

BUFFALO URBAN DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015

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, 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 BUDC 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

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 16, 2016 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.

Lumodin & McCormick, LLP

March 16, 2016

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2015

(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, 2015 and 2014. 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 38.4% from \$10,648,000 in 2014 to \$14,736,000 in 2015 primarily due to a \$4,400,000 Empire State Development (ESD) grant for building acquisitions at the Northland Corridor Redevelopment Project (Northland).
- BUDC experienced an increase in net position of \$4,088,000 in 2015 compared to a net loss of \$593,000 in 2014 due to the above mentioned Northland grant.

- BUDC's total assets decreased by \$1,098,000 primarily due to the payment of continued development costs associated with Buffalo Lakeside Commerce Park (BLCP) and Northland.
- BUDC's total liabilities decreased \$5,186,000 as a result of a \$5,132,000 decrease in unearned grant revenue. This change was recognized as revenue as the related grant expenses were incurred during 2015.

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, 2015 and 2014
(Amounts in thousands)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Cash	\$ 2,988	\$ 3,962	\$ (974)	-25%
Receivables	2,207	7,784	(5,577)	-72%
Restricted cash	2,759	1,560	1,199	77%
Other current assets	35	39	(4)	-10%
Capital assets, net	4,610	352	4,258	1210%
Land and improvements held for sale	3,997	3,997	-	
Total assets	\$ 16,596	\$ 17,694	\$ (1,098)	-6%
Liabilities:				
Current liabilities	\$ 1,603	\$ 6,789	\$ (5,186)	-76%
Long-term liabilities	257	257	-	
Total liabilities	1,860	7,046	(5,186)	-74%
Net position:				
Restricted	2,700	2,309	391	17%
Unrestricted	12,036	8,339	3,697	44%
Total net position	14,736	10,648	4,088	38%
Total liabilities and net position	\$ 16,596	\$ 17,694	\$ (1,098)	-6%

Cash – Cash decreased due to continued development activities at BLCP and Northland.

Receivables - Receivables include grant and other receivables owed as a result of BUDC's development projects. The \$5,577,000 decrease is primarily due to receipt of grant funds from ESD for the acquisition of properties at Northland on the East Side of Buffalo. Loans receivable decreased by \$750,000 due to the repayment of a loan awarded in 2014 for an adaptive reuse project in downtown Buffalo.

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 \$283,000 as a result of BBRF activity, including tax receipts and grant reimbursements less expenditures for eligible BLCF and Riverbend development costs. As discussed above, loan principal and interest was repaid in 2015 amounting to \$768,000 and is restricted for further lending activities.

Capital assets, net – Capital assets net of accumulated depreciation increased \$4,258,000 primarily from the acquisition of land and buildings related to Northland.

Land and improvements held for sale – Land and improvements held for sale represent the properties held at BLCF 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 \$5,186,000 decrease in current liabilities was primarily due to receipt of grant funds awarded to BUDC for redevelopment of Northland. \$4,957,000 of this grant was recognized as income in 2015 principally due to various project expenses related to the Northland grant.

Long-term liabilities - Long-term liabilities consist of a note payable to the former owner of certain BLCF 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 2015, 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, 2015 and 2014
(Amounts in thousands)

	<u>2015</u>	<u>2014</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 5,243	\$ 1,613	\$ 3,630	225%
Brownfields funds	512	520	(8)	-2%
Other	72	47	25	53%
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	5,827	2,180	3,647	167%
Expenses:				
Development costs and grant to City of Buffalo	372	1,939	(1,567)	-81%
Adjustment to net realizable value	786	126	660	524%
Salaries and benefits	402	376	26	7%
Management fee - ECIDA	39	36	3	8%
General and administrative	140	120	20	17%
Loss on sale of land	-	180	(180)	-100%
Depreciation	6	1	5	500%
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,745	2,778	(1,033)	-37%
Operating income (loss)	4,082	(598)	4,680	-783%
Interest income	6	4	2	50%
Change in net position	<hr/> <u>\$ 4,088</u>	<hr/> <u>\$ (594)</u>	<hr/> <u>\$ 4,682</u>	<hr/> <u>-788%</u>

3. Revenue and Expense Analysis:

Grants – Grant income includes income from the BBRP loan fund, ESD for the Northland project, and the South Buffalo BOA projects. Grant income is recognized as the related grant expenses are incurred. In 2015, the majority of grant income, \$4,957,000, was recognized from Northland activities of which \$4,384,000 was related to building acquisition costs that were capitalized. In 2014, grant income included \$430,000 for Northland and \$750,000 of initial grant funds to develop a revolving loan fund.

Development costs and grant to City of Buffalo – Development costs include those costs related to various BUDC projects, but excludes certain BLCP development costs that are reflected in “adjustment to net realizable value” as discussed below. The decrease in costs is primarily attributable to the sale of the Riverbend redevelopment site in 2014 when \$1,300,000 was transferred to the City of Buffalo from the sale proceeds.

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 \$26,000 or 7% 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.

Loss on sale of land – Loss on sale of land relates to the sale of 184.65 acres of land at the Riverbend redevelopment site to Fort Schuyler Management Corporation in 2014.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2015 budget was presented and approved by the Board of Directors on September 30, 2014. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2015 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2015
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Variance</u>	<u>% Variance</u>
Revenue:				
Grants	\$ 5,243	\$ 6,513	\$ (1,270)	-19%
Brownfields funds	512	498	14	3%
Other income	72	63	9	14%
Total revenue	5,827	7,074	(1,247)	-18%
Expenses:				
Development projects	372	5,128	(4,756)	-93%
Adjustment to net realizable value	786	-	786	
Salaries and benefits	402	490	(88)	-18%
Management fee - ECIDA	39	60	(21)	-35%
General and administrative	140	197	(57)	-29%
Depreciation	6	51	(45)	-88%
Total expenses	1,745	5,926	(4,181)	-71%
Operating income	4,082	1,148	2,934	256%
Interest income	6	71	(65)	-92%
Change in net position	\$ 4,088	\$ 1,219	\$ 2,869	235%

Note: The original 2015 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 \$2,869,000. This was primarily due to development project expenses (including fair value adjustments) of \$1,018,000 that were under budget by \$4,110,000 due to unexpected delays in remediation and renovation activities at Northland. Salaries and benefits were \$88,000 below budget primarily due to a decision not to hire a full-time Project Facilities Manager to oversee the Northland properties and instead utilize a third party property management firm.

Grant income was \$1,270,000 below budget as a result of BUDC not receiving BBRP grant proceeds for the remainder of the Downtown Development Loan fund. These funds are expected to be received when eligible borrowers are approved.

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 CFO 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,	2015	2014
Assets		
Current assets:		
Cash	\$ 2,987,772	\$ 3,961,682
Receivables		
Loans receivable (Note 2)	-	749,891
Grants (Note 3)	2,207,519	7,034,502
Restricted cash	2,758,765	1,559,773
Other current assets	35,164	39,057
	<u>7,989,220</u>	<u>13,344,905</u>
Noncurrent assets:		
Capital assets, net (Note 5)	4,609,868	352,204
Land and improvements held for sale, net (Note 4)	3,996,668	3,996,668
	<u>8,606,536</u>	<u>4,348,872</u>
	<u>\$ 16,595,756</u>	<u>\$ 17,693,777</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable and accrued expenses	\$ 285,954	\$ 340,509
Unearned grant revenue (Note 3)	1,315,824	6,447,527
	<u>1,601,778</u>	<u>6,788,036</u>
Note payable	257,381	257,381
	<u>1,859,159</u>	<u>7,045,417</u>
Net position:		
Restricted	2,700,034	2,309,664
Unrestricted	12,036,563	8,338,696
	<u>14,736,597</u>	<u>10,648,360</u>
	<u>\$ 16,595,756</u>	<u>\$ 17,693,777</u>

See accompanying notes.

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

For the years ended December 31,	2015	2014
Operating revenues:		
Grants	\$ 5,243,123	\$ 1,612,680
Brownfields funds	512,297	519,507
Loan interest	17,994	34,627
Rental and other	53,479	13,083
Total operating revenues	<u>5,826,893</u>	<u>2,179,897</u>
Operating expenses:		
Grant to City of Buffalo	-	1,300,000
Development costs	371,670	638,857
Adjustment to net realizable value	786,626	125,955
Loss on sale of land	-	179,693
Salaries and benefits	402,244	376,432
Management fee	38,637	35,856
General and administrative	139,927	120,426
Depreciation	5,690	808
Total operating expenses	<u>1,744,794</u>	<u>2,778,027</u>
Operating income (loss)	4,082,099	(598,130)
Nonoperating revenues:		
Interest income	<u>6,138</u>	<u>4,817</u>
Change in net position	4,088,237	(593,313)
Net position - beginning	<u>10,648,360</u>	<u>11,241,673</u>
Net position - ending	<u>\$ 14,736,597</u>	<u>\$ 10,648,360</u>

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Statements of Cash Flows

For the years ended December 31,	2015	2014
Operating activities:		
Cash from Brownfields funds	\$ 512,297	\$ 519,507
Cash from grants	4,938,403	1,372,593
Payments on grants	-	(1,300,000)
Increase in loans receivable	-	(750,000)
Payments collected on loans	767,885	34,736
Other sources	53,479	13,083
Payments to employees, suppliers, and other	(1,003,140)	(842,628)
Cash proceeds on sale of land	-	5,300,000
Payments for land purchases and improvements on property held for sale	(74,056)	(556,825)
Net operating activities	5,194,868	3,790,466
Capital and related financing activities:		
Purchase of capital assets	(4,975,924)	(350,194)
Investing activities:		
Interest	6,138	4,817
Change in restricted cash	(1,198,992)	(63,827)
Net investing activities	(1,192,854)	(59,010)
Net change in cash	(973,910)	3,381,262
Cash - beginning	3,961,682	580,420
Cash - ending	\$ 2,987,772	\$ 3,961,682
Reconciliation of operating income (loss) to net cash flows from operating activities:		
Operating income (loss)	\$ 4,082,099	\$ (598,130)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:		
Depreciation	5,690	808
Proceeds from sale of land	-	5,300,000
Loss on sale of land and net realizable value adjustment	786,626	224,973
Land and improvement purchases	(74,056)	(128,774)
Changes in other assets and liabilities:		
Grants receivable	4,826,983	(6,327,408)
Loans receivable	749,891	(749,891)
Other current assets	3,893	17,961
Accounts payable and accrued expenses	(54,555)	(36,394)
Unearned grant revenue	(5,131,703)	6,087,321
Net operating activities	\$ 5,194,868	\$ 3,790,466

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Organization:

Buffalo Urban Development Corporation (BUDC) 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 tax (PILOT) for future eligible project costs. The Fund is administered by ECIDA and reimburses BUDC for eligible project costs incurred. The activity of the Fund is included in these financial statements.

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

Basis of Presentation:

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Measurement Focus:

BUDC reports as a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. BUDC's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

BUDC's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those from 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 in BUDC's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Policies permit management to use demand accounts and certificates of deposit for daily operating funds. Invested resources are limited to obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance (FDIC). Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that in the event of a bank failure BUDC's deposits may not be returned to it. At December 31, 2015, BUDC's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging bank's agent in BUDC's name.

Loans Receivable:

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

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

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

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. 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:

- *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. In 2015 and 2014, restrictions 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 by BUDC.

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. Management believes BUDC is no longer subject to examination by Federal taxing authorities for years ended prior to December 31, 2012.

Reclassifications:

The 2014 financial statements have been reclassified to conform with the presentation adopted for 2015.

2. Loans Receivable:

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

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

3. Grants Receivable and Unearned Grant Revenue:

In 2011, BUDC was awarded two grants amounting to \$1,708,000 from New York State Department of State (DOS) 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).

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:

	<u>2015</u>	<u>2014</u>
Grants receivable:		
ESD	\$ 2,050,000	\$ 6,700,000
DOS/National Grid	142,669	221,852
Other	14,850	112,650
	<u>\$ 2,207,519</u>	<u>\$ 7,034,502</u>
Unearned grant revenue:		
ESD	\$ 1,313,190	\$ 6,270,019
DOS/National Grid	-	155,376
Other	2,634	22,132
	<u>\$ 1,315,824</u>	<u>\$ 6,447,527</u>

4. Land and Improvements Held for Sale:

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

	<u>2015</u>	<u>2014</u>
BLCP	\$ 9,076,458	\$ 9,002,402
Less adjustment to net realizable value	<u>5,079,790</u>	<u>5,005,734</u>
	<u>\$ 3,996,668</u>	<u>\$ 3,996,668</u>

Buffalo Lakeside Commerce Park:

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

With additional funding from the State, BUDC purchased 130 acres of land to add to BLCP and constructed additional roads and infrastructure. Between 2004 and 2008 there have been multiple BLCP parcels sold to local businesses.

Riverbend LLC:

BUDC is the sole member of Riverbend LLC (Riverbend). In 2008, Riverbend acquired 185 acres of land for \$4,638,250. The City provided this funding with State funds and the agreement that BUDC would pay for all costs incurred to plan, improve, market, sell, and lease the property. During 2014, BUDC sold all 185 acres of the Riverbend properties for \$5,300,000. The cost associated with this land, including the initial investment and subsequent costs through December 31, 2014 to plan, improve, sell, and lease the property, totaled \$5,479,693, resulting in a loss of \$179,693. In addition, because BUDC acquired the property with financial assistance from the City, BUDC granted \$1,300,000 to the City from the sale proceeds.

5. Capital Assets:

	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
	Balance January 1, 2014	Increases	Retirements/ Reclassifications	Balance December 31, 2014
Non-depreciable capital assets:				
Land	\$ -	\$ 156,989	\$ -	\$ 156,989
Idle buildings and improvements	-	193,205	-	193,205
Total non-depreciable capital assets	-	350,194	-	350,194
Depreciable capital assets:				
Furniture and equipment	4,042	-	-	4,042
Less accumulated depreciation:	1,224	808	-	2,032
Total depreciable assets, net	2,818	(808)	-	2,010
	\$ 2,818	\$ 349,386	\$ -	\$ 352,204

Land, buildings, and improvements related to Northland amounted to \$4,594,021 and \$350,194 at December 31, 2015 and 2014. 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. As a result, as of January 1, 2014 these properties have been reclassified from land and improvements held for sale to capital assets.

Due to the extensive amount of revitalization, pollution remediation (Note 8), and other related activities, the anticipated costs exceed the expected fair market value of the properties. Adjustments to net realizable value total \$712,570 and \$81,976 for the years ended December 31, 2015 and 2014.

6. Note Payable:

In connection with the purchase of property related to BLCF, BUDC issued a non-interest bearing note payable in an amount equal to the greater of \$525,000 (\$13,125 per acre) or a percentage of the resale price of the developed property. At December 31, 2015 and 2014, 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 \$38,637 and \$35,856 for the years ended December 31, 2015 and 2014. Amounts owed to ECIDA under this agreement totaled \$43,616 and \$40,152 at December 31, 2015 and 2014.

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 \$2,825,000. The current estimate includes 75% 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.

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, 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 16, 2016.

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.

Lumaden & McCormick, LLP

March 16, 2016

**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, 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 16, 2016.

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, 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 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 16, 2016