BUFFALO AND ERIE COUNTY REGIONAL DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202
716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo and Erie County Regional
Development Corporation

We have audited the accompanying financial statements of Buffalo and Erie County Regional Development Corporation (RDC), a business-type activity, which comprise the balance sheets as of December 31, 2015 and 2014 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RDC as of December 31, 2015 and 2014, 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.

Other Matters

Management's Discussion and Analysis
Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information
The supplementary information on pages 9 and 10 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 18, 2016 on our consideration of RDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RDC's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

March 18, 2016

Balance Sheets

December 31,		2015		2014
Assets				
Current assets:				
Cash	$	**6,734,596**	$	8,100,162
Restricted cash (Note 4)		**6,504,876**		6,502,379
Loans receivable (Note 2)		**1,842,544**		1,771,586
		15,082,016		16,374,127
Loans receivable, net (Note 2)		**7,616,181**		5,876,132
	$	**22,698,197**	$	22,250,259
Liabilities and Net Position				
Current liabilities:				
Accounts payable	$	**2,337**	$	12,531
Due to U.S. Department of Housing and Urban Development		**1,546,423**		1,540,876
Due to affiliate (Note 3)		**313,327**		300,095
		1,862,087		1,853,502
Net position:				
Restricted		**20,836,110**		20,396,757
	$	**22,698,197**	$	22,250,259

See accompanying notes.

BUFFALO AND ERIE COUNTY REGIONAL DEVELOPMENT CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2015	2014
Operating revenues:		
Interest from loans	**$ 379,056**	$ 381,279
Sale of warrants	**386,609**	-
Loan commitment and other fees	**17,531**	7,272
Total operating revenues	**783,196**	388,551
Operating expenses:		
General and administrative	**387,615**	397,959
Provision for uncollectible loans (recoveries)	**(38,850)**	59,121
Total operating expenses	**348,765**	457,080
Operating income (loss)	**434,431**	(68,529)
Nonoperating revenue:		
Interest	**4,922**	4,395
Change in net position	**439,353**	(64,134)
Net position - beginning	**20,396,757**	20,460,891
Net position - ending	**$ 20,836,110**	$ 20,396,757

See accompanying notes.

Statements of Cash Flows

For the years ended December 31,	2015	2014
Operating activities:		
Payments collected on loans receivable	**$ 3,521,180**	$ 3,277,403
Loan interest and fees	**396,587**	388,551
Loans awarded	**(5,347,916)**	(1,789,000)
Payments to vendors and affiliates	**(379,030)**	(398,830)
Sale of warrants	**386,609**	-
Bad debt recoveries	**54,579**	11,255
Net operating activities	**(1,367,991)**	1,489,379
Investing activities:		
Interest income	**4,922**	4,395
Change in cash	**(1,363,069)**	1,493,774
Cash - beginning	**14,602,541**	13,108,767
Cash - ending	**$ 13,239,472**	$ 14,602,541
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	**$ 434,431**	$ (68,529)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Provision for uncollectible loans, net	**15,729**	70,376
Changes in other assets and liabilities:		
Loans receivable	**(1,826,736)**	1,488,403
Accounts payable	**(10,194)**	(15,448)
Due to U.S. Department of Housing and Urban Development	**5,547**	5,851
Due to affiliate	**13,232**	8,726
	$ (1,367,991)	$ 1,489,379

See accompanying notes.

1. Summary of Significant Accounting Policies:

Nature of Organization:

Buffalo and Erie County Regional Development Corporation (RDC) was incorporated for the purpose of encouraging the expansion of existing companies in target areas of the County of Erie by establishing an Industrial Revolving Loan Fund from which RDC makes loans to individual companies. RDC manages three revolving loan programs maintained under agreements or established loan administration plans approved by the grantor governing the management of the revolving loan program.

RDC has a related party relationship with Erie County Industrial Development Agency (ECIDA). The entities are managed by the same personnel and currently share the same board of directors. The entities also share the same mission, which is to provide the resources that encourage investment, innovation, growth and global competitiveness thereby creating a successful business climate that benefits the residents of the region.

In accordance with accounting standards, RDC 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:

RDC 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. RDC'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.

RDC'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 RDC'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 RDC'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 are 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, RDC's deposits may not be returned to it. At December 31, 2015, RDC's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging banks' agents in RDC'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.

Stock Warrants:

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

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 the U.S. Economic Development Administration (EDA) and U.S. Department of Housing and Urban Development.

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

Income Taxes:

Although the financial statements are required to be reported as a governmental entity, RDC is a 501(c)(3) not-for-profit organization for income tax purposes and is exempt from income taxes under §501(a) of the Internal Revenue Code. Management believes RDC is no longer subject to examination by Federal taxing authorities for years ended prior to December 31, 2012.

2. Loans Receivable:

The revolving loan programs were originally established through multiple grants received between 1979 and 1983 from the EDA amounting to $7,000,000. Matching funds totaling $5,250,500 were also received from various sources.

Loans made to local businesses complement private financing at interest rates ranging from 4% to 8.25% with varying repayment terms. All loans are classified as commercial. The following is a summary of loans receivable:

	2015	2014
Current status	**$ 9,445,839**	$ 7,646,880
30-90 days past due	**-**	-
Non-accrual	**191,133**	233,450
	9,636,972	7,880,330
Less allowance	**178,247**	232,612
Less current portion	**1,842,544**	1,771,586
	$ 7,616,181	$ 5,876,132

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

	2015	2014
Balance, beginning of year	**$ 232,612**	$ 836,229
Additions charged to operations	**15,729**	70,376
Write-offs	**(70,094)**	(673,993)
	$ 178,247	$ 232,612

3. Related Party Transactions:

ECIDA allocates a portion of its personnel and overhead costs to RDC based on a cost allocation plan. Costs allocated by ECIDA amounted to $352,691 and $328,728 for the years ended December 31, 2015 and 2014. Amounts owed to ECIDA at December 31, 2015 and 2014 totaled $313,327 and $300,095, respectively.

4. Contingencies:

Loan Fund Utilization:

RDC is not in compliance with EDA regulations regarding the utilization of revolving loan funds. These regulations require that 75% of the revolving loan fund be loaned or committed at all times. During 2015, RDC's utilization increased from 38.2% to 46.1%. Management is aggressively promoting the loan fund to local businesses and expects to increase utilization in 2016.

EDA requires formal sequestration of excess funds and any interest earned on the funds is to be remitted to the U.S. Treasury. RDC can only access sequestered funds with EDA's permission. EDA may also impose sanctions such as suspension or termination of loan programs.

In 2011, EDA requested RDC to quantify the amount of funds subject to sequestration. RDC has since segregated funds and remits quarterly interest earnings on the EDA grant portion to the U.S. Treasury. Segregated funds amounted to $6,504,876 and $6,502,379 at December 31, 2015 and 2014.

Supplementary Information
Schedule of Balance Sheets - By Revolving Loan Program

December 31, 2015
(with summarized comparative totals as of December 31, 2014)

	EDA Account	County Account	City Account	Total 2015	Total 2014
Assets					
Current assets:					
Cash	$ 1,102,969	$ 4,193,814	$ 1,437,813	$ 6,734,596	$ 8,100,162
Restricted cash	4,094,810	1,356,123	1,053,943	6,504,876	6,502,379
Loans receivable	1,778,020	-	64,524	1,842,544	1,771,586
	6,975,799	5,549,937	2,556,280	15,082,016	16,374,127
Loans receivable, net	7,616,181	-	-	7,616,181	5,876,132
	$ 14,591,980	$ 5,549,937	$ 2,556,280	$ 22,698,197	$ 22,250,259
Liabilities and Net Position					
Current liabilities:					
Accounts payable	$ 2,337	$ -	$ -	$ 2,337	$ 12,531
Due to U.S. Department of Housing and Urban Development	-	1,546,423	-	1,546,423	1,540,876
Due to affiliate	289,216	-	24,111	313,327	300,095
	291,553	1,546,423	24,111	1,862,087	1,853,502
Net position:					
Restricted	14,300,427	4,003,514	2,532,169	20,836,110	20,396,757
	$ 14,591,980	$ 5,549,937	$ 2,556,280	$ 22,698,197	$ 22,250,259

Supplementary Information
Schedule of Revenues, Expenses, and Changes in Net Position - By Revolving Loan Program

For the year ended December 31, 2015
(with summarized comparative totals for December 31, 2014)

	EDA Account	County Account	City Account	Total 2015	Total 2014
Operating revenues:					
Interest from loans	$ 372,121	$ -	$ 6,935	$ 379,056	$ 381,279
Sale of warrants	386,609	-	-	386,609	-
Loan commitment and other fees	17,531	-	-	17,531	7,272
Total operating revenues	776,261	-	6,935	783,196	388,551
Operating expenses:					
General and administrative	363,473	-	24,142	387,615	397,959
Provision for uncollectible loans, net	(38,850)	-	-	(38,850)	59,121
Total operating expenses	324,623	-	24,142	348,765	457,080
Operating income (loss)	451,638	-	(17,207)	434,431	(68,529)
Nonoperating revenue:					
Interest	2,564	-	2,358	4,922	4,395
Change in net position	454,202	-	(14,849)	439,353	(64,134)
Net position - beginning	13,846,225	4,003,514	2,547,018	20,396,757	20,460,891
Net position - ending	$ 14,300,427	$ 4,003,514	$ 2,532,169	$ 20,836,110	$ 20,396,757

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202

716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

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 and Erie County Regional
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 and Erie County Regional Development Corporation (RDC), a business-type activity, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RDC's internal control. Accordingly, we do not express an opinion on the effectiveness of RDC'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 RDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

March 18, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202

716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

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

The Board of Directors
Buffalo and Erie County Regional
Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Buffalo and Erie County Regional Development Corporation (RDC), a business-type activity, which comprise the balance sheet as of December 31, 2015, 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 18, 2016.

In connection with our audit, nothing came to our attention that caused us to believe that RDC failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended December 31, 2015. 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 RDC'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 18, 2016