

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT
CORPORATION**

DECEMBER 31, 2023

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, 2023 and 2022, 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, 2023 and 2022, 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 16 to our financial statements, the 2022 financial statements have been restated to correct a misstatement. 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 26, 2024 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 26, 2024

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2023

(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) and Race for Place initiatives, working in collaboration with the City, including the coordination of financial assistance for downtown adaptive re-use projects and public right-of-way improvements. BUDC also serves as the lead management entity for the Ralph C. Wilson, Jr. Centennial Park transformation.

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, 2023, 2022 and 2021. 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 decreased by 3% from \$87,598,000 in 2022 to \$84,819,000 in 2023.
- BUDC experienced a decrease in net position of \$2,822,000 in 2023 compared to an increase of \$1,932,000 in 2022 due mainly to the receipt of brownfield tax credits by WTC in 2022. Grant income and development costs increased in 2022 and 2023.
- BUDC's total assets increased by \$45,247,000 primarily due to a \$57,167,000 increase in grants receivable combined with decreases in cash, restricted cash, and capital assets.
- BUDC's total liabilities increased \$48,026,000 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, 2023, 2022 and 2021
(Amounts in thousands)

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2021</u>
Assets:					
Cash	\$ 16,542	\$ 20,355	\$ (3,813)	-19%	\$ 2,818
Receivables	89,350	32,183	57,167	178%	10,161
Restricted cash	460	4,014	(3,554)	-89%	4,487
Other current assets	5,749	6,230	(481)	-8%	6,627
Loans receivable	9,666	9,666	-	0%	9,666
Equity investment	155	178	(23)	-13%	178
Capital assets, net	100,962	104,743	(3,781)	-4%	108,785
Right to use asset	7,470	7,738	(268)	100%	-
Land and improvements held for sale	788	788	-	0%	3,363
Total assets	\$ 231,142	\$ 185,895	\$ 45,247	24%	\$ 146,085
Liabilities:					
Current liabilities	\$ 105,951	\$ 55,766	\$ 50,185	90%	\$ 26,191
Long-term liabilities	40,372	42,531	(2,159)	-5%	34,576
Total liabilities	146,323	98,297	48,026	49%	60,767
Net position:					
Net investment in capital assets	87,650	90,430	(2,780)	-3%	87,868
Restricted	234	3,681	(3,447)	-94%	3,624
Unrestricted	(3,065)	(6,513)	3,448	-53%	(6,174)
Total net position	\$ 84,819	\$ 87,598	\$ (2,779)	-3%	\$ 85,318
Total liabilities and net position	\$ 231,142	\$ 185,895	\$ 45,247	24%	\$ 146,085

Cash – Cash decreased \$3,813,000 from 2022 to 2023 due to an increase in receivables and an overall increase in expenses during 2023. The increase from 2021 to 2022 was due an increase in grants awarded and received.

Receivables – Receivables include grant and other receivables owed as a result of BUDC's development projects. The increase of \$57,167,000 from 2022 to 2023 is due to grant awards of \$82,252,000 combined with \$25,085,000 of grant receipts. The increase from 2021 to 2022 was due to higher grants awarded than grant receipts in 2022.

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 \$3,554,000 decrease from 2022 to 2023 is due to the termination of the BBRP loan fund and the use of Brownfield funds for eligible project costs.

Other current assets – Other current assets include prepaid expenses, interest receivable, and other receivables. The \$481,000 decrease from 2022 to 2023, as well as the \$397,000 decrease from 2021 to 2022, is due to the amortization of prepaid rent.

Capital assets, net – Capital assets net of accumulated depreciation decreased \$3,781,000 primarily due depreciation expense of \$4,138,000.

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. The \$268,000 decrease from 2022 to 2023 reflects the amortization cost.

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. No land sales occurred in 2023. Land was sold at BLCP and 308 Crowley during 2022, accounting for the decrease. As of 2022 the entirety of 308 Crowley was sold.

Current liabilities – The \$50,185,000 increase in current liabilities from 2022 to 2023 is due mainly to an increase in deferred grant revenue of \$50,540,000 combined with decreases in the current portion of loans payable and the line of credit from payments made during 2023. \$29,575,000 increase from 2021 to 2022 was due to an increase in deferred grant revenue combined with a decrease in loans payable.

Long-term liabilities – Long-term liabilities decreased \$2,159,000 due mainly to a decrease in the deferred lease liability. They increased from 2021 to 2022 due to the deferred lease liability of \$7,738,000 recorded.

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, 2023, 2022 and 2021
(Amounts in thousands)

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2021</u>
Revenue:					
Grants	\$ 31,597	\$ 8,057	\$ 23,540	292%	\$ 4,425
PILOT agreements	36	36	-	0%	41
Loan interest and commitment fees	97	97	-	0%	112
Lease and other revenue	2,951	9,024	(6,073)	-67%	14,870
	<hr/>				
Total revenue	34,681	17,214	17,467	101%	19,448
	<hr/>				
Expenses:					
Development costs	\$ 30,901	\$ 8,149	\$ 22,752	279%	\$ 4,253
Adjustment to net realizable value	75	126	(51)	-40%	99
Salaries and benefits	441	384	57	15%	483
General and administrative	1,742	1,667	75	4%	2,037
Management fee	142	139	3	2%	125
Depreciation	4,138	4,152	(14)	0%	4,226
	<hr/>				
Total expenses	37,439	14,617	22,822	156%	11,223
	<hr/>				
Operating income (loss)	(2,758)	2,597	(5,355)	-206%	8,225
	<hr/>				
Gain (loss) on disposal	8	(423)	431	-102%	(118)
Interest income	126	19	107	563%	1
Interest expense	(198)	(261)	63	-24%	(450)
Amortization expense	-	-	-	0%	(44)
	<hr/>				
Change in net position	\$ (2,822)	\$ 1,932	\$ (4,754)	-246%	\$ 7,614

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 \$23,540,000 from 2021 to 2022 is due mainly to an increase in grants and related revenue for Centennial Park. The increase from 2021 to 2022 was due to the same.

Lease and other revenue – Lease and other revenue includes lease income from 683 Northland Master Tenant, LLC under the Master Lease Agreement, WTC's 2020 brownfield tax credit refund, lease income from other Northland tenants and other income. The decrease of \$6,073,000 from 2021 to 2022 was due to a \$897,000 brownfield tax credit refund received by WTC during the year, compared to a \$6,993,000 refund received in 2021. The decrease from 2021 to 2022 was due to a lower WTC brownfield tax credit refund in 2022 than in 2021.

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 \$22,752,000 in 2023 is the result of higher costs related to the first phase of construction of Ralph C. Wilson, Jr. Centennial Park. Development costs increased from 2021 to 2022 for the same reason.

Adjustment to net realizable value – The adjustment to net realizable value represents certain Northland and BLCP capitalized development costs. These costs are added to the book value of capital assets and land and improvements held for sale; however an offsetting adjustment is recorded to reduce the net book value to equal the estimated net realizable value of each property.

Salaries and benefits – Salaries and benefits increased by \$57,000 or 15% due to BUDC hiring a new employee in 2023.

General and administrative – General and administrative costs increased by \$75,000 or 4%. Included in this category are expenses related to Workforce Training Center 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 \$14,000 from \$4,152,000 in 2022 to \$4,138,000 in 2023. The majority of depreciation expense (\$4,058,000) was related to the building and improvements at 683 Northland Avenue.

Gain (loss) on disposal – A small gain was recognized from the sale of certain equipment by 683 Northland LLC in 2023. The losses on disposal for 2022 and 2021 represent the difference between the sale prices of property sold at BLCP and 308 Crowley and the book value of those properties.

Interest expense – Interest expense relates mainly to loans payable by 683 Northland and lines of credit of both BUDC and 683 Northland. The \$63,000 decrease in interest expense from 2022 to 2023 is reflective of repayment of Northland's debt during 2023.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2023 budget was approved by the Board of Directors on October 25, 2022. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2023 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2023
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 31,597	\$ 37,655	\$ (6,058)	-16%
PILOT agreements	36	40	(4)	-10%
Loan interest and commitment fees	97	97	-	0%
Lease and other revenue	2,951	2,178	773	35%
Total revenue	34,681	39,970	23,263	58%
Expenses:				
Development costs	\$ 30,901	\$ 31,907	\$ (1,006)	-3%
Adjustment to net realizable value	75	-	75	100%
Salaries and benefits	441	519	(78)	-15%
General and administrative	1,742	1,325	417	31%
Management fee	142	87	55	63%
Depreciation	4,138	4,081	57	1%
Total expenses	37,439	37,919	(480)	-1%
Operating income (loss)	(2,758)	2,051	(4,809)	-234%
Loss on disposal	8	-	8	-100%
Interest income	126	1	125	12500%
Interest expense	(198)	(246)	48	-20%
Change in net position	\$ (2,822)	\$ 1,806	\$ (4,628)	-256%

Note: The original 2023 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position fell short of the budget by \$4,628,000. Grant revenue was \$6,058,000 below budget due to lower than anticipated recognition of grant revenue related to the Centennial Park Project. Other revenue surpassed the budgeted amount by \$773,000 due to recognition of the 2020 brownfield tax credit refund by WTC. Development costs of \$30,901,000 were below budget by \$1,006,000. This is directly related to the lower recognition of grant revenue. General and administrative expenses of \$1,742,000 were above the budget by \$417,000. Interest expense of \$198,000 was \$48,000 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>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash	\$ 16,542,113	\$ 20,354,670
Grants receivable	89,350,024	32,183,206
Restricted cash	460,544	4,014,036
Other current assets	5,749,149	6,230,118
Total current assets	<u>112,101,830</u>	<u>62,782,030</u>
Noncurrent assets:		
Loans receivable	9,666,400	9,666,400
Equity investment	154,859	178,051
Capital assets, net	100,961,985	104,743,215
Right to use asset	7,470,200	7,737,832
Land and improvements held for sale, net	788,212	788,212
Total noncurrent assets	<u>119,041,656</u>	<u>123,113,710</u>
Total assets	<u>\$ 231,143,486</u>	<u>\$ 185,895,740</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 528,067	\$ 244,122
Unearned revenue	104,383,474	53,843,820
Line of credit	570,000	677,158
Current portion of loans payable	469,938	1,001,167
Total current liabilities	<u>105,951,479</u>	<u>55,766,267</u>
Noncurrent liabilities:		
Deferred lease liability	26,742,613	28,430,972
Loans payable	13,629,812	14,099,750
Total noncurrent liabilities	<u>40,372,425</u>	<u>42,530,722</u>
NET POSITION		
Net investment in capital assets	87,650,447	90,430,510
Restricted (deficit) position, as restated (see Note 16)	233,780	3,681,560
Unrestricted (deficit) position, as restated (see Note 16)	<u>(3,064,645)</u>	<u>(6,513,319)</u>
Total net position	<u>84,819,582</u>	<u>87,598,751</u>
Total liabilities and net position	<u>\$ 231,143,486</u>	<u>\$ 185,895,740</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>2023</u>	<u>2022</u>
Operating revenues:		
Grant revenue	\$ 31,596,676	\$ 8,056,896
Lease and other revenue	2,951,472	9,024,458
Loan interest	96,664	96,664
Brownfield funds	35,823	36,183
Total operating revenues	<u>34,680,635</u>	<u>17,214,201</u>
Operating expenses:		
Development costs	30,900,700	8,148,766
Depreciation	4,138,093	4,152,123
General and administrative	1,742,514	1,667,554
Salaries and benefits	440,561	384,459
Management fee	142,262	138,967
Adjustment to net realizable value	74,961	125,675
Total operating expenses	<u>37,439,091</u>	<u>14,617,544</u>
Operating (loss) income	(2,758,456)	2,596,657
Nonoperating revenues (expenses):		
Gain (loss) on disposal	8,329	(422,553)
Interest income	126,418	18,967
Interest expense	(197,771)	(260,911)
Total nonoperating expenses, net	<u>(63,024)</u>	<u>(664,497)</u>
Change in net position	(2,821,480)	1,932,160
Net position - beginning of year	87,598,751	85,318,266
Add: capital contributions	44,711	348,325
Less: capital distributions	<u>(2,400)</u>	<u>-</u>
Net position - end of year	<u>\$ 84,819,582</u>	<u>\$ 87,598,751</u>

See accompanying notes.

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

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Amounts paid from Brownfields funds	\$ (25,641)	\$ (10,717)
Grants received	24,969,512	25,504,390
Receipts from loans and commitment fees	96,664	96,664
Rental and other revenue	2,042,677	10,013,539
Payments to employees, suppliers, and other	<u>(32,981,356)</u>	<u>(11,237,591)</u>
Net cash (used) provided by operating activities	(5,898,144)	24,366,285
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(363,935)	(154,561)
Proceeds from sale/disposal of capital assets	15,400	2,197,117
Repayment of loans	(1,108,325)	(9,437,024)
Capital distributions	(2,400)	-
Capital contributions	44,711	348,325
Net cash used by capital and related financing activities	(1,414,549)	(7,046,143)
Cash flows from investing activities:		
Change in restricted cash	3,553,492	473,426
Interest earned	149,610	18,967
Interest paid	<u>(202,966)</u>	<u>(275,555)</u>
Net cash provided by investing activities	3,500,136	216,838
Net (decrease) increase in cash	(3,812,557)	17,536,980
Cash - beginning of year	20,354,670	2,817,690
Cash - end of year	\$ <u>16,542,113</u>	\$ <u>20,354,670</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (2,758,456)	\$ 2,596,657
Adjustment to reconcile operating (loss) income from operations to net cash (used) provided by operating activities:		
Depreciation expense	4,138,093	4,152,123
Increase in grants receivable	(57,166,818)	(22,022,653)
Decrease in other current assets	480,969	396,627
Increase (decrease) in accounts payable and accrued expenses	289,140	(700,566)
Increase in unearned revenue	50,539,654	39,470,147
(Decrease) increase in deferred lease liability	<u>(1,420,726)</u>	<u>473,950</u>
Net cash (used) provided by operating activities	\$ <u>(5,898,144)</u>	\$ <u>24,366,285</u>
Non-cash transactions:		
Grants received but not yet earned	\$ <u>50,742,522</u>	\$ <u>38,983,032</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 \$5,206,009 and \$5,748,442 for December 31, 2023 and 2022, respectively. Other current assets include interest and accounts receivables and amounted to \$543,140 and \$481,676 for December 31, 2023 and 2022, 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

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

As a lessee, BUDC has a lease for office space. The agreement was month to month through November 2023. Effective December 1, 2023 an agreement was signed that extended the lease through July 31, 2027. BUDC recorded a right to use asset and liability amounting to \$71,029 as of December 31, 2023.

O. ACCOUNTING PRONOUNCEMENTS

BUDC has evaluated the provisions of Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, Statement No. 96, *Subscription-Based Information Technology Arrangements* and Statement No. 99, *Omnibus 2022*, which will be effective based on individual applications and determined that they have no significant impact on BUDC's financial statements.

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. 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.
- Statement No. 102, *Certain Risk Disclosures*, which will be effective for the year ending December 31, 2025.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and 2022, 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

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 2023 and 2022.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. CAPITAL ASSETS

Capital asset activity for the BUDC for the year ended December 31, 2023 was as follows:

	<u>January 1, 2023</u>	<u>Increase</u>	<u>Decreases</u>	<u>December 31, 2023</u>
Non-depreciable capital assets:				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	<u>5,169,695</u>	<u>360,493</u>	<u>-</u>	<u>5,530,188</u>
Total non-depreciable capital assets	<u>6,043,709</u>	<u>360,493</u>	<u>-</u>	<u>6,404,202</u>
Depreciable capital assets:				
Buildings and improvements	107,884,114	3,440	-	107,887,554
Furniture and equipment	7,424,410	-	23,760	7,400,650
Less: accumulated depreciation	<u>16,609,018</u>	<u>4,138,093</u>	<u>16,690</u>	<u>20,730,421</u>
Total depreciable assets, net	<u>98,699,506</u>	<u>(4,134,653)</u>	<u>7,070</u>	<u>94,557,783</u>
Total capital assets, net	<u>\$ 104,743,215</u>	<u>\$ (3,774,160)</u>	<u>\$ 7,070</u>	<u>\$ 100,961,985</u>

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

	<u>January 1, 2022</u>	<u>Increase</u>	<u>Decreases</u>	<u>December 31, 2022</u>
Non-depreciable capital assets:				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	<u>5,024,834</u>	<u>144,861</u>	<u>-</u>	<u>5,169,695</u>
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	<u>12,509,362</u>	<u>4,152,123</u>	<u>52,467</u>	<u>16,609,018</u>
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>

Land, buildings, and improvements related to the Northland Corridor amounted to \$6,404,202 and \$6,043,709 at December 31, 2023 and 2022. 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 \$51,838 and \$11,340 for the years ended December 31, 2023 and 2022, respectively.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, approximately 72 acres of land, was 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 the remaining property (5.687 acres) was sold in 2022.

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>2023</u>	<u>2022</u>
BLCP	\$ 6,045,055	\$ 6,038,215
Less adjustment to net realizable value (BLCP)	<u>5,256,843</u>	<u>5,250,003</u>
Total capital assets, net	<u>\$ 788,212</u>	<u>\$ 788,212</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. \$14,431,065 remains outstanding in grants receivable from the U.S. Department of Commerce Economic Development Administration (EDA) as of December 31, 2023 (\$14,446,429 – 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. In 2023, an additional \$55,000,000 was awarded from ESD’s RECAP program relating to this project, as well as \$1,800,000 from ESD to support work on solar micro-grid projects at the properties. As of December 31, 2023 \$58,460,727 is outstanding in grants receivable from ESD (\$1,660,727 – 2022).

Between 2019-2023, BUDC was awarded ten grants from the Ralph C. Wilson, Jr. Foundation totaling \$67,055,200 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, 2023, \$4,689,000 is outstanding in grants receivable from the Ralph C. Wilson, Jr. Foundation (\$14,876,050 – 2022).

To further add the shoreline components of the Centennial Park project, BUDC was awarded four grants totaling \$11,989,035 from the Great Lakes Commission between 2020-2023. \$10,584,233 is outstanding in grants receivable at December 31, 2023. There was no amount outstanding in grants receivable at December 31, 2022. 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. In 2023, both grants were renewed and awarded at the same amount. As of December 31, 2023, there is no balance outstanding in grants receivable (\$50,000 – 2022)

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 construction. As of December 31, 2023 and 2022, \$860,000 is outstanding in grants receivable.

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>2023</u>	<u>2022</u>
Grant receivable:		
ESD	\$ 58,535,726	\$ 1,660,727
EDA	14,431,065	14,446,429
Great Lakes Commission	10,584,233	-
Ralph C Wilson Jr. Foundation	4,689,000	14,876,050
MLB-MLBPA Youth Development	860,000	860,000
National Grid	250,000	250,000
Community Foundation	-	50,000
General Motors	-	40,000
	<u>\$ 89,350,024</u>	<u>\$ 32,183,206</u>
Unearned revenue:		
ESD	\$ 58,155,314	\$ 1,704,068
Ralph C Wilson Jr. Foundation	19,842,714	35,906,550
EDA	14,371,153	14,426,952
Great Lakes Commission	10,648,043	-
MLB-MLBPA Youth Development	960,000	960,000
National Grid	381,250	381,250
Community Foundation	25,000	325,000
Other	-	100,000
General Motors	-	40,000
	<u>\$104,383,474</u>	<u>\$ 53,843,820</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2023</u>	<u>2022</u>
Accounts payable	\$ 493,866	\$ 186,573
Accrued payroll	27,128	28,017
Accrued interest	3,973	9,168
Other accrued expenses	3,100	20,364
	<u>\$ 528,067</u>	<u>\$ 244,122</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 \$1,913,150 in lease revenue related to the Agreement for the year ended December 31, 2023 (\$1,879,742 – 2022). The lease agreement includes scheduled lease 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 liability by \$1,896,446 over each of the next 5 years and through the remainder of the life of the lease agreement.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. MASTER LEASE AGREEMENT (CONTINUED)

Under the Agreement, Northland receives base and prepaid lease payments. All prepaid rent payments required under the Agreement have been made as of December 31, 2022. Unamortized prepaid lease payments amounted to \$19,272,413 as of December 31, 2023 (\$20,693,140 – 2022). The unamortized lease payments related to base rent amounted to \$7,399,171 as of December 31, 2023 (\$7,737,832 – 2022).

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2023:

2024	\$ 528,046
2025	558,098
2026	565,617
2027	580,645
2028	596,024
Thereafter	<u>5,713,704</u>
	<u>\$ 8,542,134</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. 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, 2023 and 2022.

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. A further amendment was made extending the maturity date to September 30, 2024. Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors under this agreement. Borrowings were 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% (7.8% at December 31, 2023) per annum (6.19% at December 31, 2022) 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 amount outstanding on the line of credit amounted to \$570,000 at December 31, 2023 (\$677,158 – 2022). Accrued interest amounted to \$3,973 at December 31, 2023. There was no accrued interest pertaining to the line of credit at December 31, 2022.

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, 2023 and 2022.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. LOANS PAYABLE (CONTINUED)

Bridge Loans

Northland entered into a bridge loan agreement with KeyBank on December 28, 2017, in the amount of \$20,000,000 (Loan A). Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors on these loan agreements. The loan is 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 A was extended through June 30, 2023 and has been fully paid off as of December 31, 2023. The outstanding balance totaled \$1,001,167 as of December 31, 2022. Interest on Loan A is calculated at the adjusted daily SOFR rate plus 2.4%. 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%. There was no accrued interest pertaining to Loan A at December 31, 2023 (\$9,168 - 2022). Management repaid Loan A with capital contributions from the managing member.

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 (8.13% at December 31, 2023). During February 2024, BUDC paid off the term note in full.

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

	<u>2023</u>	<u>2022</u>
KeyBank	\$ -	\$ 1,001,167
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>\$ 14,099,750</u>	<u>\$ 15,100,917</u>

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

2024	\$ 469,938
2025	404,116
2026	409,549
2027	415,056
2028	420,636
Thereafter	<u>11,980,455</u>
	<u>\$ 14,099,750</u>

Interest expense for the years ending December 31, 2023 was \$197,771 and (\$260,911 – 2022).

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 \$154,859 at December 31, 2023 (\$178,051 – 2022).

NOTE 13. RESTRICTED NET POSITION

BUDC's restricted net deficit consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$38,451 at December 31, 2023. BUDC's restricted net position related to the Buffalo Brownfields Redevelopment Fund was \$179,785 at December 31, 2022. BUDC's restricted net position also consisted of a loan fund that was terminated during 2023. BUDC's restricted net position related to the loan fund was \$3,229,454 at December 31, 2022.

BUFFALO URBAN DEVELOPMENT CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and 2022. Accrued interest on the loan amounted to \$2,545,392 at December 31, 2023 (\$2,023,519 – 2022). 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 consolidated financial statements.

NOTE 16. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The prior year financial statements have been restated to correct an error in classification related to beginning net position. Previously reported restricted net position and unrestricted deficit position during the year ending December 31, 2022, amounted to \$3,409,239 and \$6,240,998 respectively. Restricted net position increased \$272,231 and unrestricted deficit position decreased \$272,231.

NOTE 17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2024, which is the date the consolidated 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 FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023**

	<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	\$ 16,518,845	\$ 60	\$ 23,208	\$ -	\$ 16,542,113
Grants receivable	89,350,024	-	-	-	89,350,024
Restricted cash	316,618	-	143,926	-	460,544
Other current assets	<u>8,156,854</u>	<u>28,833</u>	<u>132,359</u>	(1) <u>(2,568,897)</u>	<u>5,749,149</u>
Total current assets	<u>114,342,341</u>	<u>28,893</u>	<u>299,493</u>	<u>(2,568,897)</u>	<u>112,101,830</u>
Noncurrent assets:					
Loans receivable	61,853,679	-	-	(1) (52,187,279)	9,666,400
Equity investment	-	67,074,772	-	(1) (66,919,913)	154,859
Capital assets, net	8,687,015	-	92,274,970	-	100,961,985
Right to use asset	71,029	-	7,399,171	-	7,470,200
Land and improvements held for sale, net	<u>788,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>788,212</u>
Total noncurrent assets	<u>71,399,935</u>	<u>67,074,772</u>	<u>99,674,141</u>	<u>(119,107,192)</u>	<u>119,041,656</u>
Total assets	<u>\$ 185,742,276</u>	<u>\$ 67,103,665</u>	<u>\$ 99,973,634</u>	<u>\$ (121,676,089)</u>	<u>\$ 231,143,486</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 523,814	\$ 2,568,897	\$ 4,253	(1) \$ (2,568,897)	\$ 528,067
Unearned grant revenue	104,383,474	-	-	-	104,383,474
Lines of credit	-	-	570,000	-	570,000
Current portion of loans payable	<u>369,750</u>	<u>-</u>	<u>100,188</u>	<u>-</u>	<u>469,938</u>
Total current liabilities	<u>105,277,038</u>	<u>2,568,897</u>	<u>674,441</u>	<u>(2,568,897)</u>	<u>105,951,479</u>
Noncurrent liabilities:					
Deferred lease liability	71,029	-	26,671,584	-	26,742,613
Loans payable	<u>-</u>	<u>52,187,279</u>	<u>13,629,812</u>	(1) <u>(52,187,279)</u>	<u>13,629,812</u>
Total noncurrent liabilities	<u>71,029</u>	<u>52,187,279</u>	<u>40,301,396</u>	<u>(52,187,279)</u>	<u>40,372,425</u>
NET POSITION (DEFICIT)					
Net investment in capital assets	9,105,477	-	78,544,970	-	87,650,447
Restricted (deficit) position, as restated (see Note 16)	233,780	-	-	-	233,780
Unrestricted (deficit) position, as restated (see Note 16)	<u>71,054,952</u>	<u>12,347,489</u>	<u>(19,547,173)</u>	(1) <u>(66,919,913)</u>	<u>(3,064,645)</u>
Total net position (deficit)	<u>80,394,209</u>	<u>12,347,489</u>	<u>58,997,797</u>	<u>(66,919,913)</u>	<u>84,819,582</u>
Total liabilities and net position	<u>\$ 185,742,276</u>	<u>\$ 67,103,665</u>	<u>\$ 99,973,634</u>	<u>\$ (121,676,089)</u>	<u>\$ 231,143,486</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, 2023

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC	Eliminations	Total
Operating revenues:					
Grant revenue	\$ 31,596,676	\$ -	\$ -	\$ -	\$ 31,596,676
Lease and other revenue	141,321	897,001	1,913,150	-	2,951,472
Loan interest	618,537	-	-	(1) (521,873)	96,664
Brownfield funds	35,823	-	-	-	35,823
Total operating revenue	<u>32,392,357</u>	<u>897,001</u>	<u>1,913,150</u>	<u>(521,873)</u>	<u>34,680,635</u>
Operating expenses:					
Development costs	30,900,700	-	-	-	30,900,700
Adjustment to net realizable value	74,961	-	-	-	74,961
Salaries and benefits	440,561	-	-	-	440,561
General and administrative	1,454,288	128,150	160,076	-	1,742,514
Management fee	87,262	-	55,000	-	142,262
Depreciation	79,786	-	4,058,307	-	4,138,093
Total operating expenses	<u>33,037,558</u>	<u>128,150</u>	<u>4,273,383</u>	<u>-</u>	<u>37,439,091</u>
Operating (loss) income	(645,201)	768,851	(2,360,233) (1)	(521,873)	(2,758,456)
Nonoperating revenues (expenses):					
Gain on disposal	-	-	8,329	-	8,329
Interest income	148,924	(22,867)	361	-	126,418
Interest expense	(29,093)	(521,873)	(168,678) (1)	521,873	(197,771)
Total nonoperating revenues (expenses), net	<u>119,831</u>	<u>(544,740)</u>	<u>(159,988)</u>	<u>521,873</u>	<u>(63,024)</u>
Change in net position	(525,370)	224,111	(2,520,221)	-	(2,821,480)
Net position - beginning of year	80,919,579	12,123,378	60,669,506 (1)	(66,113,712)	87,598,751
Add: capital contributions	-	-	896,712 (1)	(852,001)	44,711
Less: distributions	-	-	(48,200) (1)	45,800	(2,400)
Net position - end of year	<u>\$ 80,394,209</u>	<u>\$ 12,347,489</u>	<u>\$ 58,997,797</u>	<u>\$ (66,919,913)</u>	<u>\$ 84,819,582</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, 2023, 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 26, 2024. 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 26, 2024