.1 million increase is primarily due to an award of \$6.7 million granted to BUDC from the Empire State Development Corporation (ESD) for the development of the Northland Corridor on the East Side of Buffalo. Loans receivable increased by \$750,000 as a loan was closed on an adaptive reuse project in conjunction with the BBRP. Also, there was a \$372,000 decrease in grant receivables primarily due to funds received related to the South Buffalo Brownfield Opportunity Area (BOA) grant.

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 \$196,000 as a result of \$549,000 in net tax receipts plus \$2,000 in interest less \$355,000 in expenditures for eligible BLCF and Riverbend development costs. Note that there was an additional \$22,000 increase in the downtown loan fund due to the collection of interest related to the BBRP loan.

Other current assets – Other current assets include prepaid insurance and other amounts. The net decrease of \$16,000 is comprised of a \$50,000 decrease related to a receivable for net taxes owed to the Fund, \$20,000 increase for a loan provided to the Buffalo Brownfield Restoration Corporation and a \$14,000 increase in prepaid expenses related to insurance.

Land and improvements held for sale - The \$5 million decrease in land and improvements held for sale is due to the sale of 184.65 acres of land at the Riverbend redevelopment site to Fort Schuyler Management Corporation. The land had a book value of \$5.4 million at the time of sale. In addition, BUDC purchased a property in the Northland Corridor for \$250,000. Also, BUDC entered into an agreement to purchase additional property with a \$100,000 deposit.

Current liabilities - The \$6 million increase in current liabilities was primarily due to the \$6.7 million grant awarded to BUDC for redevelopment of the Northland Corridor. \$430,000 of this grant was recognized as income in 2014 principally due to various project expenses related to the Northland grant.

Long-term liabilities - Long-term liabilities consist 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 2014, 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, 2014 and 2013
(Amounts in thousands)

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 1,613	\$ 765	\$ 848	111%
PILOT agreements	520	567	(47)	-8%
Other	47	31	16	52%
	<u>2,180</u>	<u>1,363</u>	<u>817</u>	<u>60%</u>
Total revenue				
Expenses:				
Development costs and grant to City of Buffalo	1,939	836	1,103	132%
Adjustment to net realizable value	126	126	-	0%
Salaries and benefits	376	340	36	11%
Management fee - ECIDA	36	41	(5)	-12%
General and administrative	121	97	24	25%
Loss on sale of land	180	-	180	
	<u>2,778</u>	<u>1,440</u>	<u>1,338</u>	<u>93%</u>
Total expenses				
Operating loss	(598)	(77)	(521)	677%
Interest income	4	4	-	0%
Change in net position	<u>\$ (594)</u>	<u>\$ (73)</u>	<u>\$ (521)</u>	<u>714%</u>

3. Revenue and Expense Analysis:

Grants – Grant income includes income from the BBRP and Downtown Loan Fund, the Northland Corridor project, and the South Buffalo BOA projects. Grant income is recognized as the related grant expenses are incurred. In 2014, the majority of grant income, \$996,000, was derived from the BBRP. The BBRP was developed to create a more competitive downtown market by improving downtown infrastructure, increasing residential infill, and by providing tools and incentives to encourage the development of downtown’s vacant and underutilized properties. Grant income included \$750,000 from ESD for a loan fund, \$96,000 from ECIDA for related personnel and administrative costs, and \$150,000 from National Grid and National Fuel for the development of a downtown infrastructure plan.

Also, \$430,000 in income was earned related to the Northland Corridor project for legal and consulting costs related to the purchase of properties in the Northland Corridor in Buffalo. Finally, \$180,000 in income was recorded that related to the continuation of the South Buffalo BOA grant. 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. The majority of the 2013 grant income related to the South Buffalo BOA grant.

Development costs and grant to City of Buffalo – 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 costs is attributable to the sale of the Riverbend Development site. \$1.3 million was transferred to the City of Buffalo from the sale proceeds. There was also a \$414,000 decrease in South Buffalo BOA development costs discussed in “Grants” above.

Adjustment to net realizable value – The adjustment to net realizable value represents certain Northland, 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 \$36,000 or 11% primarily due to an increase in salaries from 2013 to 2014 and the full-year impact of one employee hired mid-way through 2013.

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 under a shared services agreement.

Loss on sale of land – Loss on sale of land relates to the sale of 184.65 acres of land at the Riverbend redevelopment site to Fort Schuyler Management Corporation.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2014 budget was presented and approved by the Board of Directors on September 24, 2013. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2014 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2014
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 1,613	\$ 1,350	\$ 263	19%
Brownfield fund revenue	520	506	14	3%
Other income	47	28	19	68%
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	2,180	1,884	296	16%
Expenses:				
Development projects	1,939	497	1,442	290%
Adjustment to net realizable value	126	-	126	
Salaries and benefits	376	368	8	2%
Management fee - ECIDA	36	45	(9)	-20%
General and administrative	121	117	4	3%
Loss on sale of land	180	-	180	
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	2,778	1,027	1,751	170%
Operating income (loss)	(598)	857	(1,455)	-170%
Interest income	4	3	1	33%
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net position	\$ (594)	\$ 860	\$ (1,454)	-169%

Note: The original 2014 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 \$1,454,000. This was primarily due to BUDC's payment of \$1.3 million to the City of Buffalo related to the sale of the Riverbend development site as well as the related loss on the land sale.

Grant income was \$263,000 above budget as a result of BUDC recognizing income related to the ESD grant for development of the Northland Corridor.

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 BLCF business park and future revenues at the Northland Corridor redevelopment site to support operations.

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.

BUFFALO URBAN DEVELOPMENT CORPORATION

Balance Sheets

December 31,	2014	2013
Assets		
Current assets:		
Cash	\$ 3,807,052	\$ 580,420
Receivables		
Loans receivable (Note 2)	749,891	-
Grants (Note 3)	7,034,502	707,094
Restricted cash	1,714,403	1,495,946
Other current assets	41,067	57,018
	<u>13,346,915</u>	<u>2,840,478</u>
Land and improvements held for sale, net (Note 4)	4,346,862	9,395,685
	<u>\$ 17,693,777</u>	<u>\$ 12,236,163</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 340,509	\$ 376,903
Unearned grant revenue (Note 3)	6,447,527	360,206
	<u>6,788,036</u>	<u>737,109</u>
Note payable (Note 5)	257,381	257,381
	<u>7,045,417</u>	<u>994,490</u>
Net position:		
Restricted	1,537,647	1,538,441
Unrestricted	9,110,713	9,703,232
	<u>10,648,360</u>	<u>11,241,673</u>
	<u>\$ 17,693,777</u>	<u>\$ 12,236,163</u>

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION**Statements of Revenues, Expenses, and Changes in Net Position**

For the years ended December 31,	2014	2013
Operating revenues:		
Grants	\$ 1,612,680	\$ 765,069
PILOT agreements	519,507	566,684
Loan interest	34,627	5,959
Rental and other	13,083	25,292
Total operating revenues	<u>2,179,897</u>	<u>1,363,004</u>
Operating expenses:		
Grant to City of Buffalo	1,300,000	-
Development costs	638,857	836,102
Adjustment to net realizable value	125,955	125,967
Loss on sale of land	179,693	-
Salaries and benefits	376,432	340,261
Management fee	35,856	41,405
General and administrative	121,234	96,799
Total operating expenses	<u>2,778,027</u>	<u>1,440,534</u>
Operating loss	(598,130)	(77,530)
Interest income	<u>4,817</u>	<u>4,442</u>
Change in net position	(593,313)	(73,088)
Net position - beginning	<u>11,241,673</u>	<u>11,314,761</u>
Net position - ending	<u>\$ 10,648,360</u>	<u>\$ 11,241,673</u>

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Statements of Cash Flows

For the years ended December 31,	2014	2013
Operating activities:		
Cash from PILOT agreements	\$ 519,507	\$ 516,244
Cash from grants	1,372,593	587,317
Payments on grants	(1,300,000)	-
Increase in loans receivable	(750,000)	-
Payments collected on loans receivable	34,736	71,912
Other sources	13,083	25,292
Payments to employees, suppliers, and other	(1,192,822)	(1,410,551)
Cash proceeds on sale of land	5,300,000	-
Payments for land purchases and improvements on property held for sale	(556,825)	(93,850)
Net operating activities	3,440,272	(303,636)
Investing activities:		
Interest	4,817	4,442
Change in restricted cash	(218,457)	(75,179)
Net investing activities	(213,640)	(70,737)
Net change in cash	3,226,632	(374,373)
Cash - beginning	580,420	954,793
Cash - ending	\$ 3,807,052	\$ 580,420
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$ (598,130)	\$ (77,530)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Proceeds from sale of land	5,300,000	-
Loss on sale of land and net realizable value adjustment	224,973	-
Land and improvement purchases	(476,150)	-
Changes in other assets and liabilities:		
Grants receivable	(6,327,408)	484,818
Loans receivable	(749,891)	65,953
Other current assets	15,951	(51,285)
Accounts payable and accrued expenses	(36,394)	(63,022)
Unearned grant revenue	6,087,321	(662,570)
Net operating activities	\$ 3,440,272	\$ (303,636)

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Notes to Financial Statements

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. During 2014, BUDC sold all 185 acres (Note 4).

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 is 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. 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 (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, 2014, 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)(3) 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, 2011.

2. Loans Receivable:

During 2014, BUDC loaned \$750,000 to a private sector business at an interest rate of 5.25% to assist in City development. Repayment of principal and interest is expected by December 31, 2015.

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 New York State Department of State (DOS) for reimbursement of administrative and construction costs incurred at Buffalo Lakeside Commerce Park (BLCP).

In 2014, BUDC was awarded a grant amounting to \$6,700,000 from Empire State Development (ESD) for the acquisition, planning, environmental review, and site review of properties defined as the Northland Avenue Belt Line Corridor (Northland).

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:

	2014	2013
Grants receivable:		
ESD	\$ 6,700,000	\$ -
DOS	221,852	684,594
Other	112,650	22,500
	<u>\$ 7,034,502</u>	<u>\$ 707,094</u>
Unearned grant revenue:		
ESD	\$ 6,270,019	\$ -
DOS	155,376	334,502
Other	22,132	25,704
	<u>\$ 6,447,527</u>	<u>\$ 360,206</u>

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 Buffalo Economic Renaissance Corporation (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, 2014.

During 2014, BUDC sold all 185 acres of the Riverbend properties for \$5,300,000. The cost associated with this land, including the initial investment and subsequent costs through December 31, 2014 to plan, improve, sell, and lease the property, totaled \$5,479,693, resulting in a loss of \$179,693.

BUDC acquired the Riverbend property with financial assistance from the City. As a result, upon sale of this property in 2014, BUDC granted \$1,300,000 to the City.

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

	2014	2013
BLCP	\$ 9,002,402	\$ 8,971,873
Northland	432,170	-
Riverbend	-	5,424,140
	<u>9,434,572</u>	<u>14,396,013</u>
Less adjustment to net realizable value	5,087,710	5,000,328
	<u>\$ 4,346,862</u>	<u>\$ 9,395,685</u>

5. Note Payable:

In connection with the purchase of property related to BLCF, BUDC issued a non-interest bearing note payable in an 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, 2014 and 2013, the note payable amounted to \$257,381, which represents the remaining 19.61 acres of land at \$13,125 per acre. No payments are required until any portion of the property is sold.

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 \$35,856 and \$41,405 for the years ended December 31, 2014 and 2013. Amounts owed to ECIDA under this agreement totaled \$40,152 and \$42,383 at December 31, 2014 and 2013.

7. Cash Flows Information:

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

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.

BUFFALO URBAN DEVELOPMENT CORPORATION

**Supplementary Information
Schedules of Revenues and Expenses of Riverbend LLC**

For the years ended December 31,	2014	2013
Revenues:	<u>\$ -</u>	<u>\$ -</u>
Expenses:		
Loss on sale of land	\$ 179,693	\$ -
Monitoring and maintenance	128,707	115,004
Insurance	16,388	16,135
Utilities	6,959	7,925
Professional fees	12,989	20,875
Grant to City of Buffalo	1,300,000	-
Total disbursements and excess expenses	<u>\$ 1,644,736</u>	<u>\$ 159,939</u>

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, 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 BUDC'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 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, and for the purpose of expressing 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. 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.

Lumaden & McCormick, LLP

March 3, 2015

**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, 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 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, 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 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

March 3, 2015