

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT
CORPORATION**

DECEMBER 31, 2022

BUFFALO URBAN DEVELOPMENT CORPORATION
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the Buffalo Urban Development Corporation (BUDC), as of and for the years ended December 31, 2022 and 2021, and the related notes to the consolidated financial statements (collectively, the 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, 2022 and 2021, 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 opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the BUDC has elected to change its method of accounting for leases under Statement No. 87 effective January 1, 2022. Our opinion is not modified with respect to this matter.

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 28, 2023 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 28, 2023

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2022

(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, 2022, 2021 and 2020. 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, capital and related financing, and investing activities.

Financial Highlights

- BUDC's net position increased by 3% from \$85,318,000 in 2021 to \$87,598,000 in 2022.
- BUDC experienced an increase in net position of \$1,932,000 in 2022 compared to an increase of \$7,614,000 in 2021 due mainly to the receipt of brownfield tax credits by WTC in 2022. Grant income and development costs increased in 2022, compared to decreases in 2021.
- BUDC's total assets increased by \$39,810,000 primarily due to a \$22,022,000 increase in grants receivable and a \$17,537,000 increase in cash.
- BUDC's total liabilities increased \$37,530,000 as a result of an increase in unearned revenue related to grants.

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, 2022, 2021 and 2020
(Amounts in thousands)

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2020</u>
Assets:					
Cash	\$ 20,355	\$ 2,818	\$ 17,537	622%	\$ 370
Receivables	32,183	10,161	22,022	217%	13,650
Restricted cash	4,014	4,487	(473)	-11%	3,753
Other current assets	6,230	6,627	(397)	-6%	7,153
Loans receivable	9,666	9,666	-	0%	10,416
Equity investment	178	178	-	0%	178
Capital assets, net	104,743	108,785	(4,042)	-4%	112,836
Right to use asset	7,738	-	7,738	100%	-
Land and improvements held for sale	788	3,363	(2,575)	-77%	4,080
	<hr/>				
Total assets	\$ 185,895	\$ 146,085	\$ 39,810	27%	\$ 152,436
Liabilities:					
Current liabilities	\$ 55,766	\$ 26,191	\$ 29,575	113%	\$ 45,256
Long-term liabilities	42,531	34,576	7,955	23%	30,437
	<hr/>				
Total liabilities	98,297	60,767	37,530	62%	75,693
Net position:					
Net investment in capital assets	90,430	87,868	2,562	3%	73,760
Restricted	3,409	3,624	(215)	-6%	4,021
Unrestricted	(6,241)	(6,174)	(67)	1%	(1,038)
	<hr/>				
Total net position	\$ 87,598	\$ 85,318	\$ 2,280	3%	\$ 76,743
	<hr/>				
Total liabilities and net position	\$ 185,895	\$ 146,085	\$ 39,810	27%	\$ 152,436

Cash – Cash increased \$17,537,000 from 2021 to 2022 due to an increase in grants awarded and received in 2022. The increase from 2020 to 2021 was due a decrease in receivables and an overall decrease in expenses.

Receivables – Receivables include grant and other receivables owed as a result of BUDC's development projects. The increase of \$22,022,000 from 2021 to 2022 is due to grant awards of \$47,220,000 combined with \$25,197,000 of grant receipts. The decrease from 2020 to 2021 was due to higher grant receipts than grants awarded in 2021.

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 imprest accounts, which may be drawn down upon approval from ESD. The decrease of \$473,000 is due to use of Brownfield and imprest account funds for eligible project costs.

Other current assets – Other current assets include prepaid expenses, developer fees receivable (BUDC) and interest receivable. The \$397,000 decrease from 2021 to 2022 is due to the amortization of prepaid rent. The \$526,000 decrease from 2020 to 2021 was due to the collection of developer fees.

Capital assets, net – Capital assets net of accumulated depreciation decreased \$4,042,000 primarily due depreciation expense of \$4,152,000.

Right to use asset – Right to use asset includes unamortized lease payments related to base rent under a Master Lease Agreement between 683 Northland and its tenant, 683 Northland Master Tenant, LLC. BUDC implemented GASB Statement No. 87 in 2022, which requires these unamortized payments be reflected.

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 2022, accounting for the decrease. As of 2022 the entirety of 308 Crowley has been sold.

Current liabilities – The \$29,575,000 increase in current liabilities from 2021 to 2022 is due mainly to an increase in deferred grant revenue of \$39,470,000 combined with a \$9,180,000 decrease in the current portion of loans payable from payments made during 2022. \$19,065,000 decrease from 2020 to 2021 was primarily due to repayment of a portion of 683 Northland's KeyBank construction loans during 2021.

Long-term liabilities – Long-term liabilities increased \$7,955,000 due mainly to the deferred lease liability recorded of \$7,738,000. They increased from 2020 to 2021 due to an increase in 683 Northland LLC's deferred rent liability under the Master Lease Agreement.

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, 2022, 2021 and 2020
(Amounts in thousands)

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2020</u>
Revenue:					
Grants	\$ 8,057	\$ 4,425	\$ 3,632	82%	\$ 8,816
PILOT agreements	36	41	(5)	-12%	172
Loan interest and commitment fees	97	112	(15)	-13%	153
Lease and other revenue	9,024	14,870	(5,846)	-39%	2,034
Total revenue	17,214	19,448	(2,234)	-11%	11,175
Expenses:					
Development costs	\$ 8,149	\$ 4,253	\$ 3,896	92%	\$ 5,294
Adjustment to net realizable value	126	99	27	27%	419
Salaries and benefits	384	483	(99)	-20%	546
General and administrative	1,667	2,037	(370)	-18%	2,091
Management fee	139	125	14	11%	92
Depreciation	4,152	4,226	(74)	-2%	4,198
Total expenses	14,617	11,223	3,394	30%	12,640
Operating income (loss)	2,597	8,225	(5,628)	-68%	(1,465)
Loss on disposal	(423)	(118)	(305)	258%	-
Interest income	19	1	18	1800%	1
Interest expense	(261)	(450)	189	-42%	(933)
Amortization expense	-	(44)	44	-100%	(75)
Change in net position	\$ 1,932	\$ 7,614	\$ (5,682)	-75%	\$ (2,472)

3. Revenue and Expense Analysis:

Grants – Grant income includes mainly income from the Ralph C. Wilson, Jr. Foundation, Community Foundation of Southeast Michigan, and others for work related to Ralph C. Wilson, Jr. Centennial Park, and Empire State Development and U.S. Department of Commerce Economic Development Administration for projects along the Northland Corridor. Grant income is recognized as the related grant expenses are incurred. In 2022, \$7,889,000 of grant revenue was recognized for Centennial Park and \$168,000 for Northland. The increase of \$3,632,000 from 2021 reflects an increase in grants and related revenue for Centennial Park.

Lease and other revenue – Lease and other revenue includes WTC’s 2019 brownfield tax credit refund, lease income from 683 Northland Master Tenant, LLC under the Master Lease Agreement, lease income from other Northland tenants and other income. The decrease of \$5,846,000 from 2021 was due to a \$6,993,000 brownfield tax credit refund received by WTC during the year, compared to a \$12,720,000 refund received in 2021. The increase from 2020 to 2021 was also due to WTC’s brownfield tax credit refund.

Development costs – Development costs include those costs related to various BUDC projects but excludes certain BLCP and Northland development costs that are reflected in “adjustment to net realizable value” as discussed below. The increase of \$3,896,000 is the result of higher costs related to Ralph C. Wilson, Jr. Centennial Park in 2022. Development costs decreased from 2020 to 2021 due to 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 \$99,000 or 20% due to fewer employees in 2022 than in 2021.

General and administrative – General and administrative costs decreased by \$370,000 or 18%. Included in this category are expenses related to Workforce Training rent amortization and payments, insurance, and professional fees.

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 are also reported here.

Depreciation – Depreciation expense decreased \$74,000 from \$4,226,000 in 2021 to \$4,152,000 in 2022. The majority of depreciation expense (\$4,071,000) was related to the building and improvements at 683 Northland Avenue.

Loss on disposal – The loss on disposal for 2022 and 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 both years 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 \$189,000 decrease in interest expense from 2021 to 2022 is reflective of repayment of Northland’s construction loan during 2022.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2022 budget was approved by the Board of Directors on October 26, 2021. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2022 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2022
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 8,057	\$ 13,405	\$ (5,348)	-40%
PILOT agreements	36	67	(31)	-46%
Loan interest and commitment fees	97	97	-	0%
Lease and other revenue	9,024	2,838	6,186	218%
Total revenue	17,214	16,407	23,263	142%
Expenses:				
Development costs	\$ 8,149	\$ 9,927	\$ (1,778)	-18%
Adjustment to net realizable value	126	-	126	100%
Salaries and benefits	384	485	(101)	-21%
General and administrative	1,667	1,257	410	33%
Management fee	139	95	44	46%
Depreciation	4,152	4,082	70	2%
Total expenses	14,617	15,846	(1,229)	-8%
Operating income (loss)	2,597	561	2,036	363%
Loss on disposal	(423)	-	(423)	-100%
Interest income	19	1	18	1800%
Interest expense	(261)	(394)	133	-34%
Change in net position	\$ 1,932	\$ 168	\$ 1,764	1050%

Note: The original 2022 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position exceeded the budget by \$1,764,000. Grant revenue was \$5,348,000 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 \$6,186,000 due to recognition of the 2019 brownfield tax credit refund by WTC. Development costs of \$8,149,000 were below budget by \$1,778,000. This is directly related to the lower recognition of grant revenue. General and administrative expenses of \$1,667,000 were above the budget by \$410,000. WTC incurred \$143,000 of tax expense related to the 2018 brownfield tax credit refund and BUDC's unrelated

business income tax was higher than budgeted. Interest expense of \$261,000 was \$133,000 below 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>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash	\$ 20,354,670	\$ 2,817,690
Grants receivable	32,183,206	10,160,553
Restricted cash	4,014,036	4,487,462
Other current assets	<u>6,230,118</u>	<u>6,626,745</u>
Total current assets	<u>62,782,030</u>	<u>24,092,450</u>
Noncurrent assets:		
Loans receivable	9,666,400	9,666,400
Equity investment	178,051	178,051
Capital assets, net	104,743,215	108,785,225
Right to use asset	7,737,832	-
Land and improvements held for sale, net	<u>788,212</u>	<u>3,363,434</u>
Total noncurrent assets	<u>123,113,710</u>	<u>121,993,110</u>
Total assets	<u>\$ 185,895,740</u>	<u>\$ 146,085,560</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 244,122	\$ 959,332
Unearned revenue	53,843,820	14,373,673
Line of credit	677,158	677,158
Current portion of loans payable	<u>1,001,167</u>	<u>10,180,810</u>
Total current liabilities	<u>55,766,267</u>	<u>26,190,973</u>
Noncurrent liabilities:		
Deferred lease liability	28,430,972	20,219,190
Loans payable	14,099,750	14,099,750
Note payable	-	257,381
Total noncurrent liabilities	<u>42,530,722</u>	<u>34,576,321</u>
NET POSITION		
Net investment in capital assets	90,430,510	87,868,099
Restricted	3,409,239	3,624,405
Unrestricted (deficit)	<u>(6,240,998)</u>	<u>(6,174,238)</u>
Total net position	<u>87,598,751</u>	<u>85,318,266</u>
Total liabilities and net position	<u>\$ 185,895,740</u>	<u>\$ 146,085,560</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>2022</u>	<u>2021</u>
Operating revenues:		
Lease and other revenue	\$ 9,024,458	\$ 14,869,875
Grant revenue	8,056,896	4,425,140
Loan interest and commitment fees	96,664	112,107
Brownfield funds	36,183	40,821
Total operating revenues	<u>17,214,201</u>	<u>19,447,943</u>
Operating expenses:		
Development costs	8,148,766	4,253,238
Depreciation	4,152,123	4,225,517
General and administrative	1,667,554	2,036,694
Salaries and benefits	384,459	482,778
Management fee	138,967	125,408
Adjustment to net realizable value	125,675	98,713
Total operating expenses	<u>14,617,544</u>	<u>11,222,348</u>
Operating income	2,596,657	8,225,595
Nonoperating revenues (expenses):		
Loss on disposal	(422,553)	(118,382)
Interest income	18,967	722
Amortization expense	-	(43,675)
Interest expense	(260,911)	(450,479)
Total nonoperating expenses, net	<u>(664,497)</u>	<u>(611,814)</u>
Change in net position	1,932,160	7,613,781
Net position - beginning of year	85,318,266	76,742,639
Add: capital contributions	<u>348,325</u>	<u>961,846</u>
Net position - end of year	<u>\$ 87,598,751</u>	<u>\$ 85,318,266</u>

See accompanying notes.

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

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Amounts (paid) received from Brownfields funds	\$ (10,717)	\$ 67,767
Grants received	25,504,390	8,464,959
Receipts from loans and commitment fees	96,664	112,107
Repayments of loans	-	750,000
Rental and other revenue	10,013,539	19,562,372
Payments to employees, suppliers, and other	(11,237,591)	(6,934,777)
Net cash provided by operating activities	<u>24,366,285</u>	<u>22,022,428</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(154,561)	(449,194)
Proceeds from sale/disposal of capital assets	2,197,117	872,400
Repayment of line of credit	-	(923,370)
Proceeds from line of credit	-	183,575
Repayment of loans	(9,437,024)	(18,961,134)
Capital contributions	348,325	961,846
Net cash used by capital and related financing activities	<u>(7,046,143)</u>	<u>(18,315,877)</u>
Cash flows from investing activities:		
Change in restricted cash	473,426	(789,753)
Interest earned	18,967	722
Interest paid	(275,555)	(525,549)
Net cash provided (used) by investing activities	<u>216,838</u>	<u>(1,314,580)</u>
Net increase in cash	17,536,980	2,391,971
Cash - beginning of year	<u>2,817,690</u>	<u>425,719</u>
Cash - end of year	<u>\$ 20,354,670</u>	<u>\$ 2,817,690</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,596,657	\$ 8,225,595
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	4,152,123	4,225,517
(Increase) decrease in grants receivable	(22,022,653)	3,489,057
Decrease in other current assets	396,627	525,981
Decrease in loans receivable	-	750,000
(Decrease) increase in accounts payable and accrued expenses	(700,566)	116,154
Increase in unearned revenue	39,470,147	550,762
Increase in deferred lease liability	473,950	4,139,362
Net cash provided by operating activities	<u>\$ 24,366,285</u>	<u>\$ 22,022,428</u>
Non-cash transactions:		
Grants received but not yet earned	<u>\$ 38,983,032</u>	<u>\$ 548,961</u>

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 consolidated statements of net position 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 \$5,748,442 and \$6,188,769 for December 31, 2022 and 2021, respectively. Other current assets include interest and accounts receivables and amounted to \$481,676 and \$437,976 for December 31, 2022 and 2021, 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. LEASES

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 Leases. Statement No. 87 amends the existing accounting standards for lease accounting, including requiring lessors to recognize most leases on their statements of net position to mirror the lessee's books and records. The BUDC adopted Statement No. 87 on January 1, 2022, using the transition method as outlined which eliminates the requirement to restate the prior-period financial statements. Under this transition method, the BUDC has applied Statement No. 87 to reporting periods beginning on January 1, 2022.

BUDC determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to. A contract is or contains a lease when the contract conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or an exchange-like transaction.

As a lessor, Northland has a lease under the Master Lease Agreement (Note 8). Under Statement No. 87 Northland recorded a right to use asset and liability amounting to \$8,060,094 at January 1, 2022 upon adoption. The liability includes unamortized prepaid rent payments. Lease revenue is recognized straight line over the life of the Master Lease Agreement.

The adoption of Statement No. 87 did not materially impact cash flows and did not result in a cumulative-effect adjustment to the opening balance of net position.

O. ACCOUNTING PRONOUNCEMENTS

The BUDC has evaluated the provisions of Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, Statement No. 93, *Replacement of Interbank Offered Rates* and 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* and determined that they have no significant impact on the BUDC's financial statements.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

O. ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

- 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. 99, *Omnibus 2022*, which will be effective based on individual applications. Earlier implementation is encouraged and permitted.
- Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which will be effective for the year ending December 31, 2024.
- Statement No. 101, *Compensated Absences*, which will be effective for the year ending December 31, 2024.

P. 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.

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, 2022 and 2021, 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.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

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

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 this loan was necessary in 2022 and 2021.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the BUDC for the year ended December 31, 2022 was as follows:

	Balance January 1, 2022	Increases	Decreases	Balance December 31, 2022
Non-depreciable capital assets				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	5,024,834	144,861	-	5,169,695
Total non-depreciable capital assets	<u>5,898,848</u>	<u>144,861</u>	<u>-</u>	<u>6,043,709</u>
Depreciable capital assets:				
Buildings and improvements	107,884,114	-	-	107,884,114
Furniture and equipment	7,511,625	9,700	96,915	7,424,410
Less: accumulated depreciation	12,509,362	4,152,123	52,467	16,609,018
Total depreciable assets, net	<u>102,886,377</u>	<u>(4,142,423)</u>	<u>44,448</u>	<u>98,699,506</u>
Total capital assets, net	<u>\$ 108,785,225</u>	<u>\$ (3,997,562)</u>	<u>\$ 44,448</u>	<u>\$ 104,743,215</u>

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS (CONTINUED)

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

	Balance January 1, 2021	Increases	Decreases	Balance December 31, 2021
Non-depreciable capital assets				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	<u>4,687,894</u>	<u>336,940</u>	<u>-</u>	<u>5,024,834</u>
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	<u>8,465,782</u>	<u>4,225,517</u>	<u>181,937</u>	<u>12,509,362</u>
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>

Land, buildings, and improvements related to the Northland Corridor amounted to \$6,043,709 and \$5,898,848 at December 31, 2022 and 2021. 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.

Due to the extensive amount of revitalization, pollution remediation (Note 15), 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 \$11,340 and \$660 for the years ended December 31, 2022 and 2021, 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 2022 and 2021, approximately 72 and 20 acres of land, respectively were sold to local developers.

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 underwent select demolition. One acre of land was sold in 2020, .65 acres were sold in 2021, and remaining property (5.687 acres) were sold in 2022.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. LAND AND IMPROVEMENTS HELD FOR DEVELOPMENT AND SALE (CONTINUED)

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>2022</u>	<u>2021</u>
BLCP	\$ 6,038,215	\$ 8,533,718
308 Crowley	-	71,510
Less adjustment to net realizable value (BLCP)	<u>5,250,003</u>	<u>5,241,794</u>
Total land and improvements held for development and sale	<u>\$ 788,212</u>	<u>\$ 3,363,434</u>

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE

BUDC was awarded several grants between 2016-2021 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 2022, BUDC was awarded two grants totaling \$14,446,429 for Phase 1 of the Build Back Better Regional Challenge and are outstanding in grants receivable from the U.S. Department of Commerce Economic Development Administration (EDA) as of December 31, 2022.

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. As of December 31, 2022 \$1,660,727 is outstanding in grants receivable from ESD.

Between 2019-2022, BUDC was awarded eight grants from the Ralph C. Wilson, Jr. Foundation totaling \$52,803,200 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. As of December 31, 2022 \$14,876,050 is outstanding in grants receivable (\$7,740,000 - 2021)

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. In 2022, BUDC was awarded a \$300,000 grant from Community Foundation for Southeast Michigan and a \$50,000 grant from Community Foundation for Greater Buffalo. As of December 31, 2022 \$50,000 is outstanding in grants receivable (\$137,451 - 2021)

In 2022, BUDC was awarded a \$960,000 grant from the MLB-MLBPA Youth Development Foundation in support of field lighting and youth baseball fields constructions. As of December 31, 2022 \$860,000 is outstanding in grants receivable.

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

	<u>2022</u>	<u>2021</u>
Grants receivable:		
EDA	\$ 14,446,429	\$ -
Ralph C Wilson Jr. Foundation	14,876,050	7,740,000
ESD	1,660,727	2,033,102
MLB-MLBPA Youth Development	860,000	-
National Grid	250,000	250,000
Community Foundation	50,000	-
General Motors	40,000	-
Great Lakes Commission	-	137,451
	<u>\$ 32,183,206</u>	<u>\$ 10,160,553</u>

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE (CONTINUED)

Unearned revenue:		
Ralph C Wilson Jr. Foundation	\$ 35,906,550	\$ 11,850,415
EDA	14,426,952	-
ESD	1,704,068	1,835,008
MLB-MLBPA Youth Development	960,000	-
National Grid	381,250	381,250
Community Foundation	325,000	-
Other	100,000	300,000
General Motors	40,000	-
Great Lakes Commission	-	7,000
	<u>\$ 53,843,820</u>	<u>\$ 14,373,673</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2022</u>	<u>2021</u>
Accounts payable	\$ 186,573	\$ 862,805
Accrued payroll	28,017	23,615
Accrued interest	9,168	23,812
Other accrued expenses	20,364	49,100
	<u>\$ 244,122</u>	<u>\$ 959,332</u>

NOTE 8. MASTER LEASE AGREEMENT

Northland has a Master Lease Agreement (the Agreement) with the master tenant member to receive lease 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 August 31, 2038. As a lessor, the underlying building and other assets are recorded as a right to use asset and corresponding deferred lease liability in line with the lessee's books and records as of December 31, 2022. Northland utilized an interest rate of 2.05% to calculate the deferred lease liability. Additionally, the underlying assets were not derecognized and remain on the statements of net position within capital assets.

Northland recognized \$1,879,742 in lease (rent) revenue related to the Agreement for the years ended December 31, 2022 and 2021. The lease agreement includes scheduled lease (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 lease (rent) liability by \$1,896,446 over each of the next 5 years and through the remainder of the life of the lease agreement.

Under the Agreement, Northland receives base and prepaid lease payments. As of December 31, 2022, the Company had received \$27,397,807 in prepaid rent (\$25,528,601 – 2021). All prepaid rent payments required under the Agreement have been made as of December 31, 2022. Unamortized prepaid lease payments amounted to \$20,693,140 as of December 31, 2022 (\$20,219,190 – 2021). The unamortized lease payments related to base rent as calculated with the implementation of Statement No. 87 amount to \$7,737,832 as of December 31, 2022 and are included with unamortized prepaid lease payments in the deferred lease liability on the consolidated statements of net position.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. MASTER LEASE AGREEMENT (CONTINUED)

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2022:

2023	\$	492,423
2024		528,046
2025		558,098
2026		565,617
2027		580,645
Thereafter		<u>6,309,728</u>
	\$	<u><u>9,034,557</u></u>

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, the note payable amounted to \$257,381. The December 31, 2021 balance represents the remaining 19.61 acres of land at \$13,125 per acre. The note was paid in full during the year ended December 31, 2022.

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 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 no outstanding balance at December 31, 2022 and 2021.

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. Agreement was amended on December 29, 2022, and allows borrowings up to \$677,158. Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors under 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 daily SOFR rate plus 2.4% (6.19% at December 31, 2022) per annum (previously adjusted LIBOR rate – 3.25% at December 31, 2021) 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 matures on December 31, 2023. The amount outstanding on the line of credit amounted to \$677,158 at December 31, 2022 and 2021.

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. Buffalo Urban Development Corporation, a related party, 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 the 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 loan agreements, the Company 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. Asset management fees amounted to \$55,000 for years ending December 31, 2022 and 2021.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. LOANS PAYABLE (CONTINUED)

Bridge Loans

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). Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors on these loan agreements. The loans are collateralized by security interest in all assets of 683 WTC, LLC, BBRC Land Company I, LLC and 683 Northland LLC, assignment of rents by the Company, 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 June 30, 2023. The balance outstanding at December 31, 2022 totaled \$1,001,167 (\$10,180,810 - 2021). Interest on Loan A is calculated at the adjusted daily SOFR rate plus 2.4% (6.19% at December 31, 2022). Previous to December 29, 2022, interest on Loan A was calculated at prime rate (as established by KeyBank), plus .25% with a floor of 3% (3% at December 31, 2021). Accrued interest amounted to \$9,168 as of December 31, 2022 (\$23,812 - 2021). Interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum. Management intends to repay Loan A with 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. Interest on the note is calculated at one-month LIBOR plus 2.65 percentage points (6.775% at December 31, 2022).

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

	<u>2022</u>	<u>2021</u>
KeyBank	\$ 1,001,167	\$ 10,180,810
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
	<u>\$ 15,100,917</u>	<u>\$ 24,280,560</u>

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

2023	\$ 1,001,167
2024	469,938
2025	404,116
2026	409,549
2027	415,056
Thereafter	12,401,091
	<u>\$ 15,100,917</u>

Interest expense for the years ending December 31, 2022 and 2021 was \$260,911 and \$450,479, 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, 2022 and 2021.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. RESTRICTED NET POSITION

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$179,785 and \$278,701 at December 31, 2022 and 2021, respectively, and a loan fund in the amount of \$3,229,454 and \$3,345,704 at December 31, 2022 and 2021, 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 and November 24, 2050. The total outstanding balance on these notes was \$52,187,279 at December 31, 2022 and 2021. Accrued interest on the loan amounted to \$2,023,519 and \$1,501,646 at December 31, 2022 and 2021, respectively. These notes and the related interest are eliminated upon consolidation.

NOTE 15. POLLUTION REMEDIATION

Various pollution remediation activities will be necessary as BUDC moves into Phase 3 redevelopment at the Northland Corridor. Based on preliminary environmental studies, demolition plans, and design plans, management believes that remediation activities should total approximately \$3,000,000. Management expects that the entire cost of the remediation will be reimbursed by grants; therefore, no pollution remediation liability has been accrued in these financial statements.

NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 28, 2023, 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.

SUPPLEMENTARY INFORMATION

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

	<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	\$ 20,287,817	\$ 188	\$ 66,665	\$ -	\$ 20,354,670
Grants receivable	32,183,206	-	-	-	32,183,206
Restricted cash	3,766,550	-	247,486	-	4,014,036
Other current assets	8,079,053	56,530	132,359	(1) (2,037,824)	6,230,118
Total current assets	<u>64,316,626</u>	<u>56,718</u>	<u>446,510</u>	<u>(2,037,824)</u>	<u>62,782,030</u>
Noncurrent assets:					
Loans receivable	61,853,679	-	-	(1) (52,187,279)	9,666,400
Equity investment	-	66,291,763	-	(1) (66,113,712)	178,051
Capital assets, net	8,402,867	-	96,340,348	-	104,743,215
Right to use asset	-	-	7,737,832	-	7,737,832
Land and improvements held for sale, net	788,212	-	-	-	788,212
Total noncurrent assets	<u>71,044,758</u>	<u>66,291,763</u>	<u>104,078,180</u>	<u>(118,300,991)</u>	<u>123,113,710</u>
Total assets	<u>\$ 135,361,384</u>	<u>\$ 66,348,481</u>	<u>\$ 104,524,690</u>	<u>\$ (120,338,815)</u>	<u>\$ 185,895,740</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 228,235	\$ 2,037,824	\$ 15,887	(1) \$ (2,037,824)	\$ 244,122
Unearned grant revenue	53,843,820	-	-	-	53,843,820
Lines of credit	-	-	677,158	-	677,158
Current portion of loans payable	-	-	1,001,167	-	1,001,167
Total current liabilities	<u>54,072,055</u>	<u>2,037,824</u>	<u>1,694,212</u>	<u>(2,037,824)</u>	<u>55,766,267</u>
Noncurrent liabilities:					
Deferred lease liability	-	-	28,430,972	-	28,430,972
Loans payable	369,750	52,187,279	13,730,000	(1) (52,187,279)	14,099,750
Total noncurrent liabilities	<u>369,750</u>	<u>52,187,279</u>	<u>42,160,972</u>	<u>(52,187,279)</u>	<u>42,530,722</u>
NET POSITION (DEFICIT)					
Net investment in capital assets	8,821,329	-	81,609,181	-	90,430,510
Restricted	3,409,239	-	-	-	3,409,239
Unrestricted (deficit)	68,689,011	12,123,378	(20,939,675)	(1) (66,113,712)	(6,240,998)
Total net position (deficit)	<u>80,919,579</u>	<u>12,123,378</u>	<u>60,669,506</u>	<u>(66,113,712)</u>	<u>87,598,751</u>
Total liabilities and net position	<u>\$ 135,361,384</u>	<u>\$ 66,348,481</u>	<u>\$ 104,524,690</u>	<u>\$ (120,338,815)</u>	<u>\$ 185,895,740</u>

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

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Buffalo Urban Development Corporation</u>	<u>683 WTC LLC</u>	<u>683 Northland LLC</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues:					
Lease and other revenue	\$ 151,560	\$ 6,993,156	\$ 1,879,742	\$ -	\$ 9,024,458
Grant revenue	8,056,896	-	-	-	8,056,896
Loan interest and commitment fees	618,537	-	-	(1) (521,873)	96,664
Brownfield funds	36,183	-	-	-	36,183
Total operating revenue	<u>8,863,176</u>	<u>6,993,156</u>	<u>1,879,742</u>	<u>(521,873)</u>	<u>17,214,201</u>
Operating expenses:					
Development costs	8,148,766	-	-	-	8,148,766
Adjustment to net realizable value	125,675	-	-	-	125,675
Salaries and benefits	384,459	-	-	-	384,459
General and administrative	1,298,112	152,794	216,648	-	1,667,554
Management fee	83,967	-	55,000	-	138,967
Depreciation	81,078	-	4,071,045	-	4,152,123
Total operating expenses	<u>10,122,057</u>	<u>152,794</u>	<u>4,342,693</u>	<u>-</u>	<u>14,617,544</u>
Operating (loss) income	(1,258,881)	6,840,362	(2,462,951) (1)	(521,873)	2,596,657
Nonoperating revenues (expenses):					
(Loss) gain on disposal	(440,604)	-	18,051	-	(422,553)
Interest income	18,519	136	312	-	18,967
Amortization expense	-	-	-	-	-
Interest expense	(16,576)	(521,873)	(244,335) (1)	521,873	(260,911)
Total nonoperating expenses, net	<u>(438,661)</u>	<u>(521,737)</u>	<u>(225,972)</u>	<u>521,873</u>	<u>(664,497)</u>
Change in net position	(1,697,542)	6,318,625	(2,688,923)	-	1,932,160
Net position - beginning of year	82,617,121	5,804,753	56,217,312 (1)	(59,320,920)	85,318,266
Add: capital contributions	-	-	7,141,117 (1)	(6,792,792)	348,325
Net position - end of year	<u>\$ 80,919,579</u>	<u>\$ 12,123,378</u>	<u>\$ 60,669,506</u>	<u>\$ (66,113,712)</u>	<u>\$ 87,598,751</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, 2022, 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 28, 2023. 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.

Report on 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.

Report on 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 28, 2023