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Buffalo Urban Development Corporation

Audit & Finance Committee Meeting
Monday - April 24th, 2017 - Noon
BUDC Offices, 4th Floor, 95 Perry

Agenda

1. Approval of Minutes of March 14, 2017 Meeting *(Action) (Enclosure)*
2. Final 2016 BUDC Audited Financial Statements *(Information) (Enclosure)*
3. Final 2016 BBRF Audited Financial Statements *(Information) (Enclosure)*
4. Audit & Finance Committee Charter Review *(Recommendation) (Enclosure)*
5. 683 Northland – Construction Bridge Loan Proposals *(Recommendation)*
6. 683 Northland – Rehabilitation Tax Credit Financing *(Information)*
7. ESD Grant #2 (Z415) Funding *(Information)*
8. BUDC/COB CDBG Funding Agreement *(Information)*
9. Restore New York Funding *(Information)*
10. BBRP/BUDC Loan Program Update *(Information)*
11. Adjournment *(Action)*

Hon. Byron W. Brown, Board Chair • Dennis Penman, Vice Chair • Peter M. Cammarata, President • David A. Stebbins, Executive Vice President
Mollie Profic, Treasurer • Bradley Bach, Assistant Treasurer • Kevin J. Zanner, Secretary • Brandye Merriweather, Vice President

Minutes of the
Audit & Finance Committee Meeting
Buffalo Urban Development Corporation
95 Perry Street
Buffalo, New York
March 14, 2017
12:00 p.m.

Call to Order:

Committee Members Present:

James W. Comerford
David J. Nasca
Dennis M. Penman (Committee Chair)

Committee Members Absent:

[None]

Officers Present:

Peter M. Cammarata, President
David A. Stebbins, Executive Vice President
Brandye Merriweather, Vice President
Mollie M. Profic, Treasurer
Kevin J. Zanner, Secretary

Others Present: Dawn Boudreau, ECIDA; Janique S. Curry, BUDC Board member; Sara Dayton, Lumsden & McCormick; and Seth Hennard, Lumsden & McCormick, LLP.

Roll Call: The roll of Committee members was called at 12:15 p.m. and a quorum was determined to be present.

1.0 **Approval of Minutes of the September 19, 2016 Meeting** – The minutes of the September 19, 2016 meeting of the Audit & Finance Committee were presented. Mr. Nasca made a motion to approve the meeting minutes. The motion was seconded by Mr. Comerford and unanimously carried.

2.0 **Draft 2016 BUDC Audited Financial Statements** – Sara M. Dayton and Seth D. Hennard of Lumsden & McCormick, LLP presented the draft 2016 audited financial statements. Ms. Dayton reported that Lumsden & McCormick, LLP is issuing an "unmodified" (i.e., clean) opinion that the financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and the changes in financial position and cash flows for the year, in conformity with accounting principles generally accepted in the United States. Ms. Dayton also reviewed the management letter, noting that based on a limited review, the auditing firm did not identify any deficiencies in internal control which would be considered material weaknesses. The Committee discussed the draft financial statements and the management letter. In response to a question from Mr. Nasca, Ms. Profic explained how BUDC segregates finance and banking related tasks to minimize internal control issues. The Committee also discussed how BUDC's finances will evolve over the next twelve to eighteen months, in light of the construction of the WNY Workforce Training Center and the historic tax credits transaction. At the conclusion of the discussion, Mr. Nasca made a motion to recommend that the Board of Directors accept the 2016 draft audited financial statements. The motion was seconded by Mr. Comerford and unanimously carried.

3.0 **Draft 2016 BBRF Audited Financial Statements** – Ms. Profic reviewed the draft 2016 financial statements for the Buffalo Brownfields Redevelopment Fund. It was noted that these financial statements are being presented to the Committee for information

purposes only, as ECIDA is the custodian for the Buffalo Brownfields Redevelopment Fund. The draft BBRF financial statements will be presented to the ECIDA Board for approval at its March meeting.

4.0 **2016 BBRF Reimbursement Request** – Ms. Profic presented the written summary of third party expenses that are proposed for reimbursement from the Buffalo Brownfields Redevelopment Fund (BBRF). Copies of the written expense summary were included in the meeting agenda packet circulated in advance of the meeting. Ms. Profic noted that third party expenses for BLCP, RiverBend and the Northland Corridor are eligible for reimbursement from the BBRF. The total amount of third party expenses being requested for reimbursement is $337,796, of which $245,330 relates to Northland Corridor project expenses. The Committee discussed the reimbursement request. In response to a question from Mr. Penman, Mr. Cammarata indicated that expenses related to the Trico property are not eligible for reimbursement as that property is owned by Buffalo Brownfield Restoration Corporation. Ms. Profic also confirmed that the current cash balance in the fund is approximately 2.4 million dollars. At the conclusion of the discussion, Mr. Comerford made a motion to recommend that the Board of Directors approve the BBRF reimbursement request as set forth in the written expense summary. The motion was seconded by Mr. Nasca and unanimously carried.

5.0 **New York Bank Account – 683 Northland LLC** – Ms. Profic reported that BUDC plans to establish depository accounts for 683 Northland LLC and 683 WTC, LLC and referred the Committee to KeyBank's form of resolution to authorize the depository accounts, a copy of which was included in the meeting agenda materials. These accounts are needed for the 683 Northland historic tax credits transaction. Formal resolutions will be presented at the March meeting of the BUDC Board of Directors. Mr. Nasca made a motion to recommend that the Board authorize the establishment of depository accounts at KeyBank for 683 Northland LLC and 683 WTC, LLC. The motion was seconded by Mr. Comerford and unanimously carried.

6.0 **Banking Request for Proposals** – Mr. Cammarata reported that ECIDA is issuing a request for proposals (RFP) for banking services. In past years, BUDC joined ECIDA in issuing RFPs for banking services. This year, BUDC executive staff is recommending that BUDC not participate in the RFP process due to the volume of activity relating to the Northland Corridor project. Ms. Profic noted that BUDC is not required to solicit proposals from lending institutions at this time, and may defer the process. The Committee discussed and concurred with the recommendation of BUDC executive staff to continue the current depository relationship with KeyBank and refrain from participating in the ECIDA banking RFP process.

7.0 **Investment & Deposit Policy Re-adoption** – Ms. Profic presented the BUDC Investment and Deposit Policy. No changes to the policy were proposed. Mr. Comerford made a motion to recommend that the Board of Directors re-adopt the Investment and Deposit Policy in its current form without changes. The motion was seconded by Mr. Nasca and unanimously carried.

8.0 **2016 BUDC Investment Report** – Ms. Profic presented the 2016 Investment Report. Mr. Nasca made a motion to recommend that the Board of Directors approve the Investment Report in the form presented to the Committee and authorize submission of the report to the Authorities Budget Office. The motion was seconded by Mr. Comerford and unanimously carried.

9.0 **Audit & Finance Committee Charter Review** – Mr. Cammarata presented the Audit & Finance Committee Charter. There was an extended discussion regarding the charter. Mr. Zanner noted that the charter was adopted in conformance with Public Authorities Law requirements, but that the expansion of BUDC's mission may warrant

further review of the charter and the inclusion of provisions relating to the Committee's finance functions and responsibilities. Mr. Penman suggested that the Board should be involved in developing modifications to the Audit & Finance Charter and the Governance Committee Charter. The Committee agreed that the charter review would occur subsequent to the March Board meeting and that the current charter should be re-adopted in the interim. At the conclusion of the discussion, Mr. Comerford made a motion to re-adopt the Audit & Finance Committee Charter in its current form without changes. The motion was seconded by Mr. Nasca and unanimously carried.

10.0 **Audit & Finance Committee Self-Evaluation** – Ms. Boudreau presented the Audit & Finance Committee self-evaluation. The Committee discussed the self-evaluation and the 2016 activities of the Committee. No changes were proposed. Mr. Comerford made a motion to approve the Committee self-evaluation in the form presented. The motion was seconded by Mr. Nasca and unanimously carried.

11.0 **Audit & Finance Committee Training** – The Committee reviewed and discussed an article entitled "*Benefits of Audit Committees and Audit Committee Charters for Governmental Entities*", copies of which were included in the meeting agenda materials circulated in advance of the meeting.

12.0 **2016 ECIDA Salary Reimbursement Final Quarter Invoice** – Mr. Cammarata circulated a copy of the January 25, 2017 invoice to BUDC detailing ECIDA staff time and costs charged to BUDC for 2016. The total cost as invoiced was $46,340.61.

13.0 **2016 ECIDA BBRP Grant Recap** – Ms. Profic reviewed with the Committee a written summary detailing BUDC's 2016 expenditures of the ECIDA grant to BUDC for the Buffalo Building Reuse Project.

14.0 **2016 Regionally Significant Project Fund Recap** – Mr. Cammarata reviewed with the Committee a written summary of revenues and expenditures for the Regionally Significant Project Fund. The balance in the RSP fund as of February 28, 2017 is $106,721.73.

15.0 **2016 Summary of Legal Invoices** – Mr. Cammarata presented a summary of BUDC's legal fees for 2016. Total legal fees for 2016 were $101,850, which were lower than the previous year.

16.0 **2016 Interns Expense** – Mr. Cammarata presented a summary identifying the 2016 expenses incurred by BUDC for its intern program.

17.0 **2016 Property Report** – Mr. Cammarata presented the BUDC property report for the year ending December 31, 2016. The report reflects changes to the fair market value of 683 Northland and other properties. The property report will be submitted to the Authorities Budget Office as part of the BUDC annual report.

18.0 **BBRP/BUDC Loan Program Update** – Ms. Merriweather presented a brief report regarding the BBRP loan program. The loan for the Alexandre Apartments project is expected to close in the next few weeks. Ms. Merriweather noted that there are currently five loans in various stages of the loan program approval process. The deadline to submit applications for BBRP loan program funding for this calendar quarter is March 31st.

19.0 **Adjournment** – There being no further business to come before the Audit & Finance Committee, upon motion made by Mr. Nasca, seconded by Mr. Comerford and unanimously carried, the March 14, 2017 meeting of the Audit & Finance Committee was adjourned at 1:45 p.m.

Respectfully submitted,

Kevin J. Zanner, Secretary

BUFFALO URBAN DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo Urban Development Corporation

We have audited the accompanying financial statements of Buffalo Urban Development Corporation (BUDC), a business-type activity, which comprise the balance sheets as of December 31, 2016 and 2015, 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 BUDC as of December 31, 2016 and 2015, 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
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017 on our consideration of BUDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BUDC's internal control over financial reporting and compliance.

Linnoden & McCormick, LLP

March 14, 2017

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2016
(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, 2016 and 2015. 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 of resources) and what BUDC owes (liabilities and deferred inflows of resources). The difference between BUDC's assets, deferred outflows of resources, liabilities and deferred inflows of resources (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 increased by 13% from $14,736,000 in 2015 to $16,637,000 in 2016 primarily due to grant revenue recognized for capital asset purchases related to development activity at the Northland Corridor Redevelopment Project (Northland).

- BUDC experienced an increase in net position of $1,901,000 in 2016 compared to an increase of $4,088,000 in 2015 due to the above mentioned Northland grant, the majority of which was recognized in 2015.
- BUDC's total assets increased by $25,991,000 as a result of grants received from Empire State Development (ESD) for $10,300,000 and New York Power Authority (NYPA) for $15,000,000.
- BUDC's total liabilities increased $24,090,000 as a result of ESD and NYPA grants awarded during 2016 presented as unearned grant revenue, offset by $990,000 of grant revenue recognized related to expenses incurred during the year.

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, 2016 and 2015
(Amounts in thousands)

	2016	2015	$ Change	% Change
Assets:				
Cash	$ 1,887	$ 2,988	$ (1,101)	-37%
Receivables	26,573	2,207	24,366	1104%
Restricted cash	2,848	2,759	89	3%
Other current assets	116	35	81	231%
Loans receivable	1,500	-	1,500	100%
Capital assets, net	5,666	4,610	1,056	23%
Land and improvements held for sale	3,997	3,997	-	-
Total assets	$ 42,587	$ 16,596	$ 25,991	157%
Liabilities:				
Current liabilities	$ 25,693	$ 1,603	$ 24,090	1503%
Long-term liabilities	257	257	-	-
Total liabilities	25,950	1,860	24,090	1295%
Net position:				
Restricted	4,019	2,700	1,319	49%
Unrestricted	12,618	12,036	582	5%
Total net position	16,637	14,736	1,901	13%
Total liabilities and net position	$ 42,587	$ 16,596	$ 25,991	157%

Cash – Cash decreased due to continued development activities at Buffalo Lakeside Commerce Park (BLCP) and Northland.

Receivables - Receivables include grant and other receivables owed as a result of BUDC's development projects. The $24,366,000 increase is primarily due to receipt of grant funds from ESD and NYPA for the development of properties at Northland, including a 100,000 square foot Workforce Training Center.

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 $89,000 as a result of BBRF activity, including tax receipts less expenditures for eligible Northland, BLCP, and Riverbend development costs.

Loans receivable - Loans receivable increased $1,500,000 due to two new loans awarded during 2016.

Capital assets, net – Capital assets net of accumulated depreciation increased $1,056,000 primarily from initial development costs of land and buildings related to Northland.

Land and improvements held for sale – Land and improvements held for sale represent the properties held at BLCP which have been reduced to net realizable value as estimated by management to be the fair value of the property when sold.

Current liabilities - The $24,090,000 increase in current liabilities was primarily due to grant funds awarded for redevelopment of Northland. ESD and NYPA grants awarded during 2016 are presented as unearned grant revenue, offset by $990,000 of grant revenue recognized related to expenses incurred during the year.

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 2016, 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, 2016 and 2015
(Amounts in thousands)

	2016	2015	$ Change	% Change
Revenues:				
Grants	$ 2,697	$ 5,243	$ (2,546)	-49%
Brownfields funds	504	512	(8)	-2%
Other	86	72	14	19%
Total revenues	3,287	5,827	(2,540)	-44%
Expenses:				
Development costs	524	372	152	41%
Adjustment to net realizable value	254	786	(532)	-68%
Salaries and benefits	420	402	18	4%
General and administrative	148	140	8	6%
Management fee - ECIDA	40	39	1	3%
Depreciation	6	6	-	-
Total expenses	1,392	1,745	(353)	-20%
Operating income	1,895	4,082	(2,187)	-54%
Interest income	6	6	-	-
Change in net position	$ 1,901	$ 4,088	$ (2,187)	-53%

3. Revenue and Expense Analysis:

Grants – Grant income includes income from the BBRP loan fund and ESD for the Northland project. Grant income is recognized as the related grant expenses are incurred. In 2016, $1,370,000 was recognized from Northland activities and $1,250,000 was recognized from the City of Buffalo related to the BBRP loan fund.

Development costs – Development costs include those costs related to various BUDC projects, but excludes certain BLCP and Northland development costs that are reflected in "adjustment to net realizable value" as discussed below. The increase of $152,000 is the result of further development on the Northland properties.

Adjustment to net realizable value – The adjustment to net realizable value represents certain Northland and BLCP capitalized development costs. These costs are added to the book value of capital assets and 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 $18,000 or 4% due to wage and benefit increases.

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.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2016 budget was presented and approved by the Board of Directors on October 27, 2015. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2016 budget.

Table 3
Budget to Actual Analysis for the Year Ended December 31, 2016
(Amounts in thousands)

	Actual	Original Budget	Actual to Budget $ Variance	Actual to Budget % Variance
Revenues:				
Grants	$ 2,697	$ 2,325	$ 372	16%
Brownfields funds	504	503	1	-
Other income	86	89	(3)	-3%
Total revenues	3,287	2,917	370	13%
Expenses:				
Development costs	524	755	(231)	-31%
Adjustment to net realizable value	254	-	254	
Salaries and benefits	420	426	(6)	-1%
General and administrative	148	1,052	(904)	-86%
Management fee - ECIDA	40	42	(2)	-5%
Depreciation	6	119	(113)	-95%
Total expenses	1,392	2,394	(1,002)	-42%
Operating income	1,895	523	1,372	262%
Interest income	6	4	2	50%
Change in net position	$ 1,901	$ 527	$ 1,374	261%

Note: The original 2016 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position exceeded the budget by $1,374,000.

Grant income was $372,000 over budget as a result of BUDC incurring eligible expenses related to Northland development activities. Grant income is recognized as eligible project expenses are incurred.

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 BLCP business park and future revenues from Northland and the BBRP loan fund 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 Treasurer of BUDC at (716)856-6525. General information relating to BUDC can be found at its website, www.buffalourbandevelopment.com.

BUFFALO URBAN DEVELOPMENT CORPORATION

Balance Sheets

December 31,	2016	2015
Assets		
Current assets:		
Cash	**$ 1,886,957**	$ 2,987,772
Grants receivable (Note 3)	**26,573,540**	2,207,519
Restricted cash	**2,848,080**	2,758,765
Other current assets	**115,689**	35,164
	31,424,266	7,989,220
Noncurrent assets:		
Loans receivable (Note 2)	**1,500,000**	-
Capital assets, net (Note 5)	**5,666,299**	4,609,868
Land and improvements held for sale, net (Note 4)	**3,996,668**	3,996,668
	11,162,967	8,606,536
	$ 42,587,233	$ 16,595,756
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	**$ 448,374**	$ 285,954
Unearned grant revenue (Note 3)	**25,244,081**	1,315,824
	25,692,455	1,601,778
Note payable	**257,381**	257,381
	25,949,836	1,859,159
Net position:		
Net investment in capital assets	**5,666,299**	4,609,868
Restricted	**4,019,034**	2,700,034
Unrestricted	**6,952,064**	7,426,695
	16,637,397	14,736,597
	$ 42,587,233	$ 16,595,756

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Statements of Revenues, Expenses, and Changes in Net Position

For the years ended December 31,	2016	2015
Operating revenues:		
Grants	**$ 2,696,743**	$ 5,243,123
Brownfields funds	**504,026**	512,297
Loan interest and commitment fees	**73,657**	17,994
Rental and other	**12,775**	53,479
Total operating revenues	**3,287,201**	5,826,893
Operating expenses:		
Development costs	**524,385**	371,670
Adjustment to net realizable value	**253,993**	786,626
Salaries and benefits	**420,276**	402,244
General and administrative	**147,485**	139,927
Management fee	**40,257**	38,637
Depreciation	**5,690**	5,690
Total operating expenses	**1,392,086**	1,744,794
Operating income	**1,895,115**	4,082,099
Nonoperating revenues:		
Interest income	**5,685**	6,138
Change in net position	**1,900,800**	4,088,237
Net position - beginning	**14,736,597**	10,648,360
Net position - ending	**$ 16,637,397**	$ 14,736,597

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Statements of Cash Flows

For the years ended December 31,	2016	2015
Operating activities:		
Amounts received for Brownfields funds	$ 436,462	$ 512,297
Grants received	2,258,979	4,938,403
Payments collected on loans and commitment fees	73,657	767,885
Other	12,775	53,479
Loans made	(1,500,000)	-
Payments to employees, suppliers, and other	(1,242,600)	(1,003,140)
Payments for land purchases and improvements on property held for sale	-	(74,056)
Net operating activities	39,273	5,194,868
Capital and related financing activities:		
Purchase of capital assets	(1,056,458)	(4,975,924)
Investing activities:		
Interest	5,685	6,138
Increase in restricted cash	(89,315)	(1,198,992)
Net investing activities	(83,630)	(1,192,854)
Net change in cash	(1,100,815)	(973,910)
Cash - beginning	2,987,772	3,961,682
Cash - ending	$ 1,886,957	$ 2,987,772
Reconciliation of operating income to net cash flows from operating activities:		
Operating income	$ 1,895,115	$ 4,082,099
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation	5,690	5,690
Net realizable value adjustment	253,993	786,626
Land and improvement purchases on property held for sale	-	(74,056)
Changes in other assets and liabilities:		
Grants receivable	(55,860)	4,826,983
Other current assets	(80,525)	3,893
Loans receivable	(1,500,000)	749,891
Accounts payable and accrued expenses	(97,236)	(54,555)
Unearned grant revenue	(381,904)	(5,131,703)
Net operating activities	$ 39,273	$ 5,194,868
Noncash transactions:		
Capital asset purchases funded by accounts payable	$ 259,656	-
Grants receivable but not yet earned	$ 24,310,161	-

See accompanying notes.

11

1. Summary of Significant Accounting Policies:

Nature of Organization:

Buffalo Urban Development Corporation (BUDC) was incorporated to facilitate partnership with the private sector in the development of the City of Buffalo (the City).

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 taxes (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.

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 as applied to governmental units. The Governmental Accounting Standards Board 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 Brownfields funds, 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 by 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, 2016, BUDC's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution'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.

Capital Assets:

Capital assets used in operations are recorded at cost. Capital assets purchased to perform pollution remediation activities and for future leasing activities are recorded at cost less adjustments to net realizable value based on appraisals and future expected cash flow. 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	10-30 years
Furniture and equipment	$ 1,000	4-10 years

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 whose use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws and include the Buffalo Brownfields Redevelopment Fund and a revolving loan fund.
- *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.

Income Taxes:

Although the financial statements are required to be reported as a governmental entity, BUDC 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.

2. Loans Receivable:

BUDC has an agreement with New York Business Development Corporation to provide loans to facilitate the development and adaptive reuse of vacant or underutilized buildings in certain designated areas. The loan agreement provides for $9,000,000 in total funding from five participating lending banks, with interest rates determined by the banks. At December 31, 2016, BUDC had two outstanding loans totaling $1,500,000 at interest rates of 5.5%. Interest payments are due monthly and principal is due at maturity, in November 2018 and March 2019.

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) and National Grid for reimbursement of planning costs in South Buffalo, New York.

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 Corridor Redevelopment Project (Northland).

In 2016, BUDC was awarded a $10,300,000 grant from ESD for the demolition, remediation, renovation, construction, and site/street improvements of various Northland properties and Western New York Workforce Training Center project (WTC).

In 2016, BUDC was also awarded a $15,000,000 grant from the New York Power Authority (NYPA) for the renovation and restoration of the WTC.

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:

	2016	2015
Grants receivable:		
ESD	**$ 11,568,364**	$ 2,050,000
DOS/National Grid	-	142,669
NYPA	**15,000,000**	-
Other	5,176	14,850
	$ 26,573,540	$ 2,207,519
Unearned grant revenue:		
ESD	**$ 10,243,001**	$ 1,313,190
NYPA	**15,000,000**	-
Other	1,080	2,634
	$ 25,244,081	$ 1,315,824

4. Land and Improvements Held for Sale:

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 Buffalo Lakeside Commerce Park (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. Between 2004 and 2008 there were multiple BLCP parcels sold to local businesses.

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

	2016	2015
BLCP	**$ 9,080,583**	$ 9,076,458
Less adjustment to net realizable value	5,083,915	5,079,790
	$ 3,996,668	$ 3,996,668

5. Capital Assets:

	Balance January 1, 2016	Increases	Retirements/ Reclassifications	Balance December 31, 2016
Non-depreciable capital assets:				
Land	$ 515,623	$ -	$ -	$ 515,623
Idle buildings and improvements	4,078,398	1,062,121	-	5,140,519
Total non-depreciable capital assets	4,594,021	1,062,121	-	5,656,142
Depreciable capital assets:				
Furniture and equipment	23,569	-	-	23,569
Less accumulated depreciation	7,722	5,690	-	13,412
Total depreciable assets, net	15,847	(5,690)	-	10,157
	$ 4,609,868	**$ 1,056,431**	**$ -**	**$ 5,666,299**

	Balance January 1, 2015	Increases	Retirements/ Reclassifications	Balance December 31, 2015
Non-depreciable capital assets:				
Land	$ 156,989	$ 358,634	$ -	$ 515,623
Idle buildings and improvements	193,205	3,885,193	-	4,078,398
Total non-depreciable capital assets	350,194	4,243,827	-	4,594,021
Depreciable capital assets:				
Furniture and equipment	4,042	19,527	-	23,569
Less accumulated depreciation:	2,032	5,690	-	7,722
Total depreciable assets, net	2,010	13,837	-	15,847
	$ 352,204	$ 4,257,664	$ -	$ 4,609,868

Land, buildings, and improvements related to Northland amounted to $5,656,142 and $4,594,021 at December 31, 2016 and 2015. BUDC intends to return these properties to productive use, assist with revitalizing the surrounding neighborhood, and provide employment opportunities for nearby residents by creating a new manufacturing hub on Buffalo's east side. Once completed, BUDC expects to lease the property to local businesses, government agencies, and nonprofit organizations.

Due to the extensive amount of revitalization, pollution remediation (Note 8), and other related activities, the anticipated costs of certain Northland properties exceed the expected fair market value of the properties based on current estimates. Adjustments to net realizable value total $249,868 and $712,570 for the years ended December 31, 2016 and 2015.

6. Note Payable:

In connection with the purchase of property related to BLCP, 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, 2016 and 2015, 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.

7. 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 $40,257 and $38,637 for the years ended December 31, 2016 and 2015. Amounts owed to ECIDA under this agreement totaled $50,940 and $43,616 at December 31, 2016 and 2015.

8. Pollution Remediation:

Various pollution remediation activities will be necessary at Northland during development. Based on preliminary environmental studies and design plans, management believes clean-up activities will amount to $4,575,000. The current estimate includes 87% of the total Northland acreage acquired and the remaining sections are expected to be demolished or consist of parking lots that will require limited clean-up. Management expects the entire cost of remediation to be reimbursed by State grants; therefore, no liability has been accrued in these financial statements.

9. 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.

Lumsden McCormick LLP

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Buffalo Urban Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Buffalo Urban Development Corporation (BUDC), a business-type activity, which comprise the balance sheet as of December 31, 2016, 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 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered BUDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BUDC's internal control. Accordingly, we do not express an opinion on the effectiveness of BUDC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BUDC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Lumsden & McCormick, LLP

March 14, 2017

Lumsden McCormick LLP

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

The Board of Directors
Buffalo Urban Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Buffalo Urban Development Corporation (BUDC), a business-type activity, which comprise the balance sheet as of December 31, 2016, 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 14, 2017.

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, 2016. 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 14, 2017

BUFFALO BROWNFIELDS REDEVELOPMENT FUND

SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

DECEMBER 31, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Boards of Directors
Erie County Industrial Development Agency
Buffalo Urban Development Corporation

We have audited the accompanying schedule of revenues, expenses, and changes in net position of Buffalo Urban Development Corporation's (BUDC) Buffalo Brownfields Redevelopment Fund for the year ended December 31, 2016, and the related notes to the schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of this schedule 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 the schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 schedule.

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 schedule of revenues, expenses, and changes in net position referred to above presents fairly, in all material respects, the revenues and expenses of BUDC's Buffalo Brownfields Redevelopment Fund for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Report on the Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of BUDC as of and for the year ended December 31, 2016, and our report thereon, dated March 14, 2017, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Boards of Directors and management of the Erie County Industrial Development Agency, the Buffalo Urban Development Corporation, the County of Erie, and the City of Buffalo and is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

March 14, 2017

BUFFALO BROWNFIELDS REDEVELOPMENT FUND

Schedule of Revenues, Expenses, and Changes in Net Position

For the year ended December 31, 2016

Operating revenues:	
City of Buffalo PILOTs by end user:	
Sonwil	$ 293,858
CertainTeed	270,090
Cobey	162,054
Total City of Buffalo PILOTs	726,002
County of Erie PILOTs by end user:	
Sonwil	64,722
CertainTeed	59,487
Cobey	35,692
Total County of Erie PILOTs	159,901
Total operating revenues	885,903
Operating expenses:	
City of Buffalo share of PILOTs	333,616
County of Erie share of PILOTs	69,909
Eligible project costs	442,680
Total operating expenses	846,205
Operating income	39,698
Nonoperating revenues:	
Interest revenue	2,156
Change in net position	41,854
Net position - beginning	1,916,383
Net position - ending	$ 1,958,237

See accompanying notes.

3

Notes to the Schedule

1. Summary of Significant Accounting Policies:

Nature of Activities:

The Buffalo Brownfields Redevelopment Fund (the Fund) was formed in July 2005 by agreement between Erie County Industrial Development Agency (ECIDA), the City of Buffalo (the City), the County of Erie (the County), and Buffalo Urban Development Corporation (BUDC) for the purpose of remediation and redevelopment of Brownfields properties in the City. Under this agreement, ECIDA receives payments in lieu of taxes (PILOTs) from property owners located within the Buffalo Lakeside Commerce Park (BLCP). These PILOT payments are the result of abated City and County property taxes, as authorized by ECIDA. A portion of these PILOT payments is paid to the City and County, while the remainder is held in the Fund to assist in further development of BLCP. After completion of BLCP, funds can be used in connection with similar projects located within the City that are undertaken by BUDC.

Basis of Presentation:

The schedule of revenues, expenses, and changes in net position (the schedule) presents the activity of the Fund, which is accounted for and is part of BUDC's financial statements.

The schedule has been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America as applied to governmental units and specifically business-type activities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Estimates:

The preparation of the schedule 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 schedule and accompanying notes. Actual results could differ from those estimates.

BUFFALO URBAN DEVELOPMENT CORPORATION

AMENDED AND RESTATED
AUDIT AND FINANCE COMMITTEE CHARTER

The Board of Directors of Buffalo Urban Development Corporation (the "Corporation") hereby adopts this Amended and Restated Audit and Finance Committee Charter ("Charter") of the Corporation as of the Effective Date set forth herein.

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ARTICLE I
Purpose

The purpose of the Audit and Finance Committee (the "Audit Committee") shall be to: (1) assure that the Corporation's Board of Directors (the "Board") fulfills its responsibilities for the Corporation's internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting; (2) provide an avenue of communication between management, the independent auditors and the Board; (3) oversee the Corporation's capital requirements and its acquisition, management and repayment of debt, and to recommend policies concerning the same; and (4) review and make recommendations regarding budgetary matters.

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ARTICLE II
Powers

The Audit Committee shall have the power to: (1) conduct or authorize investigations into any matters within its scope of responsibility; (2) seek any information it requires from Corporation employees, all of whom should be directed by the Board to cooperate with the Audit Committee's requests; and (3) meet with Corporation staff, independent auditors, experts, other advisors or Corporation counsel, as the Audit Committee may deem appropriate. The Board shall ensure that the Audit Committee has sufficient resources to carry out its duties under this Charter.

ARTICLE III
Composition of the Audit and Finance Committee

A. The Audit Committee shall be appointed by the Board and shall be comprised of not less than three (3) independent members, who shall constitute a majority of the Committee. In the event that the Board has less than three (3) independent members, the Board may appoint non-independent members to the Audit Committee so long as the independent members constitute a majority of the Committee. The term "independent member," as defined in Section 2825 of the New York Public Authorities Law, shall mean a member who: (i) is not, and in the past two years

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has not been, employed by the Corporation or an affiliate in an executive capacity; (ii) is not, and in the past two years has not been, employed by an entity that received remuneration valued at more than Fifteen Thousand Dollars for goods and services provided to the Corporation or received any other form of financial assistance valued at more than Fifteen Thousand Dollars from the Corporation; (iii) is not a relative of an executive officer or employee in an executive position of the Corporation or an affiliate; and (iv) is not, and in the past two years has not been, a lobbyist registered under a state or local law and paid by a client to influence the management decisions, contract awards, rate determinations or any other similar actions of the Corporation or an affiliate of the Corporation.

B. Appointees to the Audit Committee are required to possess the necessary skills to understand the duties and functions of the Audit Committee and be familiar with corporate financial and accounting practices. The Board shall designate one member of the Audit Committee to serve as Chair of the Audit Committee. Each member of the Audit Committee shall serve for a term of one (1) year and until his or her successor shall be appointed and qualified.

ARTICLE IV

Committee Meetings

A. The Audit Committee will meet at least annually and as frequently as may be necessary or appropriate in order to fulfill the functions outlined in this Charter. The Audit Committee may invite other individuals, such as staff members, auditors or other technical experts to attend meetings and provide pertinent information, as necessary.

B. Meeting notices will be prepared for each meeting and provided to Audit Committee members by electronic or regular mail at least five (5) days in advance of the scheduled meeting. Meetings shall be held in compliance with the requirements of the Open Meetings Law. Agenda materials will be provided in advance of each meeting. A quorum of the Audit Committee shall consist of a majority of the members then serving on the Audit Committee. The affirmative vote of a majority of the members then serving on the Audit Committee shall constitute an act of the Audit Committee. Minutes of the Committee meetings shall be recorded by the Secretary or, in his or her absence, an Assistant Secretary or any other person designated as secretary of the meeting by the Chair of the Audit Committee.

ARTICLE V
Committee Responsibilities

The Board has delegated responsibilities to the Audit Committee in furtherance of the committee's purposes. Those responsibilities include the following:

A. Independent Auditors and Financial Statements

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Deleted: . C. Audit Committee members shall be prohibited from being an employee of the Corporation or an immediate family member of an employee of the Corporation. Members of the Audit Committee shall not engage in any private business transactions with the Corporation or receive compensation from any private entity that has material business relationships with the Corporation, or be an immediate family member of an individual that engages in private business transactions with the Corporation or receives compensation from an entity that has material business relationships with the Corporation. ¶

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ARTICLE II¶

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The Audit Committee shall:

(i) Recommend to the Board the appointment of independent auditors, establish the compensation to be paid to the auditors retained by the Corporation, pre-approve all audit services provided by the independent auditor and provide oversight of the audit services provided by the independent auditor.

(ii) Engage independent auditors to provide permitted audit services, consistent with and in accordance with the procurement policy of the Corporation. The Corporation's independent auditor shall be prohibited from providing non-audit services unless having received previous written approval from the Audit Committee. Non-audit services include tasks that directly support the Corporation's operations, such as (a) bookkeeping or other services related to the accounting records or financial statements of the Corporation; (b) financial information systems design and implementation; (c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; (d) actuarial services; (e) internal audit outsourcing services; (f) management functions or human resource services; (g) broker or dealer, investment advisor, or investment banking services; and (h) legal services and expert services unrelated to the audit function.

(iii) Review and approve the Corporation's audited financial statements, associated management letter and all other auditor communications.

(iv) Review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements of the Corporation.

(v) Meet with the Corporation's independent auditor at least annually to discuss the financial statements of the Corporation, and on an as-needed basis to discuss any significant issues that may have arisen during the course of the audit.

(vi) Review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities pertaining to the same.

B. Internal Controls, Compliance and Risk Assessment

The Audit Committee shall review management's assessment of the effectiveness of the Corporation's internal controls and review the actions taken by management on the independent accountants' and auditors' suggestions for correcting weaknesses, if any, in the Corporation's internal controls, regulatory compliance, organizational structure and operations, and if applicable, any weaknesses noted.

C. Special Investigations

The Audit Committee shall:

(i) Ensure that the Corporation has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the directors, officers or employees of the Corporation or any persons having business dealings with the Corporation or breaches of internal control.

(ii) Develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing.

(iii) Request and oversee special investigations as needed and/or refer specific issues to the Board or appropriate committee of the Board for further investigation.

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D. Annual Budget

The Audit Committee shall:

(i) Review the Corporation's proposed annual operating budget as presented by Corporation management for the upcoming fiscal year.

(ii) Recommend the annual budget to the Board for approval after incorporating any modifications the Audit Committee deems appropriate.

(iii) Make recommendations to the Board regarding transfers of money under the budget, if requested by the Board.

E. Capitalization, Financial and Procurement Requirements

The Audit Committee shall:

(i) Assess the financial requirements of the Corporation's capital plans. The assessment is to include current and future capital needs, a justification of why such capital expenditures are required and a review and explanation of funding sources for capital projects such as grants, bank loans and existing cash reserves.

(ii) Review the financial aspects of the Corporation's proposed projects, major transactions, significant expenditures, new programs and services, as well as proposals to discontinue programs and services, and make recommendations to the Board based on such reviews.

(iii) Review and recommend changes to the Corporation's procurement policy, including thresholds for procuring commodities, equipment, goods or services with or without written requests for proposals.

(iv) Review proposals for financing the Corporation's capital expenditures and other business ventures, and make recommendations to the Board concerning such proposals and the level and nature of debt that may be acquired by the Corporation. In connection with such reviews, the Audit Committee shall consider such information as it determines to be consistent with

prudent borrowing practices, including, without limitation, the ability of the Corporation to generate cash flow to support its debt obligations and other cash flow needs.

(v) Review the Corporation's existing loan agreements and other debt facilities, and make recommendations for repayment, consolidation and refinancing, if appropriate.

(vi) When requested by the Board, make recommendations to the Board concerning criteria that should govern the Corporation's financings.

(vii) Review, at least annually, the Corporation's insurance policies and liability coverage, and make recommendations regarding changes to each, if appropriate.

F. Other Responsibilities

The Audit Committee shall:

(i) Obtain information and training needed to enhance the Audit Committee members' understanding of the role of the independent auditor, the risk management process, internal controls, budgeting, capitalization requirements, debt acquisition and an appropriate level of familiarity in financial reporting standards and processes.

(ii) Review this Charter annually, reassess its adequacy and recommend to the Board any proposed changes. This Charter shall be updated as applicable laws, regulations, accounting and auditing standards change.

(iii) Conduct an annual self-evaluation of its performance, including the effectiveness of the Committee, its compliance with this Charter, and how it has discharged its duties and met its responsibilities as outlined herein.

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ARTICLE VI
Committee Reports

The Audit Committee shall:

A. Report its actions and recommendations to the Board at each regular meeting of the Board following a meeting of the Audit Committee and when otherwise requested by the Board.

B. At the Board's request, report to the Board regarding the status of and the Audit Committee's recommendations for the Corporation's proposed and existing borrowing arrangements and other debt facilities.

C. Report to the Board on a periodic basis, at least annually, the findings of its independent auditors. These reports shall include careful consideration of the actions taken by management on the independent auditors' suggestions for correcting weaknesses, if any, in the Corporation's internal controls, regulatory compliance, organizational structure and operations.

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These reports may include the adequacy of the audit effort by the Corporation's independent auditors, the financial and regulatory compliance reporting decisions of management, the adequacy of disclosure of information essential to a fair presentation of the financial affairs and regulatory compliance efforts of the Corporation, and the organization and quality of the Corporation's system of management and internal accounting controls.

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D. Report to the Board, at least annually, regarding any proposed changes to this Charter.

ARTICLE VII
Amendments

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This Charter shall be effective upon the affirmative vote of the Board of Directors of the Corporation and may be amended upon affirmative vote of a majority of the Board of Directors of the Corporation.

Effective Date: April 7, 2009
Amended: March 2, 2010
Re-adopted: March 26, 2013
Re-adopted: March 14, 2014
Re-adopted: March 31, 2015
Re-adopted: March 29, 2016
Re-adopted: March 28, 2017
Amended and Restated: _____, 2017