ITEM 2

BUFFALO URBAN DEVELOPMENT CORPORATION

REPORT TO THE BOARD OF DIRECTORS

DECEMBER 31, 2019

XXXXXX, 2020

To the Members of the Board of Directors
Buffalo Urban Development Corporation
95 Perry Street, Suite 403
Buffalo, New York 14203

Members of the Board:

We are pleased to present this report related to our audits of the financial statements of Buffalo Urban Development Corporation (BUDC), as of and for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for BUDC's financial reporting process.

This report is intended solely for the information and use of BUDC and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to be of service to BUDC.

Very truly yours,

Freed Maxick CPAs, P.C.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditors Communications with Those Charge with Governance)* require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities with Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated January 6, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by BUDC. BUDC did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current year. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates."
Basis of Accounting	The financial statements were prepared on assumption that the entity will continue as a going concern.

Audit Adjustments

We are not aware of nor have we proposed any audit adjustments as a result of our audit.

Uncorrected Misstatement

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed with or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Significant Written Communication Between Management and Our Firm

A copy of the representation letter provided to us by management is attached as Exhibit A.

Buffalo Urban Development Corporation
Summary of Significant Accounting Estimates
Year Ended December 31, 2019

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in BUDC's December 31, 2019 financial statements:

Estimate	Accounting Policy	Management's Estimation Process	Basis of our conclusions on Reasonableness of Estimate
Depreciation of Property, Plant & Equipment	Management depreciates property, plant and equipment over the estimated lives of the assets.	Useful lives were assigned based on BUDC's useful life policy. Management was consistent in calculating depreciation based on the useful lives assigned to each asset.	The methods and lives used to estimate depreciation expense appears reasonable.

Recently Issued Accounting Standards

The GASB has issued several statements not yet implemented by BUDC. BUDC's management has not yet determined the effect these Statements will have on BUDC's financial statements. However, BUDC plans to implement all standards by the required dates. The Statements which might impact BUDC are as follows:

Summary of GASB Statement No. 87, *Leases*

This Statement issued in June 2017 will be effective for BUDC with its fiscal year ending December 31, 2020. This Statement better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Summary of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*

This Statement issued in June 2018 will be effective for BUDC beginning with its fiscal year ending December 31, 2020. The primary objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of GASB Statement No. 89 are effective for financial periods beginning after December 15, 2019. Earlier application is encouraged.

Summary of GASB Statement No. 91, *Conduit Debt Obligations*

This Statement issued in May 2019 will be effective for BUDC beginning with its fiscal year ending December 31, 2021. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of GASB Statement No. 91 are effective for financial periods beginning after December 15, 2020. Earlier application is encouraged.

EXHIBIT A – SIGNIFICANT WRITTEN COMMUNICATION BETWEEN MANAGEMENT AND OUR FIRM

AUDITED
CONSOLIDATED FINANCIAL STATEMENTS

BUFFALO URBAN DEVELOPMENT CORPORATION

DECEMBER 31, 2019

FINANCIAL SECTION

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2019
(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, 2019, 2018 and 2017. 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) Statements 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) Statements of Revenues, Expenses, and Changes in Net Position – This statement reports BUDC's operating and nonoperating revenues by major source along with operating expenses. The difference between total revenues and expenses can be one way to measure BUDC's operating results for the year.

3) Statements of Cash Flows – This statement reports BUDC's cash flows from operating, noncapital financing, capital and related financing, and investing activities.

Financial Highlights

- BUDC's net position increased by 47% from $53,357,000 in 2018 to $78,604,000 in 2019 primarily due to grant revenue recognized for capital outlays related to Phase II of the Project at 683 Northland Avenue.
- BUDC experienced an increase in net position of $24,746,000 in 2019 compared to an increase of $18,595,000 in 2018 due mainly to Developer Fees of $11,887,000 recognized by BUDC for the completion of Phases I and II of the Project at 683 Northland Avenue. In addition, 683 Northland recognized $2,873,000 of rental income and tenant reimbursement income.
- BUDC's total assets increased by $11,874,000 primarily due to $31,151,000 of capital asset additions, the majority of which related to the Project at 683 Northland Avenue. The increase in capital assets was coupled with decreases in cash ($4,065,000) and restricted cash ($16,645,000).
- BUDC's total liabilities decreased $13,373,000 as a result of a $9,582,000 decrease in unearned grant revenue, a $6,208,000 decrease in accounts payable, a $4,924,000 decrease in deferred developer fees, and a $5,066,000 increase in loans payable.

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, 2019, 2018 and 2017
(Amounts in thousands)

	2019	2018	$ Change	% Change	2017
Assets:					
Cash	$ 247	$ 4,312	$ (4,065)	-94%	$ 11,094
Receivables	10,781	9,563	1,218	13%	14,262
Restricted cash	5,235	21,880	(16,645)	-76%	3,411
Other current assets	8,135	8,295	(160)	-2%	473
Loans receivable	10,791	10,416	375	4%	10,416
Equity investment	198	198	-	0%	198
Capital assets, net	110,458	67,644	42,814	63%	6,594
Construction in process	2,697	14,365	(11,668)	-81%	15,334
Land and improvements held for sale	4,087	4,082	5	0%	3,997
Total assets	$ 152,629	$ 140,755	$ 11,874	8%	$ 65,779
Liabilities:					
Current liabilities	$ 15,333	$ 31,124	$ (15,791)	-51%	$ 19,147
Long-term liabilities	58,692	56,274	2,418	4%	13,919
Total liabilities	74,025	87,398	(13,373)	-15%	33,066
Net position:					
Net investment in capital assets	73,261	47,176	26,085	55%	8,198
Restricted	4,934	4,989	(55)	-1%	5,254
Unrestricted	409	1,192	(783)	-66%	19,261
Total net position	$ 78,604	$ 53,357	$ 25,247	47%	$ 32,713
Total liabilities and net position	$ 152,629	$ 140,755	$ 11,874	8%	$ 65,779

Cash – Cash decreased $4,065,000 due primarily to capital outlays related to the Workforce Training Center and other development in the Northland Corridor.

Receivables – Receivables include grant and other receivables owed as a result of BUDC's development projects. The $1,218,000 increase is primarily due to $11,200,000 of grants awarded to BUDC during 2019, compared to $10,000,000 of grant receipts during the year.

Restricted cash – Restricted cash includes amounts held by the Erie County Industrial Development Agency (ECIDA) on behalf of BUDC related to the Buffalo Brownfields Redevelopment Fund and the Regionally Significant Project 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 $16,645,000 is mainly due to amounts released from these imprest accounts during the year.

Other current assets – Other current assets include prepaid expenses, developer fees receivable (BUDC) and interest receivable.

Loans receivable – Loans receivable increased $375,000 in 2019, as one loan was funded as part of the Buffalo Building Reuse Project loan program.

Capital assets, net – Capital assets net of accumulated depreciation increased $42,814,000 primarily due to the capitalization of portions of Phase II of the Project at 683 Northland Avenue.

Construction in process – Construction in process decreased $11,668,000 in 2019 due to the capitalization of portions of Phase II of the Project at 683 Northland Avenue.

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.

Current liabilities - The $15,791,000 decrease in current liabilities was primarily due to recognition of $9,582,000 of grant revenue to BUDC for Northland Corridor redevelopment and the Ralph C. Wilson, Jr. Centennial Park project, coupled with a $6,208,000 decrease in accounts payable.

Long-term liabilities – Long-term liabilities increased $2,418,000 due to increases in loans payable of $5,066,000 and the deferred rent liability of $2,276,000, along with a decrease in deferred developer fees ($4,924,000).

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, 3029, 2018 and 2017
(Amounts in thousands)

	2019	2018	$ Change	% Change	2017
Revenue:					
Grants	$ 20,800	$ 26,253	$ (5,453)	-21%	$ 16,896
PILOT agreements	299	447	(148)	-33%	501
Loan interest and commitment fees	150	138	12	9%	126
Rental and other revenue	14,842	645	14,197	2201%	75
Total revenue	36,091	27,483	23,263	85%	17,598
Expenses:					
Development costs	$ 2,580	$ 594	$ 1,986	334%	$ 558
Adjustment to net realizable value	576	2,727	(2,151)	-79%	1,013
Salaries and benefits	509	437	72	16%	444
General and administrative	3,094	3,550	(456)	-13%	193
Management fee	134	115	19	17%	53
Depreciation	3,224	1,044	2,180	209%	5
Total expenses	10,117	8,467	1,650	19%	2,266
Operating income (loss)	25,974	19,016	6,958	37%	15,332
Interest income	19	13	6	46%	14
Interest expense	(1,172)	(359)	(813)	226%	-
Amortization expense	(75)	(75)	-	0%	-
In-kind revenue	-	-	-	0%	730
Change in net position	$ 24,746	$ 18,595	$ 6,151	33%	$ 16,076

3. Revenue and Expense Analysis:

Grants – Grant income includes income from ESD, NYPA and National Grid for projects along the Northland Corridor, from the Ralph C. Wilson, Jr. Foundation for work related to Ralph C. Wilson, Jr. Centennial Park, as well as from ECIDA for the BBRP. Grant income is recognized as the related grant expenses are incurred. In 2019, $18,792,000 of grant revenue was recognized for Northland Corridor projects, $1,900,000 for Centennial Park and $100,000 for BBRP. The decrease of $5,453,000 from 2018 reflects the usage of larger grants related to 683 Northland Avenue.

Rental and other revenue – Other revenue includes developer fees, rental income and other income. The increase of $14,197,000 from 2018 was due to $11,900,000 of developer fee revenue recognized by BUDC in 2019 related to Phases I and II of the Project at 683 Northland Avenue, along with $2,946,000 of rental income.

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 $1,986,000 is the result of further development on the Northland properties.

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

Salaries and benefits – Salaries and benefits increased by $72,000 or 16% due to the hiring of a new Northland Project Manager in 2019, along with annual salary increases.

General and administrative – General and administrative costs decreased $456,000 from $3,550,000 in 2018 to $3,094,000 in 2019. The main reason for this decrease was a grant from BUDC to Buffalo Brownfield Restoration Corporation (BBRC) of around $2,000,000 in 2018. In addition, 683 Northland recognized general and administrative expenses of $1,468,000.

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 along with asset management fees charged to 683 Northland by NMTC and HTC investors.

Depreciation – Depreciation expense increased $2,180,000 from $1,044,000 in 2018 to $3,224,000 in 2019. The majority of depreciation expense ($3,209,000) was related to the building and improvements at 683 Northland Avenue.

Interest expense – Interest expense relates mainly to loans payable by 683 Northland. The $813,000 increase in interest expense from 2018 to 2019 reflects full utilization of construction bridge financing.

In-kind revenue – BUDC recognized $730,000 of in-kind revenue in 2017 related to the cost of demolition at 537 East Delevan Avenue, that was funded by the City. No in-kind revenue was recognized in 2018 or 2019.

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2019 budget was presented and approved by the Board of Directors on October 30, 2018. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2019 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2019
(Amounts in thousands)

	Actual	Original Budget	Actual to Budget $ Change	Actual to Budget % Change
Revenue:				
Grants	$ 20,800	$ 28,573	$ (7,773)	-27%
PILOT agreements	299	419	(120)	-29%
Loan interest and commitment fees	150	49	101	206%
Other	14,842	5,559	9,283	167%
Total revenue	36,091	34,600	23,263	67%
Expenses:				
Development costs	$ 2,580	$ 471	$ 2,109	448%
Adjustment to net realizable value	576	-	576	100%
Salaries and benefits	509	541	(32)	-6%
General and administrative	3,094	500	2,594	519%
Management fee	134	60	74	123%
Depreciation	3,224	4,931	(1,707)	-35%
Total expenses	10,117	6,503	3,614	56%
Operating income (loss)	25,974	28,097	(2,123)	-8%
Interest income	19	5	14	280%
Interest expense	(1,172)	(365)	(807)	221%
Amortization expense	(75)	-	(75)	100%
Change in net position	$ 24,746	$ 27,737	$ (2,991)	-11%

Note: The original 2019 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position trailed the budget by $2,123,000. Grant revenue was $7,773,000 below budget due to lower than anticipated recognition of ESD and NYPA grant revenue related to the Project at 683 Northland Avenue. Other revenue exceeded budget by $9,283,000 due to recognition of developer fees for Phases I and II of the Project at 683 Northland Avenue. Development costs of $2,580,000 were over budget by $2,109,000. $31,146,000 of costs incurred for Phase II of the Project were capitalized during 2019. General and administrative expenses of $3,094,000 exceeded budget by $2,594,000. 683

Northland recognized $1,468,000 of non-capitalized costs related to work on the Project, and BUDC saw an increase due to the amortization of prepaid rent for the Workforce Training Center operator at 683 Northland Avenue.

5. Economic Factors Impacting BUDC:

BUDC has limited sources of operating funds that can support its ongoing operating costs. As a result, BUDC is reliant upon future land sales occurring at its BLCP business park and future revenues 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,

	2019	2018
ASSETS		
Current assets:		
Cash	$ 246,940	$ 4,312,129
Grants receivable	10,780,646	9,562,865
Restricted cash	5,234,585	21,880,344
Other current assets	8,135,225	8,293,592
Total current assets	24,397,396	44,048,930
Noncurrent assets:		
Loans receivable, net	10,791,400	10,416,400
Equity investment	198,360	198,360
Capital assets, net	110,457,922	67,644,301
Construction in process	2,697,320	14,365,384
Land and improvements held for sale, net	4,086,967	4,081,967
Total noncurrent assets	128,231,969	96,706,412
Total assets	$ 152,629,365	$ 140,755,342
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,589,840	$ 10,798,000
Unearned revenue	10,743,729	20,325,583
Total current liabilities	15,333,569	31,123,583
Noncurrent liabilities:		
Deferred rent liability	14,453,317	12,176,884
Deferred developer fees	-	4,924,392
Loans payable	43,981,202	38,915,462
Note payable	257,381	257,381
Total noncurrent liabilities	58,691,900	56,274,119
NET POSITION		
Net investment in capital assets (net of debt)	73,261,007	47,176,190
Restricted	4,933,990	4,989,392
Unrestricted	408,899	1,192,058
Total net position	78,603,896	53,357,640
Total liabilities and net position	$ 152,629,365	$ 140,755,342

See accompanying notes.

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

		2019		2018
Operating revenues:				
Grant revenue	$	**20,799,635**	$	26,252,678
Brownfield funds		**298,920**		446,764
Loan interest and commitment fees		**149,707**		137,914
Rental and other revenue		**14,842,621**		645,238
Total operating revenues		**36,090,883**		27,482,594
Operating expenses:				
Development costs		**2,579,959**		593,863
Adjustment to net realizable value		**575,816**		2,726,938
Salaries and benefits		**509,655**		437,323
General and administrative		**3,093,725**		3,550,172
Management fee		**133,855**		114,722
Depreciation		**3,224,019**		1,043,861
Total operating expenses		**10,117,029**		8,466,879
Operating income		**25,973,854**		19,015,715
Nonoperating revenues (expenses):				
Interest income		**19,278**		12,733
Amortization expense		**(74,872)**		(74,872)
Interest expense		**(1,172,004)**		(358,923)
Total nonoperating revenues (expenses)		**(1,227,598)**		(421,062)
Change in net position		**24,746,256**		18,594,653
Net position - beginning of year		**53,357,640**		32,713,692
Add: capital contributions		**500,000**		2,049,295
Net position - end of year	$	**78,603,896**	$	53,357,640

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See accompanying notes.

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

	2019	2018
Cash flows from operating activities:		
Amounts received from Brownfields funds	$ 301,725	$ 550,686
Grants received	9,998,000	35,942,268
Receipts from loans and commitment fees	149,707	137,914
Disbursements of loans	(375,000)	-
Rental and other revenue	16,734,453	4,890,245
Payments to employees, suppliers, and other	(6,020,050)	(6,674,368)
Net cash provided by operating activities	20,788,835	34,846,745
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(45,915,225)	(50,232,126)
Proceeds from loans	5,065,740	25,453,754
Capital contributions	500,000	2,049,294
Net cash used by capital and related financing activities	(40,349,485)	(22,729,078)
Cash flows from investing activities:		
Change in restricted cash	16,645,759	(18,469,513)
Interest earned	19,278	12,733
Interest paid	(1,169,576)	(443,073)
Net cash provided (used) by investing activities	15,495,461	(18,899,853)
Net decrease in cash and cash equivalents	(4,065,189)	(6,782,186)
Cash and cash equivalents - beginning of year	4,312,129	11,094,315
Cash and cash equivalents - end of year	$ 246,940	$ 4,312,129
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 25,973,854	$ 19,015,715
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	3,224,019	1,043,861
Decrease (increase) in grants receivable	(1,217,781)	4,698,939
Decrease (increase) in other current assets	85,869	(45,130)
Increase in loans receivable	(375,000)	-
Increase in accounts payable and accrued expenses	403,295	844,798
Increase (decrease) in unearned revenue	(9,581,854)	4,990,651
Increase in deferred rent liability	2,276,433	4,297,911
Net cash provided by operating activities	$ 20,788,835	$ 34,846,745
Non-cash transactions:		
Capital asset purchases not yet disbursed	$ 2,882,573	$ 7,681,476
Grants received but not yet earned	10,743,729	20,325,583

See accompanying notes.

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 (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 accounting standards, BUDC is not considered a component unit of another entity.

B. BASIS OF PRESENTATION

Revenues from grants, Brownfields fund, 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.

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 GAAP.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

BUDC is considered a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of BUDC are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred; regardless of when the cash transaction takes place.

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

E. CASH AND RESTRICTED CASH

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

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. PREPAID EXPENSES

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 $7,280,781 and $7,920,241 for December 31, 2019 and 2018, 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

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.

L. STATEMENT OF CASH FLOWS

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

M. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

N. ACCOUNTING PRONOUNCEMENTS

During the fiscal year ended December 31, 2019, BUDC has evaluated the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements,* and Statement No. 90, *Majority Equity Interests-an Amendment of GASB Statements No. 14 and 61*, which became effective for the fiscal year ended December 31, 2019, 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 BUDC, for their potential impact in future years.

- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2020.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the year ending December 31, 2020.
- Statement No. 91, *Conduit Debt Obligations*, which will be effective for the year ending December 31, 2021.
- Statement No. 92, *Omnibus 2020*, which will be effective for the year ending December 31, 2021.

O. RECLASSIFICATIONS

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

NOTE 2. CASH AND INVESTMENTS

BUDC's investment policies are governed by State statutes. In addition, the 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, 2019 and 2018, BUDC's aggregate bank deposits were considered fully collateralized.

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

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

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

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

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

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

NOTE 3. LOANS RECEIVABLE

BUDC has an agreement with New York Business Development Corporation to provide loans to facilitate the development and adaptive reuse of vacant or underutilized buildings in certain designated areas. The loan agreement provides for $9,000,000 in total funding from five participating lending banks, with interest rates determined by the banks. The balance of the loans outstanding were $1,125,000 and $750,000 at December 31, 2019 and 2018, respectively. Interest payments are due monthly and principal is due at maturity.

In 2017, BUDC made a loan in the amount of $9,666,400 to Northland NMTC Investment Fund, LLC (NMTC). Interest accrues at the rate of one percent per annum (1%) and is due quarterly. Interest only payments from the date of first advance, which was December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest shall be paid commencing December 31, 2024 through December 31, 2042. NMTC pledges its entire interest in BACDE NMTC Fund 16, LLC and NTCIC-Northland, LLC. The following is a summary of the loans receivable. BUDC's policy is to present loans receivable net of an allowance for uncollectible loans. Management has determined that no allowance for these loans was necessary in 2019 and 2018.

	2019	2018
Total loans receivable	$ **10,791,400**	$ 10,416,400

NOTE 4. CAPITAL ASSETS

Capital asset activity for the BUDC for the year ended December 31, 2019 was as follows:

	Balance 01/01/19	Increases	Decreases	Balance 12/31/19
Non-depreciable capital assets				
Land	$ 815,503	$ 29,439	$ -	$ 844,942
Construction work in progress	14,365,384	33,981,754	45,649,818	2,697,320
Idle buildings and improvements	3,135,116	2,375,650	-	5,510,766
Total non-depreciable capital assets	18,316,003	36,386,843	45,649,818	9,053,028
Depreciable capital assets:				
Buildings and improvements	59,177,505	41,540,801	-	100,718,306
Furniture and equipment	5,578,724	2,091,750	4,042	7,666,432
Less: accumulated depreciation	1,062,547	3,224,019	4,042	4,282,524
Total depreciable assets, net	63,693,682	40,408,532	-	104,102,214
Total capital assets, net	$ 82,009,685	$ 76,795,375	$ 45,649,818	$ 113,155,242

Capital asset activity for the BUDC for the year ended December 31, 2018 was as follows:

	Balance 01/01/18	Increases	Decreases	Balance 12/31/18
Non-depreciable capital assets				
Land	$ 515,623	$ 299,880	$ -	$ 815,503
Construction work in progress	15,334,049	14,365,384	15,334,049	14,365,384
Idle buildings and improvements	6,073,927	857,176	3,795,987	3,135,116
Total non-depreciable capital assets	21,923,599	15,522,440	19,130,036	18,316,003
Depreciable capital assets:				
Buildings and improvements	-	59,177,505	-	59,177,505
Furniture and equipment	23,569	5,555,155	-	5,578,724
Less: accumulated depreciation	18,688	1,043,859	-	1,062,547
Total depreciable assets, net	4,881	63,688,801	-	63,693,682
Total capital assets, net	$ 21,928,480	$ 79,211,241	$ 19,130,036	$ 82,009,685

Land, buildings, and improvements related to the Northland Corridor amounted to $9,053,028 and $18,316,003 at December 31, 2019 and 2018. 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 14), and other related activities, the anticipated costs of certain Northland properties exceed the expected fair value of the properties based on current estimates. Adjustments to net realizable value total $575,816 and $2,699,549 for the years ended December 31, 2019 and 2018, respectively.

NOTE 5. LAND 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 2018, BUDC purchased approximately 7 acres of property at 308 Crowley Street in the City of Buffalo for the purpose of remediation and redevelopment. The property includes a derelict building which will undergo select demolition.

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

	2019	2018
BLCP	**$ 9,167,122**	$ 9,085,843
308 Crowley	**90,299**	85,299
Less adjustment to net realizable value (BLCP)	**5,170,454**	5,089,175
Total land held for development and sale	**$ 4,086,967**	$ 4,081,967

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE

In 2014, BUDC was awarded a grant amounting to $6,700,000 from Empire State Development (ESD) for the acquisition, planning, environmental review, and site review of properties defined as the Northland Corridor Redevelopment Project (Project).

In 2016, BUDC was awarded a $10,300,000 grant from ESD for the demolition, remediation, renovation, construction, and site/street improvements for various Northland properties and Western New York Workforce Training Center project (Training Center). In 2018, BUDC was awarded $31,000,000 from ESD for further construction and site improvements. In 2019, BUDC was awarded $4,167,781 in grants from various sources for further construction and site improvements.

In 2017, BUDC was awarded a $3,200,000 grant from the City's Community Development Block Grant funds for the Project and Training Center. In addition BUDC was awarded a $1,912,028 grant from ESD for the Project. In 2018, BUDC also was awarded grants in the amount of $550,000 from National Grid for the Project in the prior year.

In 2019, BUDC was awarded two grants from the Ralph C. Wilson, Jr. Foundation totaling $6,700,000 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.

The following is a summary of grants receivable and unearned grant revenue:

	2019	2018
Grants receivable:		
ESD	**$ 6,212,914**	$ 8,964,365
National Grid	**500,000**	550,000
Ralph C Wilson Jr. Foundation	**3,850,000**	-
National Fuel	**48,500**	48,500
NYSERDA	**119,232**	-
Other	**50,000**	-
	$ 10,780,646	$ 9,562,865

Unearned revenue:		
ESD	**$ 4,359,368**	$ 17,166,064
National Grid	**250,000**	550,000
Ralph C Wilson Jr. Foundation	**4,792,800**	-
NYPA	**1,200,236**	2,511,019
National Fuel	**-**	98,500
NYSERDA	**119,232**	-
Other	**22,093**	-
	$ 10,743,729	$ 20,325,583

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The following is a summary of accounts payable and accrued expenses:

	2019	2018
Accounts payable	**$ 4,425,757**	$ 8,838,277
Accrued payroll	**57,368**	50,556
Accrued interest	**93,715**	88,913
Accrued developer fee	**-**	1,817,354
Other accrued expenses	**13,000**	2,900
	$ 4,589,840	$ 10,798,000

NOTE 8. DEFERRED RENT LIABILITY

Northland has a Master Lease Agreement (the Agreement) with the master tenant member to receive rental income commencing August 26, 2018, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through the year ended December 31, 2037. Northland recognized $1,879,742 and $626,581 in rental revenue related to the Agreement for the years ended December 31, 2019 and 2018, respectively. The lease agreement includes scheduled rent increases over the term of the lease, which in accordance with U.S. GAAP, will be recognized on a straight-line basis over the term of the lease. Northland will reduce the deferred rent liability by $1,879,742 over each of the next 5 years and through the remainder of the life of the lease agreement.

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2019:

2020	$ 2,076,624
2021	486,684
2022	484,486
2023	492,423
2024	528,046
Thereafter	8,014,088
	$ 12,082,351

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, 2019 and 2018, the note payable amounted to $257,381, which represents the remaining 19.61 acres of land at $13,125 per acre. No payments are required until any portion of the property is sold.

NOTE 10. LOANS AND NOTE PAYABLE

Mortgage Payable

During 2017, Northland borrowed amounts totaling $13,730,000 related to the Northland Corridor project from BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. BUDC is a guarantor on the loan agreement. Interest accrues at the rate of 1.33776% and is due quarterly. The loans are collaterized by the building. Interest only payments from the date of agreement, December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest are due quarterly, commencing December 31, 2024, until the maturity date of December 28, 2052. Under the mortgage agreements, Northland shall pay BACDE NMTC Fund 16, LLC an annual asset management fee of $45,000 through 2025 and NTCIC-NORTHLAND, LLC an annual asset management fee of $10,000 through 2026. There was no amount outstanding as of December 31, 2019 and 2018.

Bridge Loan

Northland entered into two bridge loan agreements with KeyBank on December 28, 2017, in the amounts of $20,000,000 (Loan A) and $10,000,000 (Loan B). BUDC, WTC and BBRC Land Company I, LLC are guarantors on the loan agreement. The loan is collaterized by security interest in all assets of WTC, BBRC Land Company I, LLC and Northland, assignment of rents by Northland, and assignment of construction contracts and architect's agreements. These bridge loan agreements mature on June 30, 2021. The balance outstanding totaled $30,000,000 and $25,378,882 at December 31, 2019 and 2018, respectively. Interest on Loan A is calculated at the prime rate (as established by KeyBank), and interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum (3.31% and 4.31%, respectively, at December 31, 2019). Accrued interest amounted to $93,715 and $88,913 at December 31, 2019 and 2018, respectively.

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.

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

	2019	2018
KeyBank	**$ 30,000,000**	$ 25,378,882
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**	-
	44,099,750	39,108,882
Less: debt issuance costs	**118,548**	193,420
	$ 43,981,202	$ 38,915,462

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

	Gross	Deferred Financing	Net
2020	$ -	$ 74,872	$ (74,872)
2021	30,000,000	43,676	29,956,324
2022	-	-	-
2023	-	-	-
2024	469,938	-	469,938
Thereafter	13,629,812	-	13,629,812
	$ 44,099,750	$ 118,548	$ 43,981,202

Interest expense for the year ending December 31, 2019 and 2018 was $1,172,004 and $358,923, respectively. Capitalized interest amounted to $419,079 and $399,628 for the year ending December 31, 2019 and 2018, respectively and is properly included in the building.

NOTE 11. 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.

NOTE 12. RESTRICTED NET POSITION

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of $1,689,662 and $1,798,106 at December 31, 2019 and 2018, respectively and a loan fund in the amount of $3,244,328 and $3,191,286 at December 31, 2019 and 2018, respectively.

NOTE 13. NOTES RECEIVABLE WTC

BUDC and WTC have note agreements in the amount of $25,045,279 and $23,750,000 whereby BUDC will advance proceeds to WTC as requested. The notes carry an interest rate of one percent (1%), compounded annually and the note is for a period of thirty years. The balance of the notes plus accrued interest is due upon maturity date at December 28, 2047. The total outstanding balance on these notes was $45,538,272 and $20,446,535 at December 31, 2019 and 2018, respectively. Accrued interest on the loan amounted to $481,009 and $136,521 at December 31, 2019 and 2018, respectively.

NOTE 14. POLLUTION REMEDIATION

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

NOTE 15. SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after XXXX XX, 2020 which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENTS OF NET POSITION
DECEMBER 31, 2019

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC		Eliminations	Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 147,459	$ -	$ 99,481		$ -	$ 246,940
Grants receivable	10,780,646	-	-		-	10,780,646
Restricted cash	4,351,257	-	883,328		-	5,234,585
Other current assets	12,630,089	1,500	489,644	(1)	(4,986,008)	8,135,225
Total current assets	27,909,451	1,500	1,472,453		(4,986,008)	24,397,396
Noncurrent assets:						
Loans receivable	56,329,672		-	(1)	(45,538,272)	10,791,400
Equity investment	-	45,532,272	-	(1)	(45,333,912)	198,360
Capital assets, net	6,493,875	-	103,964,047		-	110,457,922
Construction in process	-		2,697,320		-	2,697,320
Land and improvements held for sale, net	4,086,967		-		-	4,086,967
Total noncurrent assets	66,910,514	45,532,272	106,661,367		(90,872,184)	128,231,969
Total assets	$ 94,819,965	$ 45,533,772	$ 108,133,820		$ (95,858,192)	$ 152,629,365
LIABILITIES						
Current liabilities:						
Accounts payable and accrued expenses	$ 1,244,935	$ 481,009	$ 7,849,905	(1)	$ (4,986,009)	$ 4,589,840
Unearned grant revenue	10,743,729	-	-		-	10,743,729
Total liabilities	11,988,664	481,009	7,849,905		(4,986,009)	15,333,569
Noncurrent liabilities:						
Deferred rent liability		-	14,453,317	(1)	-	14,453,317
Loans payable	369,750	45,538,272	43,611,452	(1)	(45,538,272)	43,981,202
Note payable	257,381	-	-		-	257,381
Total noncurrent liabilities	627,131	45,538,272	58,064,769		(45,538,272)	58,691,900
NET POSITION (DEFICIT)						
Net investment in capital assets	10,211,092	-	63,049,915		-	73,261,007
Restricted	4,933,990	-	-		-	4,933,990
Unrestricted (deficit)	67,059,088	(485,509)	(20,830,769)	(1)	(45,333,911)	408,899
Total net position (deficit)	82,204,170	(485,509)	42,219,146		(45,333,911)	78,603,896
Total liabilities and net position	$ 94,819,965	$ 45,533,772	$ 108,133,820		$ (95,858,192)	$ 152,629,365

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

BUFFALO URBAN DEVELOPMENT CORPORATION
CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC		Eliminations	Total
Operating revenues:						
Grant revenue	$ 20,799,635	$ -	$ -		$ -	$ **20,799,635**
Brownfield funds	298,920	-	-		-	**298,920**
Loan interest and commitment fees	494,195	-	-	(1)	(344,488)	**149,707**
Rental and other revenue	11,969,451	-	2,873,170		-	**14,842,621**
Total operating revenue	33,562,201	-	2,873,170		(344,488)	**36,090,883**
Operating expenses:						
Development costs	2,212,848	-	367,111		-	**2,579,959**
Adjustment to net realizable value	575,816	-	-		-	**575,816**
Salaries and benefits	509,655	-	-		-	**509,655**
General and administrative	1,622,766	3,000	1,467,959		-	**3,093,725**
Management fee	78,855	-	55,000		-	**133,855**
Depreciation	15,526	-	3,208,493		-	**3,224,019**
Total operating expenses	5,015,466	3,000	5,098,563		-	**10,117,029**
Operating income (loss)	28,546,735	(3,000)	(2,225,393)	(1)	(344,488)	**25,973,854**
Nonoperating revenues (expenses):						
Interest income	16,495	-	2,783		-	**19,278**
Amortization expense	-	-	(74,872)		-	**(74,872)**
Interest expense	(15,499)	(344,488)	(1,156,505)	(1)	344,488	**(1,172,004)**
Total nonoperating revenues (expenses)	996	(344,488)	(1,228,594)		344,488	**(1,227,598)**
Change in net position	28,547,731	(347,488)	(3,453,987)		-	**24,746,256**
Net position - beginning of year	53,656,439	(138,021)	20,085,898	(1)	(20,246,676)	**53,357,639**
Add: capital contributions	-	-	25,587,235	(1)	(25,087,235)	**500,000**
Net position - end of year	$ 82,204,170	$ (485,509)	$ 42,219,146		$ (45,333,911)	$ **78,603,896**

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

REPORT TO THE MANAGING MEMBER

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

DECEMBER 31, 2019

FreedMaxick® CPAs, P.C.

March 18, 2020

To the Managing Member of
683 Northland LLC
(A Limited Liability Company)
95 Perry Street, Suite 404
Buffalo, New York 14203

Dear Managing Member:

We are pleased to present this report related to our audit of the financial statements of 683 Northland LLC (the Company) as of and for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for 683 Northland LLC's financial reporting process.

This report is intended solely for the information and use of the Managing Member and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to 683 Northland LLC.

Freed Maxick CPAs, P.C.

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FreedMaxick® CPAs, P.C.

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated February 6, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated February 6, 2020 regarding the planned scope and timing of our audit and identified significant risks.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year: • In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company adopted this standard for the year ended December 31, 2019. Management evaluated the impact of this ASU and determined that there was not a significant impact on the financial statements. • In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. The new restricted cash standard requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018. The standard must be applied retrospectively to each period presented. The Company has implemented the standard for the year ended December 31, 2019.

Area	Comments
Accounting Policies and Practices (Continued)	• In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expenses recognition in the income statements. The new standard is effective for fiscal years beginning after December 15, 2020. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgement. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the accounting estimates reflected in the Company's December 31, 2019 financial statements: • Estimated useful life of property in service • Recoverability of long-lived assets Above estimates made by management are deemed reasonable for the year ending December 31, 2019.
Basis of Accounting	The financial statements were prepared on the assumption that the Company will continue as a going concern.
Audit Adjustments	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by 683 Northland LLC are shown in the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.

Area	Comments
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Material Weaknesses and Other Control Deficiencies in Internal Control Over Financial Reporting	We have separately communicated the material weaknesses and other control deficiencies in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Company, including the representation letter to be provided to us by management, are attached as Exhibit B.

683 Northland, LLC
Year End: December 31, 2019
Summary of Recorded Audit Adjustments

Number	Date	Name	Account No	Debit	Credit
1	12/31/2019	Due from Master Tenant	1200.000	24,993	
1	12/31/2019	CIP - Furniture (Ineligible)	1919.000		75,557
1	12/31/2019	CIP - Equipment (Ineligible)	1917.000		978,521
1	12/31/2019	CIP - Legal Services (Ineligible)	1921.000		20,845
1	12/31/2019	CIP - Management Fee (Ineligible)	1929.000		55,000
1	12/31/2019	QLICI Asset Mgmt Fee	9130.000	55,000	
1	12/31/2019	CIP - General Development (Eligible)	1934.000		65,912
1	12/31/2019	Other Professional Expenses	6105.000	65,912	
1	12/31/2019	CIP - Servicing Fee (Ineligible)	1939.000		20,609
1	12/31/2019	Loan Servicing Fee	6126.000	22,109	
1	12/31/2019	Insurance Expense	6125.000	2,983	
1	12/31/2019	CIP - Insurance (Ineligible)	1937.000		2,983
1	12/31/2019	Interest Expense	6124.000	138,674	
1	12/31/2019	ECIDA Fees	6123.000	72,290	
1	12/31/2019	CIP - Finance Charges (Ineligible)	1941.000		212,464
1	12/31/2019	CIP - Miscellaneous (Ineligible)	1945.000		4,149
1	12/31/2019	Tax & Audit Expense - Ineligible	6113.000	51,550	
1	12/31/2019	CIP - Tax & Audit Expense - Ineligible	1925.000		51,550
1	12/31/2019	Furnitures, Fixtures & Equipment	1911.000	1,054,079	
1	12/31/2019	Building Improvements	1914.000	460,926	
1	12/31/2019	CIP - General Development (Eligible)	1934.000		460,926
		To properly adjust various expenses and Master Tenant activity out of construction in progress.			
2	12/31/2019	Depreciation	7000.000	718,205	
2	12/31/2019	Accumulated Depreciation	1950.000		718,205
		To properly adjust current year depreciation expense to actual.			
3	12/31/2019	CIP - Finance Charges (Eligible)	1940.000	93,715	
3	12/31/2019	Accrued Interest	2501.000		93,715
		To properly accrue for December interest included on construction in progress schedule not recorded on the trial balance.			

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Exhibit A - Letter Communicating Material Weaknesses and Other Control Deficiencies in Internal Control Over Financial Reporting

To Managing Member and Management
683 Northland LLC
Buffalo, NY

In planning and performing our audit of the financial statements of 683 Northland LLC (the Company) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Company'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Company's internal control to be a material weakness:

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

We consider the following deficiency in the Company's internal control to be a material weakness:

Improper Recording of Fixed Assets

During our review of fixed assets, we noted several items incorrectly captured in construction in progress. Fixed assets related to Phase I should be capitalized upon placement into service and begin depreciating. Further, there were several expenses captured in construction in progress that should not have been capitalized. Management should implement a process of reviewing the nature of the expense incurred prior to capitalizing into construction in progress in order to ensure these items are properly recorded.

These practices can lead to inaccurate account balances which impact the balance sheets and statements of operations.

Management Response:

Management has implemented a process to review expenditures for proprietary of capitalization or expenditure under U.S. GAAP prior to the recording of the transaction.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Landlord and Master Tenant Transactions

Throughout our audit, we noted several transactions that were not recorded on the proper entity. The master lease agreement (MLA) governs the Landlord and Master Tenant structure and specifies what entity records certain transactions. Under the MLA, all operating expenses including insurance, legal, repairs and maintenance and utilities are to be recorded on the Master Tenant entity. Management should implement a process to assess the MLA and ensure activity is reflected on the books and records of the proper entity.

Management Response:

Management has implemented policies and procedures to review and analyze the Master Lease Agreement to ensure transactions are recorded on the proper entity moving forward.

This communication is intended solely for the information and use of management, the managing member and is not intended to be, and should not be, used by anyone other than these specified parties.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 13, 2020

FreedMaxick CPAs, P.C.

Exhibit B - Significant Written Communications Between Management and Our Firm

Engagement Letter – previously furnished
Representation Letter – see attached

683 Northland LLC

March 13, 2020

Freed Maxick CPAs, P.C.
424 Main Street, Suite 900
Buffalo, New York 14202

This representation letter is provided in connection with your audit of the financial statements of 683 Northland LLC (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of operations and changes in members' equity, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of the auditor's report:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 6, 2020, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with the company are such that exclusion would cause the reporting of the company's financial statements to be misleading or incomplete, including accounts receivable and payable, sale and purchase transactions, leasing and shared-service arrangements, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of the U.S. GAAP.

6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following specific representation has been drafted for when accounting services (such as maintaining depreciation schedules, computing the provision for income taxes, drafting the financial statements, assessing the impact of new accounting standards) have been performed as part of the audit:

With respect to services performed in the course of the audit:

a. We have made all management decisions and performed all management functions;

b. We assigned an appropriate individual to oversee the services;

c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;

d. We have accepted responsibility for the results of the services; and

e. We have accepted responsibility for all significant judgments and decisions that were made.

9. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.

10. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

11. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audit;

    c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence; and

    d. Minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of allegations of fraud or suspected fraud affecting [Client Name]'s financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.

16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.

17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.

19. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect 683 Northland LLC's ability to record, process, summarize and report financial data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

21. During the course of your audits, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

22. As of December 31, 2019, $114,444 in receivables are due from 683 Northland Master Tenant, LLC.

683 Northland LLC

Mollie M Profic

Mollie Profic, CFO
Buffalo Urban Development Corporation, as Agent

AUDITED
FINANCIAL STATEMENTS

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

DECEMBER 31, 2019

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

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Trust earned.

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INDEPENDENT AUDITOR'S REPORT

To the Members of
683 Northland LLC
(A Limited Liability Company)

Report on the Financial Statements

We have audited the accompanying financial statements of 683 Northland LLC (A Limited Liability Company) which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and members' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 683 Northland LLC as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 13, 2020

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

BALANCE SHEETS
December 31,

ASSETS		2019		2018
Current assets:				
Cash	$	99,481	$	736,137
Due from related party		114,444		112,971
Accounts receivable		317,229		-
Prepaid insurance		57,971		154,546
Total current assets		589,125		1,003,654
Restricted cash		883,328		2,233,187
Land, property and equipment, net		106,661,367		78,352,653
Total assets	$	108,133,820	$	81,589,494
LIABILITIES AND MEMBERS' EQUITY				
Current liabilities:				
Accounts payable	$	3,251,190	$	8,504,983
Accrued interest		93,715		88,913
Developer fee payable		4,505,000		1,817,354
Total current liabilities		7,849,905		10,411,250
Deferred rent liability - Master Lease Agreement		14,453,317		12,176,884
Long term debt, net		43,611,452		38,915,462
Total liabilities		65,914,674		61,503,596
Members' equity		42,219,146		20,085,898
Total liabilities and members' equity	$	108,133,820	$	81,589,494

See accompanying notes.

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF OPERATIONS
For the Years Ended December 31,

	2019	2018
Operating revenues:		
Rental revenue	$ 1,879,742	$ 626,581
Tenant reimbursements	961,723	-
Other	31,705	-
Total operating revenues	2,873,170	626,581
Operating expenses:		
Moving equipment expense	682,564	-
Professional fees	552,880	946,833
Construction expense	367,111	-
Insurance	204,332	69,740
Asset management fees	55,000	55,000
Miscellaneous	27,596	32,451
Repairs and maintenance	587	49,978
Supplies	-	215,432
Total operating expenses	1,890,070	1,369,434
Operating gain (loss)	983,100	(742,853)
Other (expense) income:		
Interest income	2,783	4,023
Depreciation	(3,208,493)	(1,037,620)
Interest expense	(1,231,377)	(433,795)
Total other expense	(4,437,087)	(1,467,392)
Net loss	$ (3,453,987)	$ (2,210,245)

See accompanying notes.

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31,

	MEMBER	MANAGING MEMBER	TOTAL
Members' equity - January 1, 2018	$ 9	$ 10,249,057	**$ 10,249,066**
Members' capital contributions	2,049,294	9,997,783	**12,047,077**
Net income	(110,512)	(2,099,733)	**(2,210,245)**
Members' equity - December 31, 2018	1,938,791	18,147,107	**20,085,898**
Members' capital contributions	500,000	25,087,235	**25,587,235**
Net loss	(172,699)	(3,281,288)	**(3,453,987)**
Members' equity - December 31, 2019	**$ 2,266,091**	**$ 39,953,055**	**$ 42,219,146**
Percentage interest	**5.00%**	**95.00%**	**100%**

See accompanying notes.

683 NORTHLAND LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CASH FLOWS
For the Years Ended December 31,

	2019	2018
Cash flows from operating activities:		
Net loss	$ (3,453,987)	$ (2,210,245)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	3,208,493	1,037,620
Amortization	74,872	74,872
Decrease (increase) in assets:		
Prepaid insurance	96,575	8,581
Due from related party	(1,473)	(112,971)
Accounts receivable	(317,229)	
Increase (decrease) in liabilities:		-
Accounts payable	(8,395,018)	(3,444,773)
Accrued interest	4,802	-
Deferred rent liability - Master Lease Agreement	(1,844,742)	(626,481)
Net cash used by operating activities	(10,627,707)	(5,273,397)
Cash flows from investing activities:		
Acquisition and construction of capital assets	(23,155,750)	(48,826,542)
Net cash used by investing activities	(23,155,750)	(48,826,542)
Cash flows from financing activities:		
Payments of prepaid rent under the Master Lease Agreement	4,121,175	12,603,363
Members' contributions	25,512,003	11,016,352
Repayment of developer fee	(2,457,354)	-
Proceeds from long term debt	4,621,118	25,378,882
Net cash provided by financing activities	31,796,942	48,998,597
Net decrease in cash and restricted cash	(1,986,515)	(5,101,342)
Cash and restricted cash - beginning of year	2,969,324	8,070,666
Cash and restricted cash - end of year	$ 982,809	$ 2,969,324
Supplemental disclosure of cash flow information:		
Noncash transactions:		
Capital asset purchases in accounts payable	$ 3,141,225	$ 8,503,246
Accrued interest in construction in progress	$ -	$ 88,913
Developer fee payable capitalized	$ 5,145,000	$ 1,817,354
Members' capital contributions - capital assets	$ 75,232	$ 1,030,725
Cash paid for interest	$ 1,226,575	$ -

The following table provides a reconciliation of cash and restricted cash to the amounts reported within the balance sheets:

	2019	2018
Operating cash	$ 99,481	$ 736,137
Restricted cash	883,328	2,233,187
Total cash and restricted cash	$ 982,809	$ 2,969,324

See accompanying notes.

NOTE 1. ORGANIZATION

683 Northland LLC (the Company) is a limited liability company formed pursuant to the laws of the State of New York on December 13, 2016. The Company was formed to facilitate the ownership, rehabilitation and operation of a commercial and industrial facility located at 683 Northland Avenue, City of Buffalo, known as the Niagara Machine & Tool Works Factory (the Building). The Company serves as lessor to 683 Northland Master Tenant, LLC, a related entity. The relationship between lessor and lessee is governed by a Master Lease Agreement dated December 28, 2017.

The Building is listed on the National Register of Historic Places and will receive an allocation of federal and state historic rehabilitation tax credits under Section 47 of the Internal Revenue Code of 1986, as amended, and New York credit for Rehabilitation of Historic Properties under Section 606(00) of New York State tax law. The Building is being developed in two phases; Phase 1 received an allocation of rehabilitation tax credits in during the year ended December 31, 2018; Phase 2 received allocations in the year ending December 31, 2019 and expects final completion of the building and receipt of tax credits during the year ended December 31, 2020.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash: The statement of cash flows considers amounts available for current operations to be cash and includes amounts for restricted reserves.

Concentration of Credit Risk: The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

During the years ended December 31, 2019 and 2018, one tenant represented 100% of rental revenue.

Accounts Receivable: Accounts receivable are comprised of billed and uncollected amounts due for reimbursements related to leasehold improvements, furniture, fixtures and equipment. On a periodic basis, the Company evaluates its accounts receivable and will establish an allowance for doubtful accounts if necessary. There was no allowance for the years ended December 31, 2019 and 2018.

Revenue Income: The Company recognizes revenue on the date rent becomes due in accordance with the Master Lease Agreement. Rental payments received in advance are deferred until earned. The Master Lease Agreement is an operating lease.

Capitalization Policy: During the construction phase of the Project, certain disbursements are capitalized rather than charged to expense. These costs generally include architects and appraisal fees; legal and accounting fees; and construction period insurance, interest, utilities, and taxes.

Land, Property and Equipment: Land, property and equipment are carried at cost which includes all direct costs of acquisition and construction as well as indirect costs including interest incurred during the rehabilitation period. Renewals and betterments that materially extend the life of the assets are capitalized. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided for using the straight-line method based on the following useful lives:

Building	39 years
Land improvements	15 years
Leasehold improvements	15 years
Building improvements	10 years
Furniture, fixtures, and equipment	7 years
Equipment	5 years

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company reviews its land, property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of land, property and equipment to the future net undiscounted cash flow expected to be generated by the land, property and equipment and any estimated proceeds from the eventual disposition of the land, property and equipment. If the land, property and equipment is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the land, property and equipment exceeds the fair value of such land, property and equipment. There were no impairment losses recognized for the years ended December 31, 2019 and 2018.

Debt Issuance Costs: Amortization of debt issuance costs for long term debt for the year ended December 31, 2019 and 2018 amounted to $74,872 and are included in interest expense. Total unamortized debt issuance costs as of December 31, 2019 amounted to $118,548 ($193,420 – 2018)

Income Taxes: No provision or benefit has been made for income taxes in the accompanying financial statements since taxable income or loss of the Company passed through to the respective members for reporting passes through to, and is reportable by, the members individually.

Use of Estimates: In preparing financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Start-up Costs: As Phase 1 of the Project was placed into service during the year ended December 31, 2018, there were a number of start-up costs incurred and expensed related to this phase. These expenses include supplies expense and professional fees including organizational costs, legal and ECIDA fees. These expenses are included in operating expenses on the accompanying statements of operations.

Recently Adopted Accounting Principles: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The new revenue recognition standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company adopted this standard for the year ended December 31, 2019. Management evaluated the impact of this ASU and determined that there was not a significant impact on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230),* Restricted Cash. The new restricted cash standard requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018. The standard must be applied retrospectively to each period presented. The Company has implemented the standard for the year ended December 31, 2019.

Recently Issued Accounting Pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 820)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact the adoption of this guidance with have on the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassification: Certain 2018 amounts have been reclassified to conform to 2019 presentation.

Subsequent Event: These financial statements have not been updated for subsequent events occurring after March 13, 2020, which is the date these financial statements were available to be issued.

NOTE 3. LAND, PROPERTY AND EQUIPMENT

Land, property and equipment consists of the following as of December 31:

	2019	2018
Land	$ 589,272	$ 589,272
Buildings and improvements	99,736,560	58,888,113
Furniture, fixtures and equipment	7,619,162	5,548,732
Leasehold improvements	265,166	-
Construction in process	2,697,320	14,364,156
	110,907,480	79,390,273
Less: Accumulated depreciation	(4,246,113)	(1,037,620)
	$ 106,661,367	$ 78,352,653

Depreciation expense for the year ended December 31, 2019 amounted to $3,208,493 ($1,037,620 – 2018).

NOTE 4. CAPITAL CONTRIBUTIONS AND ALLOCATION OF PROFITS AND LOSSES

The Company consists of two members; 683 WTC, LLC and BBRC Land Company I, LLC. 683 WTC, LLC is the managing member and a 95% owner. BBRC Land Company I, LLC has a 5% membership interest.

The managing member was required to contribute capital of $95 according to the terms of the operating agreement. The managing member contributed an additional $25,087,235 during the year ended December 31, 2019 ($9,997,783 – 2018). During the year ended December 31, 2019 there were $75,232 of capital assets contributed to the Company ($1,030,725 – 2018).

The member interest is required to contribute capital of $5. The member interest contributed a total of $500,000 during the year ended December 31, 2019 ($2,049,294 – 2018)

The terms of the amended and restated operating agreement of the Company, effective as of December 28, 2017, provides for, among other things, that profits and losses be allocated to each member in accordance with the ratio of the value of the respective capital account to the value of all capital accounts in the aggregate.

NOTE 5. TRANSACTIONS WITH AFFILIATES

The Company has a Master Lease Agreement (the Agreement) with the master tenant member to receive rental income commencing August 26, 2018, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through the year ended December 31, 2037. For the year ended December 31, 2019, the Company recognized $1,879,742 in rental revenue related to the Agreement ($626,581 - 2018). The lease agreement includes scheduled rent increases over the term of the lease, which in accordance with U.S. GAAP, will be recognized on a straight-line basis over the term of the lease. The Company will reduce the deferred rent liability by $1,879,742 over each of the next 5 years and through the remainder of the life of the lease agreement.

NOTE 5. TRANSACTIONS WITH AFFILIATES (CONTINUED)

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2019:

2020	$ 2,076,624
2021	486,684
2022	484,486
2023	492,423
2024	528,046
Thereafter	8,014,088
	$ 12,082,351

Developer's Fee - Related Party: The Company has an agreement with Buffalo Urban Development Corporation (the "Developer") regarding the developer fee amounting to $11,886,746. A portion of the developer fee equal to $6,741,746 was earned upon construction completion of Phase I of the Project during the year ended December 31, 2018. The balance of $5,145,000 was earned upon construction completion of Phase II of the Project during the year ended December 31, 2019. As of December 31, 2019, the developer fee payable amounted to $4,505,000 ($1,817,354 – 2018). The Company expects to pay the remaining balance due on the Phase II developer fee during 2020 and therefore has classified as a current liability in the accompanying balance sheets.

Due from Related Parties: The Company has paid certain operating expenses directly to third parties on behalf of 683 Northland Master Tenant, LLC. The outstanding amount for the year ending December 31, 2019 is $114,444 ($112,971 - 2018).

NOTE 6. LONG TERM DEBT

Mortgage Payable: During 2017, the Company 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 collaterized 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 year ending December 31, 2019 and 2018.

Bridge Loans: The Company 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 collaterized 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. These bridge loan agreements mature on June 30, 2021. The balance outstanding at December 31, 2019 totaled $30,000,000 ($25,378,882 - 2018). Interest on Loan A is calculated at the prime rate (as established by KeyBank), and interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum (3.31% and 4.31%, respectively, at December 31, 2019). Accrued interest amounted to $93,715 as December 31, 2019 ($88,913 - 2018).

NOTE 6. LONG TERM DEBT (CONTINUED)

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

	2019	2018
KeyBank	$ 30,000,000	$ 25,378,882
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	5,000,000	5,000,000
	$ 43,730,000	$ 39,108,882
Less: debt issuance costs	118,548	193,420
	$ 43,611,452	$ 38,915,462

Current maturities of long-term debt are as follows for the years ending December 31, 2019:

	Gross	Debt Issuance Costs	Net
2020	$ -	$ 74,872	$ (74,872)
2021	30,000,000	43,676	29,956,324
2022	-	-	-
2023	-	-	-
2024	100,188	-	100,188
Thereafter	13,629,812	-	13,629,812
	$ 43,730,000	$ 118,548	$ 43,611,452

Interest expense for the year ending December 31, 2019 was $1,156,505 ($358,923 – 2018). Capitalized interest related to Phase II amounted to $419,079 for the year ending December 31, 2019 and is properly included in the building ($399,628 – 2018).

NOTE 7. RESTRICTED CASH AND FUNDED RESERVES

The Company was required to establish interest reserve accounts for the KeyBank bridge loans and asset management fees in connection with the loans due to BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. The interest and asset management fees incurred in connection to these loans are paid from these reserve accounts. The balances in the reserve accounts were as follows as of December 31:

	2019	2018
KeyBank interest reserve	$ 361,690	$ 1,605,640
BACDE NMTC Fund 16, LLC reserve	351,638	417,547
NTCIC-NORTHLAND, LLC reserve	170,000	210,000
	$ 883,328	$ 2,233,187

REPORT TO THE MANAGING MEMBER

683 NORTHLAND MASTER TENANT, LLC (A LIMITED LIABILITY COMPANY)

DECEMBER 31, 2019

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March 18, 2020

To the Managing Member of
683 Northland Master Tenant, LLC
(A Limited Liability Company)
95 Perry Street, Suite 404
Buffalo, New York 14203

Dear Managing Member:

We are pleased to present this report related to our audit of the financial statements of 683 Northland Master Tenant, LLC (the Company) as of and for the year ended December 31, 2019. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for 683 Northland Master Tenant, LLC's financial reporting process.

This report is intended solely for the information and use of the Managing Member and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to 683 Northland Master Tenant, LLC.

Freed Maxick CPAs, P.C.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated February 6, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated February 6, 2020 regarding the planned scope and timing of our audit and identified significant risks.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year: • In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company adopted this standard for the year ended December 31, 2019. Management evaluated the impact of this ASU and determined that there was not a significant impact on the financial statements. • In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. The new restricted cash standard requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018. The standard must be applied retrospectively to each period presented. The Company has implemented the standard for the year ended December 31, 2019.

Area	Comments
Accounting Policies and Practices (Continued)	• In 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expenses recognition in the income statements. The new standard is effective for fiscal years beginning after December 15, 2020. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgement. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. There were no material estimates included in the financial statements.
Basis of Accounting	The financial statements were prepared on the assumption that the Company will continue as a going concern.
Audit Adjustments	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by 683 Northland Master Tenant, LLC are shown in the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Control Deficiencies in Internal Control Over Financial Reporting	We have separately communicated the control deficiencies in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A.

Area	Comments
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Company, including the representation letter to be provided to us by management, are attached as Exhibit B.

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683 Northland Master Tenant, LLC
Year End: December 31, 2019
Summary of Recorded Audit Adjustments

Number	Date	Name	Account No	Debit	Credit
1	12/31/2019	Accounts Receivable	1200.000	45,995	
1	12/31/2019	Rent Revenue - BMW	5003.000		45,995
		To properly record the straight line of rental revenue related to Buffalo Manufacturing Works sublease.			
2	12/31/2019	Distributions	3000.000	105,026	
2	12/31/2019	Accrued Priority Return	2011.000		105,026
		To accrue for the priority return payable for the year ended December 31, 2019.			
3	12/31/2019	Legal Expense	6100.000	20,845	
3	12/31/2019	Insurance Expense	6120.000	33,000	
3	12/31/2019	Building Maintenance Expense	6200.000	4,148	
3	12/31/2019	Utilities Expense	6210.000	24,434	
3	12/31/2019	Due to 683 Northland, LLC	2009.000		82,427
		To properly record operational expenses that were incorrectly captured on the Landlord entity.			
4	12/31/2019	Accounts Receivable	1200.000	288,000	
4	12/31/2019	Deferred Rent Liability - NWTC	2601.000		288,000
		To accrue for the priority return payable for the year ended December 31, 2019.			

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Exhibit A - Letter Communicating Control Deficiencies in Internal Control Over Financial Reporting

To Managing Member and Management
683 Northland Master Tenant, LLC
Buffalo, NY

In planning and performing our audit of the financial statements of 683 Northland Master Tenant, LLC (the Company) as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Company'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Company's internal control to be a material weakness:

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Landlord and Master Tenant Transactions

Throughout our audit, we noted several transactions that were not recorded on the proper entity. The master lease agreement (MLA) governs the Landlord and Master Tenant structure and specifies what entity records certain transactions. Under the MLA, all operating expenses including insurance, legal, repairs and maintenance and utilities are to be recorded on the Master Tenant entity. Management should implement a process to assess the MLA and ensure activity is reflected on the books and records of the proper entity.

Management Response:

Management has implemented policies and procedures to review and analyze the Master Lease Agreement to ensure transactions are recorded on the proper entity moving forward.

Recording Rental Revenue in Accordance with U.S. GAAP

During testing of revenues, we noted rental revenue was not being recognized properly on a straight-line basis over the life of the lease for Buffalo Manufacturing Works. In order to be in compliance with U.S. GAAP, rental agreements with escalating rent should recognize revenue on a straight-line basis over the life of the lease agreement. Management implement a process to assess all agreements entered into and ensure transactions are being recorded in compliance with U.S. GAAP.

Management Response:

Management has implemented procedures surroundings any new sublease agreements to determine the proper recording of rental revenue under U.S. GAAP. Further, management will recognize revenue on a straight-line basis for all subleases currently in effect.

Accrued Priority Return

During our review of the Company's restated and amended operating agreement, we noted the priority return related to the investor member should be accrued for on an annual basis. No such accrual was made. Management should evaluate and record the priority return payable as defined by the restated and amended operating agreement on a yearly basis.

Management Response:

Management has implemented procedures to ensure the recording of the accrued priority return as defined by the restated and amended operating agreement.

This communication is intended solely for the information and use of management, the managing member and is not intended to be, and should not be, used by anyone other than these specified parties.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 13, 2020

FreedMaxick CPAs, P.C.

Exhibit B - Significant Written Communications Between Management and Our Firm

Engagement Letter – previously furnished
Representation Letter – see attached

683 Northland Master Tenant, LLC

March 13, 2020

Freed Maxick CPAs, P.C.
900 Liberty Building
424 Main Street
Buffalo, NY 14202

This representation letter is provided in connection with your audits of the financial statements of 683 Northland Master Tenant, LLC (the Company), which comprise the balance sheets as of December 31, 2019 and 2018, the related statements of operations and changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of the date of the auditor's report:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 6, 2020, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility 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.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related-party transactions, including those with other organizations for which the nature and significance of their relationship with the company are such that exclusion would cause the reporting of the company's financial statements to be misleading or incomplete, including accounts receivable and payable, sale and purchase transactions, leasing and shared-service arrangements, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of the U.S. GAAP.

6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following specific representation has been drafted for when accounting services (such as maintaining depreciation schedules, computing the provision for income taxes, drafting the financial statements, assessing the impact of new accounting standards) have been performed as part of the audit:

   With respect to services performed in the course of the audit:

a. We have made all management decisions and performed all management functions;

b. We assigned an appropriate individual to oversee the services;

c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;

d. We have accepted responsibility for the results of the services; and

e. We have accepted responsibility for all significant judgments and decisions that were made.

9. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.

10. We have no knowledge of any uncorrected misstatements in the financial statements.

Information Provided

11. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audit;

    c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence; and

    d. Minutes of the meetings of stockholders, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of allegations of fraud or suspected fraud affecting 683 Northland Master Tenant, LLC's financial statements involving:

    a. Management.

    b. Employees who have significant roles in internal control.

    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company's financial statements received in communications from employees, former employees, analysts, regulators, short sellers or others.

16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations.

17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

18. We have disclosed to you the identity of the Company's related parties and all the related-party relationships and transactions of which we are aware.

19. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect 683 Northland Master Tenant, LLC's ability to record, process, summarize and report financial data.

20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

22. As of December 31, 2019 $114,444 are due to 683 Northland, LLC, $254,935 are due to Buffalo Urban Development Corporation, and $36,953 is due from 683 WTC, LLC.

683 Northland Master Tenant, LLC

Mollie M Profic

Mollie Profic, Treasurer
Buffalo Urban Development Corporation, as Agent

AUDITED
FINANCIAL STATEMENTS

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

DECEMBER 31, 2019

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

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INDEPENDENT AUDITOR'S REPORT

To the Members of
683 Northland Master Tenant, LLC
(A Limited Liability Company)

Report on the Financial Statements

We have audited the accompanying financial statements of 683 Northland Master Tenant, LLC (A Limited Liability Company) which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of operations and members' equity and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 683 Northland Master Tenant, LLC as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Freed Maxick CPAs, P.C.

Buffalo, New York
March 13, 2020

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

BALANCE SHEETS
December 31,

ASSETS	2019	2018
Current assets:		
Cash - operating	$ 16,394	$ 2,832
Tenant receivables	361,614	11,500
Prepaid insurance	18,501	57,277
Total current assets	396,509	71,609
Reserves:		
Operating reserve	335,383	-
Asset management fee reserve	50,057	-
Total reserves	385,440	-
Accrued rental income	45,995	-
Tenant security deposits	39,450	5,000
Equipment, net	7,481	-
Prepaid rent - Master Lease Agreement	16,924,540	12,803,365
Total assets	$ 17,799,415	$ 12,879,974
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable	$ 32,428	$ 14,803
Deferred rent liability - sublessee	288,000	-
Due to related parties	372,362	167,471
Total current liabilities	692,790	182,274
Tenant security deposits	39,450	5,000
Deferred rent liability - Master Lease Agreement	2,471,223	626,481
Deferred rent liability - sublessee	6,996,396	7,508,327
Distribution payable - priority return	105,026	24,630
Total liabilities	10,304,885	8,346,712
Members' equity	7,494,530	4,533,262
Total liabilities and members' equity	$ 17,799,415	$ 12,879,974

See accompanying notes.

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF OPERATIONS
For the Years Ended December 31,

	2019	2018
Revenues:		
Rental revenue	$ 754,631	$ -
Additional rental revenue	167,996	216,644
Other income	4,565	9
Total revenues	927,192	216,653
Expenses:		
Rent expense	1,879,742	626,581
Payroll	129,470	25,350
Insurance expense	120,670	31,555
Utilities expense	111,798	73,771
Property management fee	41,493	10,800
Professional fees	46,936	2,825
Real estate taxes	22,473	-
Repairs and maintenance	18,400	1,992
Asset management fee	10,000	10,000
Miscellaneous expense	8,851	281
Total expenses	2,389,833	783,155
Loss from operations	(1,462,641)	(566,502)
Other expenses:		
Depreciation expense	(1,870)	-
Net loss	$ (1,464,511)	$ (566,502)

See accompanying notes.

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31,

	INVESTOR MEMBER	MANAGING MEMBER	TOTAL
Members' equity - January 1, 2018	**$ 1,642**	**$ 198,360**	**$ 200,002**
Members' capital contributions	4,924,392	-	**4,924,392**
Distributions	(24,630)	-	**(24,630)**
Net loss	(560,837)	(5,665)	**(566,502)**
Members' equity - December 31, 2018	**$ 4,340,567**	**$ 192,695**	**$ 4,533,262**
Members' capital contributions	4,536,758	-	**4,536,758**
Distributions	(110,979)	-	**(110,979)**
Net loss	(1,368,271)	(13,821)	**(1,464,511)**
Members' equity - December 31, 2019	**$ 7,398,075**	**$ 178,874**	**$ 7,494,530**
Percentage interest	**99.00%**	**1.00%**	**100%**

See accompanying notes.

683 NORTHLAND MASTER TENANT, LLC
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CASH FLOWS
For the Year Ended December 31,

	2019	2018
Cash flows from operating activities:		
Net loss	$ (1,464,511)	$ (566,502)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,870	-
Decrease (increase) in assets:		
Tenant receivables	(350,114)	(11,500)
Prepaid insurance	38,776	(57,277)
Accrued rental income	(45,995)	-
Prepaid rent - Master Lease Agreement	1,844,742	626,481
Increase (decrease) in liabilities:		
Security deposit liability	34,450	5,000
Accounts payable	17,625	14,803
Due to related parties	204,891	167,471
Deferred rent liability - sublessee	(223,931)	(170,644)
Net cash provided by operating activities	57,803	7,832
Cash flows from investing activities:		
Equipment purchases	(9,351)	-
Net cash used by investing activities	(9,351)	-
Cash flows from financing activities:		
Members' contributions	4,536,758	4,924,392
Distributions	(30,583)	-
Payments of prepaid rent under the Master Lease Agreement	(4,121,175)	(12,603,363)
Proceeds from prepaid rent under sublease agreement	-	7,678,971
Net cash provided by financing activities	385,000	-
Net increase in cash	433,452	7,832
Cash and restricted cash - beginning of year	$ 7,832	$ -
Cash and restricted cash - end of year	$ 441,284	$ 7,832
Non-cash financing transactions:		
Non-cash distribution recorded as distribution payable	$ 105,026	$ 24,630

The following table provides a reconciliation of cash and restricted cash to the amounts reported within the balance sheets:

	2019	2018
Cash - operating	$ 16,394	$ 2,832
Tenant security deposits	39,450	5,000
Operating reserve	335,383	-
Asset management fee reserve	50,057	-
	$ 441,284	$ 7,832

See accompanying notes.

NOTE 1. ORGANIZATION

683 Northland Master Tenant, LLC (the Company) is a limited liability company formed pursuant to the laws of the State of New York on September 7, 2017. 683 Northland LLC, a related entity, was formed to facilitate the ownership, rehabilitation and operation of a commercial and industrial facility located at 683 Northland Avenue, City of Buffalo, known as the Niagara Machine & Tool Works Factory (the Property). 683 Northland LLC serves as lessor to the Company. The relationship between lessor and lessee is governed by a Master Lease Agreement dated December 28, 2017. The major activities of the Company are governed by the Master Tenant Amended and Restated Operating Agreement.

The Property is located in a historic district on the National Register of Historic Places and will receive an allocation of federal and state historic rehabilitation tax credits under Section 47 of the Internal Revenue Code of 1986, as amended, and New York credit for Rehabilitation of Historic Properties under Section 606(00) of New York State tax law. The Property is being developed in two phases; Phase 1 received an allocation of rehabilitation tax credits during the year ended December 31, 2018; Phase 2 received allocations for the year ending December 31, 2019 and expects final completion of the building and receipt of tax credits during the year ending December 31, 2020.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Cash: The statement of cash flows considers amounts available for current operations to be cash and includes amounts restricted for repayment of tenant security deposits and reserves.

Concentration of Credit Risk: The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

During the year ended December 31, 2019, two tenants represented 100% of rental revenue and accounts receivable (2018 – one tenant).

Tenant Receivables: Tenant receivables consists of receivables from tenants for rent and other charges, if applicable, recorded according to the terms of their sublease agreements. Tenant receivables do not bear interest. The Company holds tenant security deposits as collateral for tenant receivables. On a periodic basis, the Company evaluates its tenant receivables and establishes an allowance for doubtful accounts. There was no allowance for doubtful accounts for the years ended December 31, 2019 and 2018.

Revenue Income: The Company recognizes revenue on the date rent becomes due in accordance with the leases. Rental payments received in advance are deferred until earned. All leases between parties are operating leases.

Income Taxes: No provision or benefit has been made for income taxes in the accompanying financial statements since taxable income or loss of the Company is passed through to the respective members for reporting passes through to, and is reportable by, the members individually.

Operating Lease: The Company is obligated under a Master Lease Agreement (the Agreement) (Note 6), with a related entity, through 2037. Minimum rent is recognized over the term of the lease using the straight-line method. In addition to minimum rents, the lease requires payments for utilities, insurance, maintenance costs, real estate taxes, and all other operating expenses. Minimum rent due under the Agreement consists of base rent and prepaid rent. As of December 31, 2019, the Company paid $16,924,540 in prepaid rent ($12,803,365 – 2018).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates: In preparing financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Recently Adopted Accounting Principles: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The new revenue recognition standard outlines a comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company adopted this standard for the year ended December 31, 2019. Management evaluated the impact of this ASU and determined that there was not a significant impact on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230),* Restricted Cash. The new restricted cash standard requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018. The standard must be applied retrospectively to each period presented. The Company has implemented the standard for the year ended December 31, 2019.

Recently Issued Accounting Pronouncement: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 820)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact the adoption of this guidance with have on the financial statements.

Reclassification: Certain 2018 amounts have been reclassified to conform to 2019 presentation.

Subsequent Events: These financial statements have not been updated for subsequent events occurring after March 13, 2020, which is the date these financial statements were available to be issued.

NOTE 3. TENANT SECURITY DEPOSITS

Tenant security deposits are maintained separate bank account from operating funds. They are tracked by name of the tenant internally by the Company and are segregated on the related balance sheets.

NOTE 4. RESERVES

Asset Management Fee Reserve: The Company was required to establish a reserve to fund the payment of asset management fees in the amount of $60,000 upon receipt of the third capital contribution from the investor member. As of December 31, 2019, the reserve amounted to $50,057 ($0 – 2018). The remaining required funding of the asset management fee reserve has been reduced by the investor member.

NOTE 4. RESERVES (CONTINUED)

Operating Reserve: The Company was required to establish an operating reserve to fund any operating deficits as approved by the investor member. An initial contribution of $335,000 was to be deposited into the operating reserve upon receipt of the third capital contribution from the investor member which occurred during the year ended December 31, 2019. Funds are required to be held in a segregated, interest bearing account with a federally insured financial institution. As of December 31, 2019, the reserve amounted to $335,383.

Replacement Reserve: The Company is required to establish a replacement reserve to fund any replacement costs as approved by the investor member. The reserve is to be funded annually in the amount of $48,000 (subject to a 3% increase per year) from net cash flow in accordance with the allocation of profits and losses (Note 8). Funds are required to be held in a segregated, interest bearing account with a federally insured financial institution. As of December 31, 2019 and 2018, there was no net cash flow available to fund the replacement reserve.

NOTE 5. CAPITAL CONTRIBUTIONS

The Company consists of two members; 683 WTC, LLC and NTCIC HTC Community Fund II, LLC (NTCIC). 683 WTC, LLC is the managing member and a 1% owner. NTCIC is the investor member and has a 99% membership interest.

The managing member is required to contribute capital of $198,360 according to the terms of the amended and restated operating agreement. As of December 31, 2019 and 2018, the managing member has made all required contributions.

The investor member is required to contribute capital of $19,905,141 based upon the completion of requirements by the Company as defined in the amended and restated operating agreement. As of December 31, 2019, the investor member made required contributions in the amount of $9,462,792 ($4,926,034 – 2018). Total remaining required capital contributions amounted to $10,442,349 as of December 31, 2019 ($14,979,107 – 2018).

NOTE 6. TRANSACTIONS WITH AFFILIATES

The Company has a Master Lease Agreement (the Agreement) with the lessor, a related entity, to pay rental expense commencing on 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 2037. For the year ended December 31, 2019, the Company recognized $1,879,742 in rental expense ($626,581 – 2018). The lease agreement includes scheduled rent increases over the term of the lease, which in accordance with U.S. GAAP will be recognized on a straight-line bases over the term of the lease.

Future minimum rental payments to be paid under the Master Lease Agreement are contractually due as follows:

2020	$ 2,076,624
2021	486,684
2022	484,486
2023	492,423
2024	528,046
Thereafter	8,014,088
	$ 12,082,351

NOTE 6. TRANSACTIONS WITH AFFILIATES (CONTINUED)

Due to Related Parties: The Company owes certain operating expenses paid by related parties directly to a third party on behalf of the Company. These amounts are recorded as due to related parties on the accompanying balance sheets.

NOTE 7. COMMERCIAL RENTAL REVENUE

Northland Workforce Training Center: The Company entered into a sublease agreement with the Economic Development Group, Inc. d.b.a. Northland Workforce Training Center, (NWTC), commencing on September 1, 2018, and extending through August 31, 2033. The agreement calls for payment of prepaid rent and additional rent. Rental income from the sublease agreement is being recognized on a straight-line basis, in accordance with U.S. GAAP, over the term of the lease. Prepaid rent in the amount of $7,678,971 was due and paid during the year ended December 31, 2018; $511,931 of rental income related to the prepaid rent was recognized during the year ended December 31, 2019 ($170,653 – 2018). Starting in 2019, the Company is required to estimate additional rental income on a monthly basis and provide NWTC with a statement of actual additional rent incurred within 90 days of year end. Additional rental income under the sublease amounted to $11,500 per month during the year ended December 31, 2018. During the year ended December 31, 2019, $123,179 in additional rental income was recognized ($46,000 – 2018).

Additionally, the Company entered into a second sublease agreement during 2019 for an additional space related to the Northland Workforce Training Center commencing October 1, 2019 and extending through July 31, 2026. The agreement calls for payment of prepaid rent in the amount of $288,000. As of December 31, 2019, the prepaid rent had not yet been received and the entire amount of rent recognized is captured in tenants receivable. For the year ended December 31, 2019, the Company recognized $10,258 in rental income based on the second sublease agreement.

Buffalo Manufacturing Works: The Company entered into a sublease agreement with Edison Welding Institute Inc. d/b/a Buffalo Manufacturing Works, commencing on July 1, 2019, and extending through June 30, 2034. For the year ended December 31, 2019, the Company recognized $237,700 in rental income based on this agreement. There was no rental income for this sublease agreement for the year ending December 31, 2018.

Manna Culinary Group: The Company entered into a sublease agreement with Manna Culinary Group, Inc. commencing on September 30, 2019, and extending through October 31, 2024. Under the sublease agreement, base rent payments begin March 1, 2020. For the years ended December 31, 2019 and 2018, there was no rental income recognized for this sublease agreement.

Sparkcharge: The Company entered into a sublease agreement with Sparkcharge, Inc. commencing on March 1, 2020, and extending through February 28, 2023. For the years ended December 31, 2019 and 2018, there was no rental income recognized for this sublease agreement.

The following is a schedule of minimum future rental revenue on noncancelable leases with an initial term greater than one year:

2020	$ 433,797
2021	462,386
2022	480,255
2023	460,666
2024	438,004
Thereafter	4,873,190
Total	$ 7,148,297

NOTE 8. ALLOCATION OF PROFITS AND LOSSES

In accordance with the amended and restated operating agreement, operating profits and losses and credits, other than those arising from a capital transaction, will be allocated in the ratio 1% to the managing member and 99% to the investor member. Profits and losses arising from a capital transaction will be allocated to the members in various amounts as described in the amended and restated operating agreement depending on if the amounts are profits or losses and if the members' capital account balances are negative or positive.

All net cash flow available for distribution shall be paid annually as follows:

(i) To the investor member in the amount of any unpaid adjusters;

(ii) To the investor member in the amount of any outstanding special tax distribution;

(iii) The investor member in the amount of any outstanding priority return for the fiscal year plus any outstanding priority return for any prior fiscal year;

(iv) To fund the replacement reserve;

(v) To the repayment of any subordinated loans (and accrued interest thereon) and any operating deficient loans; and

(vi) The balance to the members in accordance with their percentage interests.

Profits arising from a capital transaction will be distributed in the following order: first to each member, an amount equal to their negative capital account basis based on their proportionate share of the anticipated distribution; second, any remaining profits are distributed in accordance with the members' capital accounts.

Losses arising from a capital transaction will be allocated in the following order: first to each member, an amount equal to their positive capital account basis based on their proportionate share of the anticipated distribution; second, any remaining losses are distributed in accordance with the members' capital accounts.

For distributions other than cash flow and distributions prior to dissolution or termination of the Company, assets and proceeds will be distributed in the following order:

(i) To the payment of all matured debts and liabilities of the Company and all expenses of the Company incident to any Capital Transaction), excluding (i) debts and liabilities of the Company to members or any affiliates, and (ii) all unpaid fees owing to any developer entity;

(ii) To the setting up of any reserves which the liquidator (or the managing member if the distribution is not pursuant to the liquidation of the Company) deems reasonably necessary for contingent, unmatured or unforeseen liabilities or obligations of the Company;

(iii) To the payment to the investor member of any unpaid credit recovery loans and interest thereon;

(iv) To the investor member in the amount of any outstanding priority return;

(v) To the payment of any unpaid special tax distribution plus an amount equal, on an after-tax basis, to the local, state and federal taxes projected (at the applicable tax rate) to be imposed on the members of the investor member as a result of the capital transaction;

(vi) To the repayment of any unpaid debts and liabilities (including unpaid fees) owed to the members or any affiliates by the Company for Company obligations; and

(vii) The balance to the members in accordance with their percentage interests.

NOTE 8. ALLOCATION OF PROFITS AND LOSSES (CONTINUED)

The amended and restated operating agreement requires the distribution of cash based upon the net cash flow calculation. Distributable cash flow is calculated annually as defined by the amended and restated operating agreement. Based upon the calculation, there is no net cash flow available to be distributed for the year ending December 31, 2019 and 2018. However, according to the amended and restated operating agreement, any priority return not distributed shall accrue and remain payable until net cash flow becomes available. Under the amended and restated operating agreement, the priority return is based upon 1.5% of the portion of capital contributions attributable to federal historic tax credits and is pro-rated for any periods less than a full year. As of December 31, 2019, $105,026 was accrued as payable to the investor member for the priority return ($24,630 – 2018). During the year ended December 31, 2019, the investor member was paid $30,583 for the 2018 accrued priority return.

NOTE 9. OPERATING DEFICIT GUARANTY

In accordance with the amended and restated operating agreement, the managing member will provide funds to the Company so as to allow them to cover accrued accounts payable on a 60-day current basis. Any funds advanced shall be provided in the form of an operating deficit loan. An operating deficit loan shall be treated as a subordinated loan and shall bear no interest. As of December 31, 2019 and 2018, no funds were loaned to the Company from the managing member.

NOTE 10. PROPERTY MANAGEMENT

The Company entered into a property management agreement with Mancuso Management Inc. (Mancuso) in December 2017. Under the agreement, Mancuso is to provide leasing and property management services. Under the agreement, the monthly management fee is calculated at 5% of rents billed or $2,700, whichever is higher. The original agreement extended through August 2018 and can be extended for up to two additional one-year terms. The current extension ends August 2020. For the year ended December 31, 2019, $41,493 of property management fees were incurred and paid ($10,800 – 2018).

NOTE 11. RECONCILIATION OF TAXABLE LOSS

The reconciliation of financial statement net loss to the taxable loss of the Company for the year ended December 31, is as follows:

	2019	2018
Financial statement net loss	$ **(1,464,511)**	$ (566,502)
Add (subtract) nondeductible items per tax return:		
Book to Tax depreciation	**(7,481)**	-
Section 467 income	**413,479**	469,258
Section 467 expense	**91,157**	(333,420)
Asset management fee/guaranteed payments	**10,000**	10,000
Taxable loss	$ **(957,356)**	$ (420,664)

The Company files income tax returns in the U.S. Federal jurisdiction and New York State.

NOTE 12. PAYMENT IN LIEU OF TAXES (PILOT)

The Company entered into a 7 year agreement (the Agreement), through December 31, 2026, with the Erie County Industrial Development Agency (ECIDA), on behalf of the City of Buffalo (the City), the City of Buffalo School District (the School District), and County of Erie (the County), whereby the Company pays an annual PILOT payment to the City, the County and the School District. The Company is exempt from taxes until the tax fiscal year beginning in 2019. Beginning in 2019, the Company shall pay a payment in lieu of taxes composed of a land component, an existing improvements component, and a variable component. The variable component will be impacted by application of an annual payment factor. The payment factor will be 10% for the first two years of the Agreement, 20% for the next two years of the Agreement, and 30% for the final three years of the Agreement. The Company paid taxes amounting to $20,643 for the year ended December 31, 2019. There were no payments made for the year ended December 31, 2018.

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Buffalo Urban Development Corporation

Item 5

MEMORANDUM

TO: Audit & Finance Committee

FROM: Mollie Profic, Treasurer

SUBJECT: Reimbursement of Brownfield Expenses from Brownfield Fund

DATE: March 19, 2020

The Buffalo Brownfields Redevelopment Fund ("BBRF" or the "Fund) allows certain third-party expenses incurred by BUDC in connection with the development of Buffalo Lakeside Commerce Park ("BLCP") to be reimbursed. Under the Fund Administration Agreement, these out-of-pocket third-party costs "include, but are not limited to, land acquisition, site investigations, site planning, remediation, road and utility construction and related legal costs".

On September 26, 2012, the Board designated the BLCP project as complete, which allowed for the expansion of the use of BBRF funds to "other comparable projects" in the City of Buffalo. Riverbend, Northland and 308 Crowley Street were designated "comparable" projects by the Board beginning October 1, 2012, January 1, 2015 and June 26, 2018, respectively.

Since 2011, reimbursements have been approved for costs incurred related to BLCP, Riverbend and Northland. On March 27, 2018, the Board approved the reimbursement of Riverbend, Northland and BLCP costs from January 1, 2017 – December 31, 2017 in the amount of $428,227. Grant application fees related to Northland totaling $311,848 were approved for reimbursement by the Board on May 10, 2018. Additional reimbursement of BLCP, Riverbend, Northland and 308 Crowley costs from January 1, 2018 – December 31, 2018 in the amount of $419,785 were approved by the Board on March 26, 2019, for a total of $731,633 in 2018.

On an ongoing basis, the Board approved the pledge of BBRF monies to be used as matching funds for the $1,912,028 Restore NY 4 grant, based on an original project budget of $2,188,028. Project cost increases at 612 Northland Avenue lead to final project costs of $2,477,126. The following chart outlines the project budget, grant and matching sources:

Restore NY 4 Total Project Costs	$2,477,126
Empire State Development Restore NY grant	(1,912,028)
City of Buffalo in-kind contribution	(85,899)
Required local match	479,199
Third party amounts used toward local match[1]	(142,197)
Local match required from BUDC	$337,002

[1]Funding received from BUDC Regionally Significant Project Fund ($86,097), Albright Knox Art Gallery ($33,236) and Buffalo Sewer Authority ($22,864) used toward local match requirement.

We are now requesting reimbursement of BLCP, Riverbend, Northland & 308 Crowley Street costs incurred in 2019 and Restore NY 4 matching funds in the amount of $787,930, as outlined below.

Eligible third-party costs[2]	$450,928
Restore NY 4 local match from BUDC	337,002
	$787,930

[2]The attachment to this memorandum details the $450,928 in eligible third-party costs that have been incurred by BUDC and which are eligible for reimbursement by the Fund.

BUDC management recommends netting the reimbursement request against outstanding BUDC borrowings from the Brownfield Fund, which are due to be repaid, of $749,871. The net amount received from the Brownfield Fund will amount to $38,059. After this reimbursement, BBRF is anticipated to have a balance of approximately $1.4 million.

Action:

I am requesting that the Committee recommend the following to the Board:

1. Recommend $337,002 of reimbursement from the Brownfield Fund toward the Restore NY 4 grant local match;
2. Approve the reimbursement to BUDC of $450,928 in third party, BLCP, Riverbend, 308 Crowley and Northland costs, from the BBRF as outlined in Attachment 1 to this memorandum.

Buffalo Urban Development Corporation
Summary of Costs Paid by BUDC & Reimbursable from BBRF
2019

Buffalo Lakeside Commerce Park	**2019**
Landscaping	$ 42,215
Legal Costs	5,903
Marketing	-
Property Insurance	17,229
Snowplowing	5,375
Operations & Maintenance	3,746
Consultants	850
Utilities	954
	77,122
Riverbend	
Taxes, Operations & Maintenance	132
308 Crowley	
Landscaping	1,475
Legal Costs	1,120
Property Insurance	19,939
	22,534
Northland*	
Insurance	80,123
General Development	66,510
Operations & Maintenance	25,898
Legal Costs	7,600
Snowplowing	60,667
Landscaping	12,523
Consultants	19,135
Utilities	1,370
Marketing	1,642
	275,467
683 Northland LLC*	
Insurance	71,525
Operations & Maintenance	4,148
	75,672
Total	$ 450,928

*The Northland costs represent those costs that are **not** reimbursed through other grant agreement(s).

BUDC
Regionally Significant Project Fund
Summary of Recent Activity (updated March 16, 2020)

Description	RSP Amount	RSP Balance
2/29/20 Balance		$ 17,550
Commitments		
Ellicott Street Node Concept Plan (Board approved 7/30/19)		(17,500)
Uncommitted Funds		**$ 50**

Notes: 2018 was the final year of the Astronics/Luminescent PILOT. No additional revenue will be added to this fund. Remaining uncommitted funds to be distributed to BUDC as part of the 612 Northland project request.