

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT
CORPORATION**

DECEMBER 31, 2021

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Buffalo Urban Development Corporation
Buffalo, New York

Opinion

We have audited the consolidated financial statements of the Buffalo Urban Development Corporation (BUDC), as of and for the years ended December 31, 2021 and 2020, and the related notes to the consolidated financial statements, which collectively comprise the BUDC's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the BUDC as of December 31, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the BUDC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the BUDC's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee

that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 BUDC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the BUDC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the BUDC's basic financial statements. The consolidating statement of net position and consolidating statement of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of net position and combining statement of revenues, expenses and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022 on our consideration of the BUDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the BUDC's 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 the BUDC's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 29, 2022

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2021

(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, 2021, 2020 and 2019. We encourage readers to consider the information presented here in conjunction with BUDC's audited financial statements.

In 2017, BUDC's financial reporting entity expanded as a result of a tax credit transaction to bring historic tax credits (HTC) and new markets tax credit (NMTC) funding to the development project at 683 Northland Avenue (the Project), the location of the Northland Workforce Training Center (Workforce Training Center). The financial reporting entity consists of (a) BUDC (the primary entity), (b) 683 WTC, LLC (WTC), of which BUDC is the sole member, and (c) 683 Northland LLC (683 Northland), of which WTC holds a 95% equity interest. All significant intercompany balances and transactions between the three entities are eliminated in the consolidated financial statements. WTC is also the managing member of 683 Northland Master Tenant, LLC (Master Tenant) and holds a 1% equity interest.

Basic Overview of the Financial Statements

Included in this Annual Report are the following financial statements:

- 1) **Statement of Net Position** – This statement shows the reader what BUDC owns (assets and deferred outflows) and what BUDC owes (liabilities and deferred inflows). The difference between BUDC's assets, deferred outflows, liabilities and deferred inflows (net position) can be one way to measure BUDC's financial position. Over time, increases or decreases in BUDC's net position is one indicator of whether its financial health is improving or deteriorating.
- 2) **Statement 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) **Statement 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 11% from \$76,743,000 in 2020 to \$85,318,000 in 2021.
- BUDC experienced an increase in net position of \$7,614,000 in 2021 compared to a decrease of \$2,472,000 in 2020 due mainly to the receipt of brownfield tax credits by WTC in 2021. Grant income and development costs decreased in 2021, compared to 2020.
- BUDC's total assets decreased by \$6,351,000 primarily due to a \$3,489,000 decrease in grants receivable and a \$4,051,000 decrease in net capital assets, combined with a \$2,448,000 increase in cash.
- BUDC's total liabilities decreased \$14,926,000 as a result of the repayment of construction loan debt during 2021.

Condensed Comparative Financial Statements:

1. Statements of Net Position:

The following table (Table 1) presents condensed comparative financial information and was derived from the audited consolidated statements of net position of BUDC.

Table 1
Consolidated Statements of Net Position at December 31, 2021, 2020 and 2019
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2019</u>
Assets:					
Cash	\$ 2,818	\$ 370	\$ 2,448	662%	\$ 247
Receivables	10,161	13,650	(3,489)	-26%	10,781
Restricted cash	4,487	3,753	734	20%	5,235
Other current assets	6,627	7,153	(526)	-7%	8,135
Loans receivable	9,666	10,416	(750)	-7%	10,791
Equity investment	178	178	-	0%	198
Capital assets, net	108,785	112,836	(4,051)	-4%	110,458
Construction in process	-	-	-	0%	2,697
Land and improvements held for sale	3,363	4,080	(717)	-18%	4,087
	<hr/>				
Total assets	\$ 146,085	\$ 152,436	\$ (6,351)	-4%	\$ 152,629
Liabilities:					
Current liabilities	\$ 26,191	\$ 45,256	\$ (19,065)	-42%	\$ 15,333
Long-term liabilities	34,576	30,437	4,139	14%	58,692
	<hr/>				
Total liabilities	60,767	75,693	(14,926)	-20%	74,025
Net position:					
Net investment in capital assets	87,868	73,760	14,108	19%	73,261
Restricted	3,624	4,021	(397)	-10%	4,702
Unrestricted	(6,174)	(1,038)	(5,136)	495%	641
	<hr/>				
Total net position	\$ 85,318	\$ 76,743	\$ 8,575	11%	\$ 78,604
	<hr/>				
Total liabilities and net position	\$ 146,085	\$ 152,436	\$ (6,351)	-4%	\$ 152,629

Cash – Cash increased \$2,448,000 due to a decrease in receivables and an overall decrease in expenses during 2021.

Receivables – Receivables include grant and other receivables owed as a result of BUDC's development projects. The \$3,489,000 decrease is primarily due to \$5,000,000 of grants awarded to BUDC during 2021, compared to \$8,500,000 of grant receipts during the year.

Restricted cash – Restricted cash includes amounts held by the Erie County Industrial Development Agency (ECIDA) on behalf of BUDC related to the Buffalo Brownfields Redevelopment Fund and the Buffalo Building Reuse Project loan fund. Also included in restricted cash are amounts received from ESD held in segregated interest accounts, which may be drawn down upon approval from ESD. The increase of \$734,000 is mainly due to the repayment of a loan in 2021.

Other current assets – Other current assets include prepaid expenses, developer fees receivable (BUDC) and interest receivable. The \$526,000 decrease from 2020 to 2021 is due mainly to the collection of developer fees in 2021.

Loans receivable – Loans receivable decreased \$750,000 in 2021, as one loan was paid off under the Buffalo Building Reuse Project loan program.

Capital assets, net – Capital assets net of accumulated depreciation decreased \$4,051,000 primarily due depreciation expense of \$4,226,000. Portions of 537 East Delavan Avenue and other properties were also capitalized and placed in service in 2021.

Land and improvements held for sale – Land and improvements held for sale represents property held at BLCP and 308 Crowley Avenue and has been reduced to its net realizable value; estimated by management to be the fair value of the property when sold. Land was sold at BLCP and 308 Crowley during 2021, accounting for the decrease.

Current liabilities - The \$19,065,000 decrease in current liabilities was primarily due to repayment of a portion (\$18,919,000) of 683 Northland's KeyBank construction loans during 2021.

Long-term liabilities – Long-term liabilities increased \$4,139,000 due to an increase in 683 Northland LLC's deferred rent liability under a Master Lease Agreement with its tenant, 683 Northland Master Tenant, LLC.

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, 2021, 2020 and 2019
(Amounts in thousands)

	<u>2021</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2019</u>
Revenue:					
Grants	\$ 4,425	\$ 8,816	\$ (4,391)	-50%	\$ 20,800
PILOT agreements	41	172	(131)	-76%	299
Loan interest and commitment fees	112	153	(41)	-27%	150
Rental and other revenue	14,870	2,034	12,836	631%	14,842
	<hr/>				
Total revenue	19,448	11,175	8,273	74%	36,091
Expenses:					
Development costs	\$ 4,253	\$ 5,294	\$ (1,041)	-20%	\$ 2,580
Adjustment to net realizable value	99	419	(320)	-76%	576
Salaries and benefits	483	546	(63)	-12%	509
General and administrative	2,092	2,091	1	0%	3,094
Management fee	70	92	(22)	-24%	134
Depreciation	4,226	4,198	28	1%	3,224
	<hr/>				
Total expenses	11,223	12,640	(1,417)	-11%	10,117
	<hr/>				
Operating income (loss)	8,225	(1,465)	9,690	-661%	25,974
	<hr/>				
Loss on disposal	(118)	-	(118)	-100%	-
Interest income	1	1	-	0%	19
Interest expense	(450)	(933)	483	-52%	(1,172)
Amortization expense	(44)	(75)	31	-41%	(75)
	<hr/>				
Change in net position	\$ 7,614	\$ (2,472)	\$ 10,086	-408%	\$ 24,746

3. Revenue and Expense Analysis:

Grants – Grant income includes income from the Ralph C. Wilson, Jr. Foundation and Great Lakes Commission for work related to Ralph C. Wilson, Jr. Centennial Park, and Empire State Development and NYSERDA for projects along the Northland Corridor. Grant income is recognized as the related grant expenses are incurred. In 2021, \$4,176,000 of grant revenue was recognized for Centennial Park and \$249,000 for Northland. The decrease of \$4,391,000 from 2020 reflects a continued decrease in revenue from larger grants related to 683 Northland Avenue.

Rental and other revenue – Other revenue includes WTC’s 2018 brownfield tax credit refund, rental income from 683 Northland Master Tenant, LLC under the Master Lease Agreement, rent from other Northland tenants and other income. The increase of \$12,836,000 from 2020 was due to the \$12,720,000 brownfield tax credit refund of WTC received during the year.

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 decrease of \$1,041,000 is the result of lower costs in 2021 due to Ralph C. Wilson, Jr. Centennial Park project timing.

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 decreased by \$63,000 or 12% due mainly to the retirement of an employee in 2021.

General and administrative – General and administrative costs remain consistent at \$2,092,000 in 2021 (\$2,091,000 in 2020). Included in this category are expenses related to the Workforce Training Center project, such as amounts granted to Buffalo Brownfields Redevelopment Corporation and rent payments.

Management fee – The 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. Asset management fees charged to 683 Northland by NMTC and HTC investors were also reported here in 2019, and reclassified to general and administrative costs in 2020.

Depreciation – Depreciation expense increased \$28,000 from \$4,198,000 in 2020 to \$4,226,000 in 2021. The majority of depreciation expense (\$4,146,000) was related to the building and improvements at 683 Northland Avenue.

Loss on disposal – The loss on disposal for 2021 represents the difference between the sale prices of property sold at BLCP and 308 Crowley and the book value of those properties. A gain on the disposal of certain equipment by 683 Northland LLC is also included.

Interest expense – Interest expense relates mainly to loans payable by 683 Northland and lines of credit of both BUDC and 683 Northland. The \$483,000 decrease in interest expense from 2020 to 2021 is reflective of repayment of a portion of the construction loans and BUDC’s line of credit during 2021.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2021 budget was presented and approved by the Board of Directors on October 27, 2020. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2021 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2021
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 4,425	\$ 9,052	\$ (4,627)	-51%
PILOT agreements	41	83	(42)	-51%
Loan interest and commitment fees	112	97	15	15%
Other	14,870	2,008	12,862	641%
Total revenue	19,448	11,240	23,263	207%
Expenses:				
Development costs	\$ 4,253	\$ 5,241	\$ (988)	-19%
Adjustment to net realizable value	99	-	99	100%
Salaries and benefits	483	534	(51)	-10%
General and administrative	2,092	1,464	628	43%
Management fee	70	103	(33)	-32%
Depreciation	4,226	4,600	(374)	-8%
Total expenses	11,223	11,942	(719)	-6%
Operating income (loss)	8,225	(702)	8,927	-1272%
Loss on disposal	(118)	(58)	(60)	103%
Interest income	1	1	-	0%
Interest expense	(450)	(729)	279	-38%
Amortization expense	(44)	(44)	-	100%
Change in net position	\$ 7,614	\$ (1,532)	\$ 9,146	-597%

Note: The original 2021 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 \$9,146,000. Grant revenue was \$4,627,000 below budget due to lower than anticipated recognition of grant revenue from Ralph C. Wilson, Jr. Foundation related to the Centennial Park Project. Other revenue surpassed the budgeted amount by \$12,862,000 due to recognition of the 2018 brownfield tax credit refund by WTC. Development costs of \$4,253,000 were below budget by \$988,000. This is directly related to the lower recognition of grant revenue. General and administrative expenses of \$2,092,000 were above the budget by \$628,000. 683

Northland recognized \$217,000 of expense related to the sale of certain equipment. Interest expense of \$450,000 was \$279,000 higher than budget, due to repayments of long-term debt.

5. Economic Factors Impacting BUDC:

BUDC has limited sources of operating funds that can support its ongoing operating costs. As a result, BUDC is reliant upon future land sales occurring at its BLCF business park and future revenues at the Northland Corridor redevelopment site to support operations.

6. Requests for Information:

This financial report is designed to provide a general overview of BUDC's finances. Questions concerning any of the financial information provided in this report should be addressed to the 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
CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31,

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash	\$ 2,817,690	\$ 425,719
Grants receivable	10,160,553	13,649,610
Restricted cash	4,487,462	3,697,709
Other current assets	6,626,745	7,152,726
Total current assets	<u>24,092,450</u>	<u>24,925,764</u>
Noncurrent assets:		
Loans receivable, net	9,666,400	10,416,400
Equity investment	178,051	178,051
Capital assets, net	108,785,225	112,835,377
Land and improvements held for sale, net	3,363,434	4,080,387
Total noncurrent assets	<u>121,993,110</u>	<u>127,510,215</u>
Total assets	<u>\$ 146,085,560</u>	<u>\$ 152,435,979</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 959,332	\$ 874,573
Unearned revenue	14,373,673	13,822,911
Line of credit	677,158	1,416,953
Current portion of loans payable	10,180,810	29,141,944
Total current liabilities	<u>26,190,973</u>	<u>45,256,381</u>
Noncurrent liabilities:		
Deferred rent liability	20,219,190	16,079,828
Loans payable	14,099,750	14,099,750
Note payable	257,381	257,381
Total noncurrent liabilities	<u>34,576,321</u>	<u>30,436,959</u>
NET POSITION		
Net investment in capital assets	87,868,099	73,759,690
Restricted	3,624,405	4,020,554
Unrestricted (deficit)	(6,174,238)	(1,037,605)
Total net position	<u>85,318,266</u>	<u>76,742,639</u>
Total liabilities and net position	<u>\$ 146,085,560</u>	<u>\$ 152,435,979</u>

See accompanying notes.

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Grant revenue	\$ 4,425,140	\$ 8,816,375
Brownfield funds	40,821	171,903
Loan interest and commitment fees	112,107	152,597
Rental and other revenue	14,869,875	2,033,807
Total operating revenues	<u>19,447,943</u>	<u>11,174,682</u>
Operating expenses:		
Development costs	4,253,370	5,294,325
Adjustment to net realizable value	98,713	418,386
Salaries and benefits	482,778	546,021
General and administrative	2,091,562	2,091,258
Management fee	70,408	91,454
Depreciation	4,225,517	4,198,380
Total operating expenses	<u>11,222,348</u>	<u>12,639,824</u>
Operating income (loss)	8,225,595	(1,465,142)
Nonoperating revenues (expenses):		
Loss on disposal	(118,382)	-
Interest income	722	1,278
Amortization expense	(43,675)	(74,872)
Interest expense	(450,479)	(933,410)
Total nonoperating expenses, net	<u>(611,814)</u>	<u>(1,007,004)</u>
Change in net position	7,613,781	(2,472,146)
Net position - beginning of year	76,742,639	78,603,896
Add: capital contributions	<u>961,846</u>	<u>610,889</u>
Net position - end of year	<u>\$ 85,318,266</u>	<u>\$ 76,742,639</u>

See accompanying notes.

**BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Amounts received from Brownfields funds	\$ 67,767	\$ 229,279
Grants received	8,464,959	9,026,593
Receipts from loans and commitment fees	112,107	152,597
Repayments of loans	750,000	375,000
Rental and other revenue	19,562,372	3,951,260
Payments to employees, suppliers, and other	<u>(6,934,777)</u>	<u>(8,994,092)</u>
Net cash provided by operating activities	22,022,428	4,740,637
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(449,194)	(6,364,450)
Proceeds from sale/disposal of capital assets	872,400	-
Repayment of line of credit	(923,370)	677,445
Proceeds from line of credit	183,575	-
Repayment of loans	(18,961,134)	-
Capital contributions	961,846	631,199
Net cash used by capital and related financing activities	(18,315,877)	(5,055,806)
Cash flows from investing activities:		
Change in restricted cash	(789,753)	1,536,876
Interest earned	722	1,278
Interest paid	<u>(525,549)</u>	<u>(1,044,206)</u>
Net cash provided (used) by investing activities	(1,314,580)	493,948
Net increase in cash	2,391,971	178,779
Cash - beginning of year	425,719	246,940
Cash - end of year	\$ 2,817,690	\$ 425,719
Reconciliation of operating income (loss) from operations to net cash provided by operating activities:		
Operating income (loss)	\$ 8,225,595	\$ (1,465,142)
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	4,225,517	4,198,380
Increase (decrease) in grants receivable	3,489,057	(2,868,964)
Decrease in other current assets	525,981	982,499
Decrease in loans receivable	750,000	375,000
Increase (decrease) in accounts payable and accrued expenses	116,154	(1,186,829)
Increase in unearned revenue	550,762	3,079,182
Increase in deferred rent liability	<u>4,139,362</u>	<u>1,626,511</u>
Net cash provided by operating activities	\$ 22,022,428	\$ 4,740,637
Non-cash transactions:		
Capital asset purchases not yet disbursed	\$ -	\$ 390,059
Grants received but not yet earned	548,961	3,079,182

See accompanying notes.

**BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Buffalo Urban Development Corporation (BUDC) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the BUDC's accounting policies are described below.

A. REPORTING ENTITY

The 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). The 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.

The financial reporting entity consists of (a) the primary entity, which is BUDC, (b) 683 WTC, LLC, (WTC) of which BUDC is the sole member, and (c) 683 Northland LLC, (Northland) in which 683 WTC, LLC has a 95% equity interest.

In accordance with U.S. GAAP, BUDC is not considered a component unit of another entity.

B. BASIS OF PRESENTATION

Revenues from grants, Brownfield funds, rental payments and interest on loans are reported as operating revenues. All expenses related to operating BUDC are reported as operating expenses. Certain other transactions are reported as nonoperating activities including BUDC's interest income from deposits and interest expense related to long-term debt.

When both restricted and unrestricted resources are available for use, it is BUDC's policy to use restricted resources first, then unrestricted resources as they are needed.

C. CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of BUDC, WTC, and Northland. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. These consolidated financial statements have been prepared in conformity with U.S. GAAP.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

BUDC is considered 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. The financial statements of BUDC are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred; regardless of when the cash transaction takes place.

Nonexchange transactions, in which BUDC gives or receives value without directly receiving or giving equal value in exchange, include grants. Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied.

E. CASH AND RESTRICTED CASH

BUDC's cash consists of cash on hand and demand deposits. Certain assets are classified on the balance sheet as restricted because their use is limited.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. LOANS RECEIVABLE

Loans receivable are presented net of an allowance for uncollectible accounts. BUDC maintains an allowance for estimated uncollectible accounts which is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses. Loans are written off when, in management's judgment, no legal recourse is available to collect the amount owed.

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

G. OTHER CURRENT ASSETS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. These amounts are included in other current assets and amounted to \$6,188,769 and \$6,646,600 for December 31, 2021 and 2020, respectively. Other current assets include interest and accounts receivables and amounted to \$437,976 and \$506,126 for December 31, 2021 and 2020, respectively.

H. CAPITAL ASSETS

Capital assets are recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements are expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Contributed capital assets are recorded at fair value at the date received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the BUDC are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$1,000	Straight-line	3-10 years
Buildings and improvements	\$1,000	Straight-line	5-40 years

I. INSURANCE

BUDC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks has not yet exceeded commercial insurance coverage for the past three years.

J. NET POSITION

Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and related debt.
- b. *Restricted* - Consists of net positions with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Included in this classification are the Buffalo Brownfields Redevelopment Fund and a loan fund.
- c. *Unrestricted* - The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use by BUDC.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. INCOME TAXES

BUDC is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and the income realized will not be subject to New York State corporate franchise tax. BUDC is subject to unrelated business income tax related to certain lending transactions associated with WTC.

L. STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flows, BUDC considers all cash, other than restricted cash, which includes cash and demand accounts.

M. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

N. ACCOUNTING PRONOUNCEMENTS

The following are GASB Statements that have been issued recently and are currently being evaluated, by BUDC, for their potential impact in future years.

- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2022.
- Statement No. 91, *Conduit Debt Obligations*, which will be effective for the year ending December 31, 2022.
- Statement No. 92, *Omnibus 2020*, which will be effective for the year ending December 31, 2022.
- Statement No. 93, *Replacement of Interbank Offered Rates*, which is effective for the year ending December 31, 2021, except for paragraph 11b, which will be effective for the year ending December 31, 2022.
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and 84, and a supersession of GASB Statement No. 32*, which will be effective for the year ending December 31, 2022.

O. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation.

NOTE 2. CASH AND INVESTMENTS

BUDC's investment policies are governed by State statutes. In addition, BUDC has its own written investment policy. BUDC monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies located within the State. BUDC is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its agencies, repurchase agreements and obligations of the State and its localities.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State and its municipalities and school districts and obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

As of December 31, 2021 and 2020, BUDC's aggregate bank deposits were considered fully collateralized.

Investment and Deposit Policy

BUDC follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of BUDC's Treasurer.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. BUDC's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

BUDC's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. BUDC's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with BUDC's investment and deposit policy, all deposits of BUDC including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Corporation (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits. BUDC restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by the State of New York and its localities.
- Obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organizations.

NOTE 3. LOANS RECEIVABLE

BUDC has an agreement with Pursuit (formerly 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. The balance of the loans outstanding were \$0 and \$750,000 at December 31, 2021 and 2020, respectively. Interest payments are due monthly and principal is due at maturity.

In 2017, BUDC made a loan in the amount of \$9,666,400 to Northland NMTC Investment Fund, LLC (NMTC). Interest accrues at the rate of one percent per annum (1%) and is due quarterly. Interest only payments from the date of first advance, which was December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest shall be paid commencing December 31, 2024 through December 31, 2042. NMTC pledges its entire interest in BACDE NMTC Fund 16, LLC and NTCIC-Northland, LLC. BUDC's policy is to present loans receivable net of an allowance for uncollectible loans. Management has determined that no allowance for these loans was necessary in 2021 and 2020. The following is a summary of the loans receivable at December 31:

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS RECEIVABLE (CONTINUED)

	<u>2021</u>	<u>2020</u>
Downtown Loan Fund	\$ -	\$ 750,000
NMTC Investment Fund	9,666,400	9,666,400
Total loans receivable	<u>\$ 9,666,400</u>	<u>\$ 10,416,400</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the BUDC for the year ended December 31, 2021 was as follows:

	Balance 01/01/2021	Increases	Decreases	Balance 12/31/2021
Non-depreciable capital assets				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	4,687,894	336,940	-	5,024,834
Total non-depreciable capital assets	<u>5,561,908</u>	<u>336,940</u>	<u>-</u>	<u>5,898,848</u>
Depreciable capital assets:				
Buildings and improvements	107,814,194	69,920	-	107,884,114
Furniture and equipment	7,925,057	6,688	420,120	7,511,625
Less: accumulated depreciation	8,465,782	4,225,517	181,937	12,509,362
Total depreciable assets, net	<u>107,273,469</u>	<u>(4,148,909)</u>	<u>238,183</u>	<u>102,886,377</u>
Total capital assets, net	<u>\$ 112,835,377</u>	<u>\$ (3,811,969)</u>	<u>\$ 238,183</u>	<u>\$ 108,785,225</u>

Capital asset activity for the BUDC for the year ended December 31, 2020 was as follows:

	Balance 01/01/2020	Increases	Decreases	Balance 12/31/2020
Non-depreciable capital assets				
Land	\$ 844,942	\$ 29,072	\$ -	\$ 874,014
Construction work in progress	2,697,320	2,276,653	4,973,973	-
Idle buildings and improvements	5,510,766	1,639,434	2,462,306	4,687,894
Total non-depreciable capital assets	<u>9,053,028</u>	<u>3,945,159</u>	<u>7,436,279</u>	<u>5,561,908</u>
Depreciable capital assets:				
Buildings and improvements	100,718,306	7,095,888	-	107,814,194
Furniture and equipment	7,666,432	305,670	47,045	7,925,057
Less: accumulated depreciation	4,282,524	4,198,380	15,122	8,465,782
Total depreciable assets, net	<u>104,102,214</u>	<u>3,203,178</u>	<u>31,923</u>	<u>107,273,469</u>
Total capital assets, net	<u>\$ 113,155,242</u>	<u>\$ 7,148,337</u>	<u>\$ 7,468,202</u>	<u>\$ 112,835,377</u>

Land, buildings, and improvements related to the Northland Corridor amounted to \$5,898,848 and \$5,561,908 at December 31, 2021 and 2020. 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 the City's east side. Once completed, BUDC expects to lease the property to local businesses, government agencies, and nonprofit organizations.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS (CONTINUED)

Due to the extensive amount of revitalization, pollution remediation (Note 14), and other related activities, the anticipated costs of certain Northland properties exceed the expected fair value of the properties based on current estimates. Adjustments to net realizable value totaled \$660 and \$418,386 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5. LAND AND IMPROVEMENTS HELD FOR DEVELOPMENT AND 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 the BLCP and constructed additional roads and infrastructure. Between 2004 and 2008 there were multiple BLCP parcels sold to local businesses. In 2021, approximately 20 acres of land were sold to a local developer.

In 2018, BUDC purchased approximately 7 acres of property at 308 Crowley Street in the City of Buffalo for the purpose of remediation and redevelopment. The property includes a derelict building which will undergo select demolition. One acre of land was sold in 2020, and .65 acres were sold in 2021.

Land and improvements held for sale are recorded at net realizable value based on assessment of the fair value of each project as follows at December 31.:

	<u>2021</u>	<u>2020</u>
BLCP	\$ 8,533,718	\$ 9,211,452
308 Crowley	71,510	83,719
Less adjustment to net realizable value (BLCP)	<u>5,241,794</u>	<u>5,214,784</u>
Total land and improvements held for development and sale	<u>\$ 3,363,434</u>	<u>\$ 4,080,387</u>

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE

BUDC was awarded several grants between 2016-2020 from Empire State Development (ESD) for the demolition, remediation, renovation, construction and site/street improvements for various Northland properties and the Western New York Workforce Training Center project (Training Center). In 2021, BUDC was awarded a \$200,000 grant for the planning for a solar array and microgrid system at the Training Center.

In 2019, BUDC was awarded a \$3,998,549 grant from ESD under the Restore NY Program in support of the demolition and rehabilitation at certain properties in the Northland Corridor. A \$131,250 grant was also awarded from National Grid's Brownfield Redevelopment Program in support of this work.

Between 2019-2021, BUDC was awarded six grants from the Ralph C. Wilson, Jr. Foundation totaling \$21,397,150 for project coordination and advancing the transformation of Ralph C. Wilson, Jr. Centennial Park into a world-class park and recreational amenity for the City and the Western New York Region.

To further support the shoreline components of the Centennial Park project, BUDC was awarded two grants totaling \$1,224,252 from the Great Lakes Commission in 2020 and 2021.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE (CONTINUED)

The following is a summary of grants receivable and unearned grant revenue at December 31,:

	<u>2021</u>	<u>2020</u>
Grants receivable:		
ESD	\$ 2,033,102	\$ 4,382,619
National Grid	250,000	250,000
Ralph C Wilson Jr. Foundation	7,740,000	8,300,000
NYSERDA	-	23,136
Great Lakes Commission	137,451	693,855
	<u>\$ 10,160,553</u>	<u>\$ 13,649,610</u>
Unearned revenue:		
ESD	\$ 1,835,008	\$ 1,762,728
National Grid	381,250	381,250
Ralph C Wilson Jr. Foundation	11,850,415	11,058,342
NYSERDA	-	119,232
Great Lakes Commission	7,000	501,359
Other	300,000	-
	<u>\$ 14,373,673</u>	<u>\$ 13,822,911</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses at December 31,:

	<u>2021</u>	<u>2020</u>
Accounts payable	\$ 862,805	\$ 741,247
Accrued payroll	23,615	36,435
Accrued interest	23,812	57,791
Other accrued expenses	49,100	39,100
	<u>\$ 959,332</u>	<u>\$ 874,573</u>

NOTE 8. DEFERRED RENT LIABILITY

Northland has a Master Lease Agreement (the Agreement) with the master tenant member to receive rental income commencing August 26, 2018, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through the year ended December 31, 2037. Northland recognized \$1,879,742 in rental revenue related to the Agreement for the years ended December 31, 2021 and 2020. The lease agreement includes scheduled rent increases over the term of the lease, which in accordance with U.S. GAAP, will be recognized on a straight-line basis over the term of the lease. Northland will reduce the deferred rent liability by \$1,879,742 over each of the next 5 years and through the remainder of the life of the lease agreement.

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2021:

2022	\$ 484,486
2023	492,423
2024	528,046
2025	558,098
2026	565,617
Thereafter	6,890,373
	<u>\$ 9,519,043</u>

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. 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, 2021 and 2020, 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.

NOTE 10. LINE OF CREDIT

BUDC entered into a revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,800,000. Borrowings are to be used to pay for specific projects that are reimbursed through grants but require the work to be completed prior to reimbursement and for general working capital purposes. Borrowed amounts on the line bear interest at an adjusted LIBOR rate (3.25% - 2021) per annum and are collateralized by security interest in all assets of BUDC. Interest payments are due on the first of each month. Principal is due upon demand. The line of credit had an outstanding amount of \$0 and \$923,370 on December 31, 2021 and 2020, respectively.

Northland entered into a non-revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,000,000. Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors this agreement. Borrowings are to be used to pay interest on the Bridge loans (see Note 11) while awaiting member contributions. Borrowed amounts on the line bear interest at an adjusted LIBOR rate (3.25% at December 31, 2021) per annum and are collateralized by security interest in all assets of 683 WTC, LLC, BUDC and BBRC Land Company I, LLC. All outstanding principal and interest amounts are due upon maturity. The agreement was amended in 2021 and matures on December 31, 2022. The line of credit had an outstanding amount of \$677,158 and \$493,583, respectively.

NOTE 11. LOANS PAYABLE

Mortgage Payable

During 2017, Northland borrowed amounts totaling \$13,730,000 related to the Northland Corridor project from BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. BUDC is a guarantor on the loan agreement. Interest accrues at the rate of 1.33776% and is due quarterly. The loans are collateralized by the building. Interest only payments from the date of agreement, December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest are due quarterly, commencing December 31, 2024, until the maturity date of December 28, 2052. Under the mortgage agreements, Northland shall pay BACDE NMTC Fund 16, LLC an annual asset management fee of \$45,000 through 2025 and NTCIC-NORTHLAND, LLC an annual asset management fee of \$10,000 through 2026.

Bridge Loan

Northland entered into two bridge loan agreements with KeyBank on December 28, 2017, in the amounts of \$20,000,000 (Loan A) and \$10,000,000 (Loan B). BUDC, WTC and BBRC Land Company I, LLC are guarantors on the loan agreement. The loan is collateralized by security interest in all assets of WTC, BBRC Land Company I, LLC and Northland, assignment of rents by Northland, and assignment of construction contracts and architect's agreements. The bridge loan agreement for Loan B matured on June 30, 2021 and was paid in full as of December 31, 2021. The bridge loan agreement for Loan A was extended through December 31, 2022. The balance outstanding at December 31, 2021 totaled \$10,180,810 (\$29,100,000 - 2020). Interest on Loan A is calculated at the prime rate (as established by KeyBank), plus .25% with a floor of 3% (3% at December 31, 2021). Interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum. Accrued interest amounted to \$23,812 as of December 31, 2021 (\$55,207 - 2020). Management intends to repay the bridge loans with the proceeds from the Master Lease Agreement payments and capital contributions from the managing member. The capital contributions from the managing member will be funded by the proceeds received in connection with the Brownfield tax credits.

Term Note

BUDC entered into a term note agreement with M&T Bank on February 28, 2019 totaling \$369,750 for the purchase of the land and building at 714 Northland. This note is interest-bearing only until maturity in March 2024.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. LOANS PAYABLE (CONTINUED)

The above debt is summarized by funding source below as follows at December 31:

	<u>2021</u>	<u>2020</u>
KeyBank	\$ 10,180,810	\$ 29,100,000
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	5,000,000	5,000,000
M&T Bank	369,750	369,750
Paycheck Protection Program	-	85,620
	<u>24,280,560</u>	<u>43,285,370</u>
Less: debt issuance costs	-	43,676
	<u>\$ 24,280,560</u>	<u>\$ 43,241,694</u>

Current maturities of long term debt are as follows for the years ended December 31:

2022	\$ 10,180,810
2023	-
2024	469,938
2025	404,116
2026	409,549
Thereafter	12,816,147
	<u>\$ 24,280,560</u>

Interest expense for the year ending December 31, 2021 and 2020 was \$450,479 and \$933,410, respectively.

NOTE 12. EQUITY INVESTMENT

Equity investment represents WTC's 1% investment in 683 Northland Master Tenant, LLC (Master Tenant). WTC utilizes the historical cost method of accounting for its investment in the Master Tenant which results in the equity investment balance being comprised of WTC's original capital contribution in the Master Tenant. The investment amounted to \$178,051 at December 31, 2021 and 2020.

NOTE 13. RESTRICTED NET POSITION

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$278,701 and \$720,294 at December 31, 2021 and 2020, respectively, and a loan fund in the amount of \$3,345,704 and \$3,300,260 at December 31, 2021 and 2020, respectively.

NOTE 14. NOTES RECEIVABLE WTC

BUDC and WTC have note agreements in the amount of \$25,045,279 and \$27,142,000 whereby BUDC will advance proceeds to WTC as requested. The notes carry an interest rate of one percent (1%), compounded annually and the notes are for a period of thirty years. The balance of the notes plus accrued interest is due upon maturity date at December 28, 2047. The total outstanding balance on these notes was \$52,187,279 and \$51,049,259 at December 31, 2021 and 2020, respectively. Accrued interest on the loan amounted to \$1,501,646 and \$952,415 at December 31, 2021 and 2020, respectively. These notes are eliminated upon consolidation.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. 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 the remediation to be reimbursed by State grants; therefore no pollution remediation liability has been accrued in these financial statements

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 29, 2022, which is the date the financial statements are available for issuance and have determined there are no subsequent events that require disclosure under generally accepted accounting principles, other than those noted above.

SUPPLEMENTARY INFORMATION

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENTS OF NET POSITION
DECEMBER 31, 2021

	<u>Buffalo Urban Development Corporation</u>	<u>683 WTC LLC</u>	<u>683 Northland LLC</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 2,694,285	\$ 52	\$ 123,353	\$ -	\$ 2,817,690
Grants receivable	10,160,553	-	-	-	10,160,553
Restricted cash	4,096,471	-	390,991	-	4,487,462
Other current assets	7,998,177	15	135,559	(1,507,006)	6,626,745
Total current assets	<u>24,949,486</u>	<u>67</u>	<u>649,903</u>	<u>(1,507,006)</u>	<u>24,092,450</u>
Noncurrent assets:					
Loans receivable	61,853,679	-	-	(1) (52,187,279)	9,666,400
Equity investment	-	59,498,971	-	(1) (59,320,920)	178,051
Capital assets, net	8,329,383	-	100,455,842	-	108,785,225
Land and improvements held for sale, net	3,363,434	-	-	-	3,363,434
Total noncurrent assets	<u>73,546,496</u>	<u>59,498,971</u>	<u>100,455,842</u>	<u>(111,508,199)</u>	<u>121,993,110</u>
Total assets	<u>\$ 98,495,982</u>	<u>\$ 59,499,038</u>	<u>\$ 101,105,745</u>	<u>\$ (113,015,205)</u>	<u>\$ 146,085,560</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 878,057	\$ 1,507,006	\$ 81,275	(1) \$ (1,507,006)	\$ 959,332
Unearned grant revenue	14,373,673	-	-	-	14,373,673
Lines of credit	-	-	677,158	-	677,158
Current portion of loans payable	-	-	10,180,810	-	10,180,810
Total current liabilities	<u>15,251,730</u>	<u>1,507,006</u>	<u>10,939,243</u>	<u>(1,507,006)</u>	<u>26,190,973</u>
Noncurrent liabilities:					
Deferred rent liability	-	-	20,219,190	-	20,219,190
Loans payable	369,750	52,187,279	13,730,000	(1) (52,187,279)	14,099,750
Note payable	257,381	-	-	-	257,381
Total noncurrent liabilities	<u>627,131</u>	<u>52,187,279</u>	<u>33,949,190</u>	<u>(52,187,279)</u>	<u>34,576,321</u>
NET POSITION (DEFICIT)					
Net investment in capital assets	11,323,067	-	76,545,032	-	87,868,099
Restricted	3,624,405	-	-	-	3,624,405
Unrestricted (deficit)	67,669,649	5,804,753	(20,327,720)	(1) (59,320,920)	(6,174,238)
Total net position (deficit)	<u>82,617,121</u>	<u>5,804,753</u>	<u>56,217,312</u>	<u>(59,320,920)</u>	<u>85,318,266</u>
Total liabilities and net position	<u>\$ 98,495,982</u>	<u>\$ 59,499,038</u>	<u>\$ 101,105,745</u>	<u>\$ (113,015,205)</u>	<u>\$ 146,085,560</u>

(1) This represents activities between the entities to be eliminated for the consolidated financial statements.

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC	Eliminations	Total
Operating revenues:					
Grant revenue	\$ 4,425,140	\$ -	\$ -	\$ -	\$ 4,425,140
Brownfield funds	40,821	-	-	-	40,821
Loan interest and commitment fees	661,338	-	-	(1) (549,231)	112,107
Rental and other revenue	269,709	12,719,974	1,880,192	-	14,869,875
Total operating revenue	<u>5,397,008</u>	<u>12,719,974</u>	<u>1,880,192</u>	<u>(549,231)</u>	<u>19,447,943</u>
Operating expenses:					
Development costs	4,253,370	-	-	-	4,253,370
Adjustment to net realizable value	98,713	-	-	-	98,713
Salaries and benefits	482,778	-	-	-	482,778
General and administrative	1,562,291	6,860	522,411	-	2,091,562
Management fee	70,408	-	-	-	70,408
Depreciation	79,506	-	4,146,011	-	4,225,517
Total operating expenses	<u>6,547,066</u>	<u>6,860</u>	<u>4,668,422</u>	<u>-</u>	<u>11,222,348</u>
Operating income (loss)	(1,150,058)	12,713,114	(2,788,230)	(1) (549,231)	8,225,595
Nonoperating revenues (expenses):					
Gain (loss) on disposal	(147,345)	-	28,963	-	(118,382)
Interest income	500	52	170	-	722
Amortization expense	-	-	(43,675)	-	(43,675)
Interest expense	(15,706)	(549,231)	(434,773)	(1) 549,231	(450,479)
Total nonoperating expenses, net	<u>(162,551)</u>	<u>(549,179)</u>	<u>(449,315)</u>	<u>549,231</u>	<u>(611,814)</u>
Change in net position	(1,312,609)	12,163,935	(3,237,545)	-	7,613,781
Net position (deficit) - beginning of year	83,929,730	(6,359,182)	44,635,017	(1) (45,462,926)	76,742,639
Add: capital contributions	-	-	14,819,840	(1) (13,857,994)	961,846
Net position (deficit) - end of year	<u>\$ 82,617,121</u>	<u>\$ 5,804,753</u>	<u>\$ 56,217,312</u>	<u>\$ (59,320,920)</u>	<u>\$ 85,318,266</u>

(1) This represents activities between the entities to be eliminated for the consolidated financial statements.

INTERNAL CONTROL AND COMPLIANCE

**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**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
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 consolidated financial statements of Buffalo Urban Development Corporation (BUDC) as of and for the year ended December 31, 2021, and the related notes to the consolidated financial statements, which collectively comprise BUDC's consolidated financial statements, and have issued our report thereon dated March 29, 2022. The financial statements of 683 Northland, LLC were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with 683 Northland, LLC.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered BUDC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion of the effectiveness of BUDC's internal control. Accordingly, we do not express an opinion of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the BUDC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 the 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 consolidated 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 29, 2022