

**AUDITED  
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT  
CORPORATION**

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**DECEMBER 31, 2020**

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of the Buffalo Urban Development Corporation (BUDC), as of and for the years ended December 31, 2020 and 2019, and the related notes to the consolidated financial statements, which collectively comprise the BUDC's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of 683 Northland, LLC were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to BUDC's preparation and fair presentation of the consolidated 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 BUDC'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of BUDC, as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the consolidated financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BUDC's basic financial statements. The supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2021 on our consideration of the BUDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the BUDC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BUDC's internal control over financial reporting and compliance.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 30, 2021

## **BUFFALO URBAN DEVELOPMENT CORPORATION**

### **Management's Discussion and Analysis**

**December 31, 2020**

**(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, 2020, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with BUDC's audited financial statements.

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

### **Basic Overview of the Financial Statements**

Included in this Annual Report are the following financial statements:

- 1) Statement of Net Position – This statement shows the reader what BUDC owns (assets and deferred outflows) and what BUDC owes (liabilities and deferred inflows). The difference between BUDC's assets, deferred outflows, liabilities and deferred inflows (net position) can be one way to measure BUDC's financial position. Over time, increases or decreases in BUDC's net position is one indicator of whether its financial health is improving or deteriorating.
- 2) Statement of Revenues, Expenses, and Changes in Net Position – This statement reports BUDC's operating and nonoperating revenues by major source along with operating expenses. The difference between total revenues and expenses can be one way to measure BUDC's operating results for the year.
- 3) Statement of Cash Flows – This statement reports BUDC's cash flows from operating, noncapital financing, capital and related financing, and investing activities.

## Financial Highlights

- BUDC's net position decreased by 2% from \$78,604,000 in 2019 to \$76,743,000 in 2020.
- BUDC experienced a decrease in net position of \$2,472,000 in 2020 compared to an increase of \$24,746,000 in 2019 due mainly to decreases in grant income and developer fee income. Development costs and depreciation expense also increased in 2020, compared to 2019.
- BUDC's total assets increased by \$193,000 primarily due to a \$2,869,000 increase in grants receivable and a \$2,378,000 increase in net capital assets, combined with a \$2,697,000 decrease in construction in process and a \$1,482,000 decrease in restricted cash.
- BUDC's total liabilities increased \$1,668,000 as a result of lines of credit obtained by BUDC and 683 Northland in 2020, with a combined outstanding balance of \$1,417,000 at the end of 2020.

## 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, 2020, 2019 and 2018**  
(Amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018</u>
Assets:					
Cash	\$ 370	\$ 247	\$ 123	50%	\$ 4,312
Receivables	13,650	10,781	2,869	27%	9,563
Restricted cash	3,753	5,235	(1,482)	-28%	21,880
Other current assets	7,153	8,135	(982)	-12%	8,295
Loans receivable	10,416	10,791	(375)	-3%	10,416
Equity investment	178	198	(20)	-10%	198
Capital assets, net	112,836	110,458	2,378	2%	67,644
Construction in process	-	2,697	(2,697)	-100%	14,365
Land and improvements held for sale	4,080	4,087	(7)	0%	4,082
	<hr/>				
Total assets	\$ 152,436	\$ 152,629	\$ (193)	0%	\$ 140,755
Liabilities:					
Current liabilities	\$ 45,256	\$ 15,333	\$ 29,923	195%	\$ 31,124
Long-term liabilities	30,437	58,692	(28,255)	-48%	56,274
	<hr/>				
Total liabilities	75,693	74,025	1,668	2%	87,398
Net position:					
Net investment in capital assets	73,760	73,261	499	1%	47,176
Restricted	4,021	4,702	(681)	-14%	4,989
Unrestricted	(1,038)	641	(1,679)	-262%	1,192
	<hr/>				
Total net position	\$ 76,743	\$ 78,604	\$ (1,861)	-2%	\$ 53,357
	<hr/>				
Total liabilities and net position	\$ 152,436	\$ 152,629	\$ (193)	0%	\$ 140,755

**Cash** – Cash increased \$123,000 due primarily to a decrease in accounts payable of \$3,715,000, as construction-related payables were fully paid in 2020.

**Receivables** – Receivables include grant and other receivables owed as a result of BUDC’s development projects. The \$2,869,000 increase is primarily due to \$11,900,000 of grants awarded to BUDC during 2020, compared to \$9,000,000 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 amounts reserved by 683 Northland LLC for interest and certain other costs. 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 \$1,482,000 is mainly due to amounts released from these imprest accounts and the usage of interest reserves during the year.

**Other current assets** – Other current assets include prepaid expenses, developer fees receivable (BUDC) and interest receivable. The \$982,000 decrease from 2019 to 2020 is due mainly to the collection of developer fees in 2020.

**Loans receivable** – Loans receivable decreased \$375,000 in 2020, as one loan was paid off under the Buffalo Building Reuse Project loan program.

**Capital assets, net** – Capital assets net of accumulated depreciation increased \$2,378,000 primarily due to the capitalization of the remainder of the Project at 683 Northland. A portion of 537 East Delavan Avenue, was also capitalized and placed in service in 2020.

**Construction in process** – Construction in process decreased \$2,697,000 in 2020 to a zero balance due to the capitalization the remainder of the Project at 683 Northland Avenue.

**Land and improvements held for sale** – Land and improvements held for sale represents property held at BLCF 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. A portion of the 308 Crowley Avenue property was sold in 2020, accounting for the \$7,000 decrease.

**Current liabilities** - The \$29,923,000 increase in current liabilities was primarily due to the movement of 683 Northland’s KeyBank construction loans outstanding (\$29,100,000) to the current liabilities classification at year end.

**Long-term liabilities** – Long-term liabilities decreased \$28,255,000 due mainly to a shift of \$29,100,000 of outstanding debt to current liabilities. BUDC’s Paycheck Protection Program loan of \$86,000 is also reported as long-term debt, until the loan is forgiven.

## 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, 2020, 2019 and 2018**  
(Amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>	<u>2018</u>
Revenue:					
Grants	\$ 8,816	\$ 20,800	\$ (11,984)	-58%	\$ 26,253
PILOT agreements	172	299	(127)	-42%	447
Loan interest and commitment fees	153	150	3	2%	138
Rental and other revenue	2,034	14,842	(12,808)	-86%	645
	<hr/>				
Total revenue	11,175	36,091	23,263	64%	27,483
Expenses:					
Development costs	\$ 5,294	\$ 2,580	\$ 2,714	105%	\$ 594
Adjustment to net realizable value	419	576	(157)	-27%	2,727
Salaries and benefits	546	509	37	7%	437
General and administrative	2,091	3,094	(1,003)	-32%	3,550
Management fee	92	134	(42)	-31%	115
Depreciation	4,198	3,224	974	30%	1,044
	<hr/>				
Total expenses	12,640	10,117	2,523	25%	8,467
	<hr/>				
Operating income (loss)	(1,465)	25,974	(27,439)	-106%	19,016
	<hr/>				
Interest income	1	19	(18)	-95%	13
Interest expense	(933)	(1,172)	239	-20%	(359)
Amortization expense	(75)	(75)	-	0%	(75)
	<hr/>				
Change in net position	\$ (2,472)	\$ 24,746	\$ (27,218)	-110%	\$ 18,595

### 3. Revenue and Expense Analysis:

**Grants** – Grant income includes income from ESD, NYPA and others for projects along the Northland Corridor, from the Ralph C. Wilson, Jr. Foundation and Great Lakes Commission 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 2020, \$3,800,000 of grant revenue was recognized for Northland Corridor projects, \$4,900,000 for Centennial Park and \$100,000 for BBRP. The decrease of \$11,984,000 from 2019 reflects the decrease in revenue from larger grants related to 683 Northland Avenue.

**Rental and other revenue** – Other revenue includes rental income from 683 Northland Master Tenant, LLC under the Master Lease Agreement, rent from other Northland tenants and other income. The decrease of \$12,808,000 from 2019 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 a decrease in other 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 \$2,714,000 is the result of further development on the Northland properties and project costs related to Ralph C. Wilson, Jr. Centennial Park.

**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 \$37,000 or 7% due to the hiring of an additional employee in 2020 prior to another’s retirement, along with annual salary increases.

**General and administrative** – General and administrative costs decreased \$1,003,000 from \$3,094,000 in 2019 to \$2,091,000 in 2020. The main reason for this decrease was a decrease in 683 Northland’s general and administrative expenses from \$1,468,000 in 2019 to \$264,000 in 2020. These expenses represent costs of the 683 Northland buildout that were not capitalized.

**Management fee** – The management fee represents costs charged for certain ECIDA staff that spend a portion of their time performing financial, compliance, administrative and property management services on behalf of BUDC under a shared services agreement. Asset management fees charged to 683 Northland by NMTC and HTC investors were reported here in 2019, and reclassified to general and administrative costs in 2020.

**Depreciation** – Depreciation expense increased \$974,000 from \$3,224,000 in 2019 to \$4,198,000 in 2020. The majority of depreciation expense (\$4,120,000) was related to the building and improvements at 683 Northland Avenue.

**Interest expense** – Interest expense relates mainly to loans payable by 683 Northland and lines of credit of both BUDC and 683 Northland. The \$239,000 decrease in interest expense from 2019 to 2020 is reflective of the variable interest rate related to construction financing.

#### 4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC's 2020 budget was presented and approved by the Board of Directors on October 29, 2019. The following table (Table 3) presents an analysis of BUDC's performance compared to the approved 2020 budget.

**Table 3**  
**Budget to Actual Analysis for the year ended December 31, 2020**  
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 8,816	\$ 8,400	\$ 416	5%
PILOT agreements	172	115	57	50%
Loan interest and commitment fees	153	114	39	34%
Other	2,034	7,636	(5,602)	-73%
Total revenue	11,175	16,265	23,263	143%
Expenses:				
Development costs	\$ 5,294	\$ 1,044	\$ 4,250	407%
Adjustment to net realizable value	419	-	419	100%
Salaries and benefits	546	600	(54)	-9%
General and administrative	2,091	3,085	(994)	-32%
Management fee	92	103	(11)	-11%
Depreciation	4,198	4,500	(302)	-7%
Total expenses	12,640	9,332	3,308	35%
Operating income (loss)	(1,465)	6,933	(8,398)	-121%
Interest income	1	10	(9)	-90%
Interest expense	(933)	(529)	(404)	76%
Amortization expense	(75)	(75)	-	100%
Change in net position	\$ (2,472)	\$ 6,339	\$ (8,811)	-139%

Note: The original 2020 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 \$8,398,000. Grant revenue was \$416,000 ahead of budget due to higher than anticipated recognition of grant revenue from Ralph C. Wilson, Jr. Foundation related to the Centennial Park Project. Other revenue trailed the budgeted amount by \$5,602,000 due to recognition of developer fees for Phase II of the Project at 683 Northland Avenue in 2019, rather than in 2020 as originally budgeted. Development costs of \$5,294,000 were over budget by \$4,250,000. This is directly related to an increase in grant funding. General and administrative expenses of

\$2,091,000 were below budget by \$994,000. 683 Northland recognized \$264,000 of non-capitalized costs related to work on the Project. Interest expense of \$933,000 was \$404,000 higher than budget, due to delays in repaying long-term debt and additional interest related to BUDC and 683 Northland's lines of credit.

#### **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](http://www.buffalourbandevelopment.com).

**BUFFALO URBAN DEVELOPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF NET POSITION  
DECEMBER 31,**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 370,072	\$ 246,940
Grants receivable	13,649,610	10,780,646
Restricted cash	3,753,356	5,234,585
Other current assets	7,152,726	8,135,225
Total current assets	<u>24,925,764</u>	<u>24,397,396</u>
<b>Noncurrent assets:</b>		
Loans receivable, net	10,416,400	10,791,400
Equity investment	178,051	198,361
Capital assets, net	112,835,377	110,457,922
Construction in process	-	2,697,320
Land and improvements held for sale, net	4,080,387	4,086,967
Total noncurrent assets	<u>127,510,215</u>	<u>128,231,970</u>
Total assets	<u>\$ 152,435,979</u>	<u>\$ 152,629,366</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 874,573	\$ 4,589,841
Unearned revenue	13,822,911	10,743,729
Lines of credit	1,416,953	-
Current portion of loans payable	29,141,944	-
Total current liabilities	<u>45,256,381</u>	<u>15,333,570</u>
<b>Noncurrent liabilities:</b>		
Deferred rent liability	16,079,828	14,453,317
Loans payable	14,099,750	43,981,202
Note payable	257,381	257,381
Total noncurrent liabilities	<u>30,436,959</u>	<u>58,691,900</u>
<b>NET POSITION</b>		
Net investment in capital assets	73,759,690	73,261,007
Restricted	4,020,554	4,702,028
Unrestricted (deficit)	(1,037,605)	640,861
Total net position	<u>76,742,639</u>	<u>78,603,896</u>
Total liabilities and net position	<u>\$ 152,435,979</u>	<u>\$ 152,629,366</u>

See accompanying notes.

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

	<u>2020</u>	<u>2019</u>
<b>Operating revenues:</b>		
Grant revenue	\$ 8,816,375	\$ 20,799,635
Brownfield funds	171,903	298,920
Loan interest and commitment fees	152,597	149,707
Rental and other revenue	2,033,807	14,842,621
Total operating revenues	<u>11,174,682</u>	<u>36,090,883</u>
<b>Operating expenses:</b>		
Development costs	5,294,325	2,579,959
Adjustment to net realizable value	418,386	575,816
Salaries and benefits	546,021	509,655
General and administrative	2,091,258	3,093,725
Management fee	91,454	133,855
Depreciation	4,198,380	3,224,019
Total operating expenses	<u>12,639,824</u>	<u>10,117,029</u>
Operating income (loss)	(1,465,142)	25,973,854
<b>Nonoperating revenues (expenses):</b>		
Interest income	1,278	19,278
Amortization expense	(74,872)	(74,872)
Interest expense	(933,410)	(1,172,004)
Total nonoperating revenues (expenses)	<u>(1,007,004)</u>	<u>(1,227,598)</u>
Change in net position	(2,472,146)	24,746,256
Net position - beginning of year	78,603,896	53,357,640
Add: capital contributions	<u>610,889</u>	<u>500,000</u>
Net position - end of year	<u>\$ 76,742,639</u>	<u>\$ 78,603,896</u>

See accompanying notes.

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

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities:</b>		
Amounts received from Brownfields funds	\$ 229,279	\$ 301,725
Grants received	9,026,593	9,998,000
Receipts from loans and commitment fees	152,597	149,707
Disbursements of loans	-	(375,000)
Repayments of loans	375,000	-
Rental and other revenue	3,951,260	16,734,453
Payments to employees, suppliers, and other	(8,994,092)	(6,020,050)
<b>Net cash provided by operating activities</b>	<u>4,740,637</u>	<u>20,788,835</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(6,364,450)	(45,915,225)
Proceeds from loans	677,445	5,065,740
Capital contributions	631,199	500,000
<b>Net cash used by capital and related financing activities</b>	<u>(5,055,806)</u>	<u>(40,349,485)</u>
<b>Cash flows from investing activities:</b>		
Change in restricted cash	1,481,229	16,645,759
Interest earned	1,278	19,278
Interest paid	(1,044,206)	(1,169,576)
<b>Net cash provided by investing activities</b>	<u>438,301</u>	<u>15,495,461</u>
<b>Net increase (decrease) in cash</b>	<b>123,132</b>	<b>(4,065,189)</b>
<b>Cash - beginning of year</b>	<u>246,940</u>	<u>4,312,129</u>
<b>Cash - end of year</b>	<u>\$ 370,072</u>	<u>\$ 246,940</u>
<b>Reconciliation of operating income (loss) from operations to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (1,465,142)	\$ 25,973,854
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	4,198,380	3,224,019
Increase in grants receivable	(2,868,964)	(1,217,781)
Decrease in other current assets	982,499	85,869
Decrease (increase) in loans receivable	375,000	(375,000)
Increase (decrease) in accounts payable and accrued expenses	(1,186,829)	403,295
Increase (decrease) in unearned revenue	3,079,182	(9,581,854)
Increase in deferred rent liability	1,626,511	2,276,433
<b>Net cash provided by operating activities</b>	<u>\$ 4,740,637</u>	<u>\$ 20,788,835</u>
<b>Non-cash transactions:</b>		
Capital asset purchases not yet disbursed	\$ 390,059	\$ 2,882,573
Grants received but not yet earned	-	10,743,729

See accompanying notes.

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

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The Buffalo Urban Development Corporation (BUDC) was incorporated to facilitate partnership with the private sector in the development of the City of Buffalo (the City). Funding was initially received from the City, however the City has not allocated direct funding to BUDC for several years and future allocations are not expected. Funding is received primarily from land sales, grant funding, and loan repayments. In 2005, an agreement between BUDC, Erie County Industrial Development Agency (ECIDA), the City, and Erie County (the County) established the Buffalo Brownfields Redevelopment Fund (the Fund). The Fund dedicates certain payments received in lieu of real estate taxes (PILOT) for future eligible project costs. The fund is administered by ECIDA and reimburses BUDC for eligible project costs incurred. The activity of the Fund is included in these financial statements.

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

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

**B. BASIS OF PRESENTATION**

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

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

**C. CONSOLIDATED FINANCIAL STATEMENT PRESENTATION**

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

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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

**E. CASH AND RESTRICTED CASH**

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

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

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**F. LOANS RECEIVABLE**

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

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

**G. OTHER CURRENT ASSETS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. These amounts are included in other current assets and amounted to \$6,646,600 and \$7,280,781 for December 31, 2020 and 2019, respectively. Other current assets include interest and accounts receivables and amounted to \$506,126 and \$854,444 for December 31, 2020 and 2019, respectively

**H. CAPITAL ASSETS**

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

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

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

**I. INSURANCE**

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

**J. NET POSITION**

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

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

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

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**K. INCOME TAXES**

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

**L. STATEMENTS OF CASH FLOWS**

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

**M. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

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

**N. ACCOUNTING PRONOUNCEMENTS**

On May 8, 2020, the GASB issued Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance* in response to the COVID-19 pandemic. The effective dates of GASB Statements not yet implemented by BUDC have been updated below to reflect the impact of this Statement. There were no new GASB Statements implemented by BUDC for the year ended December 31, 2020.

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

- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2022.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the year ending December 31, 2021.
- Statement No. 91, *Conduit Debt Obligations*, which will be effective for the year ending December 31, 2022.
- Statement No. 92, *Omnibus 2020*, which will be effective for the year ending December 31, 2022.
- Statement No. 93, *Replacement of Interbank Offered Rates*, which will be effective for the year ending December 31, 2021, except for paragraph 11b, which will be effective for the year ending December 31, 2022.
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and 84, and a supersession of GASB Statement No. 32*, which will be effective for the year ending December 31, 2022.

**O. RECLASSIFICATIONS**

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

**NOTE 2. CASH AND INVESTMENTS**

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

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

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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, 2020 and 2019, BUDC's aggregate bank deposits were considered fully collateralized.

Investment and Deposit Policy

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk

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

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

**NOTE 3. LOANS RECEIVABLE**

BUDC has an agreement with Pursuit (formerly New York Business Development Corporation) to provide loans to facilitate the development and adaptive reuse of vacant or underutilized buildings in certain designated areas. The loan agreement provides for \$9,000,000 in total funding from five participating lending banks, with interest rates determined by the banks. The balance of the loans outstanding were \$750,000 and \$1,125,000 at December 31, 2020 and 2019, 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 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Downtown Loan Fund	\$ 750,000	\$ 1,125,000
NMTC Investment Fund	9,666,400	9,666,400
Total loans receivable	<u>\$ 10,416,400</u>	<u>\$ 10,791,400</u>

**NOTE 4. CAPITAL ASSETS**

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

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

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

	<u>Balance 01/01/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2019</u>
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	<u>18,316,003</u>	<u>36,386,843</u>	<u>45,649,818</u>	<u>9,053,028</u>
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	<u>63,693,682</u>	<u>40,408,532</u>	<u>-</u>	<u>104,102,214</u>
Total capital assets, net	<u>\$ 82,009,685</u>	<u>\$ 76,795,375</u>	<u>\$ 45,649,818</u>	<u>\$ 113,155,242</u>

Land, buildings, and improvements related to the Northland Corridor amounted to \$5,561,908 and \$9,053,028 at December 31, 2020 and 2019. 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 totaled \$418,386 and \$575,816 for the years ended December 31, 2020 and 2019, respectively.

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

**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. One acre of land was sold in 2020.

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

	<u>2020</u>	<u>2019</u>
BLCP	\$ 9,211,452	\$ 9,167,122
308 Crowley	83,719	90,299
Less adjustment to net realizable value (BLCP)	<u>5,214,784</u>	<u>5,170,454</u>
Total land held for development and sale	<u>\$ 4,080,387</u>	<u>\$ 4,086,967</u>

**NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE**

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 the 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 2018, BUDC was awarded a \$1,912,028 grant from ESD under the Restore NY Program for the Project. Another grant of \$3,998,549 was awarded in 2019 under the Restore NY Program to support the project.

In 2019 and 2020, BUDC was awarded four grants from the Ralph C. Wilson, Jr. Foundation totaling \$17,300,000 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.

To further support the shoreline components of the Centennial Park Project, BUDC was awarded \$1,000,000 from the Great Lakes Commission in 2020.

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

	<u>2020</u>	<u>2019</u>
Grants receivable:		
ESD	\$ 4,382,619	\$ 6,212,914
National Grid	250,000	500,000
Ralph C Wilson Jr. Foundation	8,300,000	3,850,000
National Fuel	-	48,500
NYSERDA	23,136	119,232
Great Lakes Commission	693,855	-
Other	-	50,000
	<u>\$ 13,649,610</u>	<u>\$ 10,780,646</u>

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

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Unearned revenue:		
ESD	\$ 1,762,728	\$ 4,359,368
National Grid	381,250	250,000
Ralph C Wilson Jr. Foundation	11,058,342	4,792,800
NYPA	-	1,200,236
NYSERDA	119,232	119,232
Great Lakes Commission	501,359	-
Other	-	22,093
	\$ <u>13,822,911</u>	\$ <u>10,743,729</u>

**NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

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

	<u>2020</u>	<u>2019</u>
Accounts payable	\$ 741,247	\$ 4,425,758
Accrued payroll	36,435	57,368
Accrued interest	57,791	93,715
Other accrued expenses	39,100	13,000
	\$ <u>874,573</u>	\$ <u>4,589,841</u>

**NOTE 8. DEFERRED RENT LIABILITY**

Northland has a Master Lease Agreement (the Agreement) with the master tenant member to receive rental income commencing August 26, 2018, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through the year ended December 31, 2037. Northland recognized \$1,879,742 in rental revenue related to the Agreement for the years ended December 31, 2020 and 2019. 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, 2020:

2021	\$ 486,684
2022	484,486
2023	492,423
2024	528,046
2025	558,098
Thereafter	7,455,990
	\$ <u>10,005,727</u>

**NOTE 9. NOTE PAYABLE**

In connection with the purchase of property related to BLCPC, 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, 2020 and 2019, 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.

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

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**NOTE 10. LINES OF CREDIT**

BUDC entered into a revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,800,000. Borrowings are to be used to pay for specific projects that are reimbursed through grants but require the work to be completed prior to reimbursement and for general working capital purposes. Borrowed amounts on the line bear interest at an adjusted LIBOR rate (3.225% - 2020) per annum and are collateralized by security interest in all assets of BUDC. Interest payments are due on the first of each month. Principal is due upon demand. At December 31, 2020, \$923,370 in principal is outstanding.

Northland entered into a non-revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,000,000. BUDC, WTC, and BBRC Land Company I, LLC, related parties, are guarantors on this agreement. Borrowings are to be used to pay interest on the Bridge loans while awaiting member contributions. Borrowed amounts on the line bear interest at an adjusted LIBOR rate (3.225% - 2020) per annum and are collateralized by security interest in all assets of WTC, BUDC and BBRC Land Company I, LLC. All outstanding principal and interest amounts are due upon maturity. The agreement matures on June 30, 2023. At December 31, 2020, \$493,583 in principal is outstanding.

**NOTE 11. LOANS PAYABLE**

Mortgage Payable

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

Bridge Loan

Northland entered into two bridge loan agreements with KeyBank on December 28, 2017, in the amounts of \$20,000,000 (Loan A) and \$10,000,000 (Loan B). BUDC, WTC and BBRC Land Company I, LLC are guarantors on the loan agreement. The loan is collateralized by security interest in all assets of WTC, BBRC Land Company I, LLC and Northland, assignment of rents by Northland, and assignment of construction contracts and architect's agreements. These bridge loan agreements mature on June 30, 2021. The balance outstanding totaled \$29,100,000 and \$30,000,000 at December 31, 2020 and 2019, 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 (1.875% and 2.6875%, respectively, at December 31, 2020). Accrued interest amounted to \$55,207 and \$93,715 at December 31, 2020 and 2019, 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.

Paycheck Protection Program (PPP) Loan

On April 17, 2020, BUDC received loan proceeds in the amount of \$85,620 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. BUDC intends to use PPP loan proceeds for purposes consistent with the PPP and apply for forgiveness within 10 months of the end of the covered period.

BUDC has recorded a loan payable and will record forgiveness upon being legally released from the loan obligation. No forgiveness income has been recorded for the year ended December 31, 2020.

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

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

	<u>2020</u>	<u>2019</u>
KeyBank	\$ 29,100,000	\$ 30,000,000
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	5,000,000	5,000,000
M&T Bank	369,750	369,750
Paycheck Protection Program	85,620	-
	<u>43,285,370</u>	<u>44,099,750</u>
Less: debt issuance costs	43,676	118,548
	<u>\$ 43,241,694</u>	<u>\$ 43,981,202</u>

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

	<u>Gross</u>	<u>Deferred Financing</u>	<u>Net</u>
2021	\$ 30,602,573	\$ 43,676	\$ 30,558,897
2022	-	-	-
2023	-	-	-
2024	469,938	-	469,938
2025	404,116	-	404,116
Thereafter	11,808,743	-	11,808,743
	<u>\$ 43,285,370</u>	<u>\$ 43,676</u>	<u>\$ 43,241,694</u>

Interest expense for the year ending December 31, 2020 and 2019 was \$933,410 and \$1,172,004, respectively. Capitalized interest amounted to \$419,079 for the year ending December 31, 2019 and is properly included in the building. No interest was capitalized for the year ending December 31, 2020.

**NOTE 12. EQUITY INVESTMENT**

Equity investment represents WTC's 1% investment in 683 Northland Master Tenant, LLC (Master Tenant). WTC utilizes the historical cost method of accounting for its investment in the Master Tenant which results in the equity investment balance being comprised of WTC's original capital contribution in the Master Tenant. The investment amounted to \$178,051 and \$198,360 at December 31, 2020 and 2019, respectively.

**NOTE 13. RESTRICTED NET POSITION**

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$720,294 and \$1,457,700 at December 31, 2020 and 2019, respectively, and a loan fund in the amount of \$3,300,260 and \$3,244,328 at December 31, 2020 and 2019, respectively.

**NOTE 14. NOTES RECEIVABLE WTC**

BUDC and WTC have note agreements in the amount of \$25,045,279 and \$27,142,000 whereby BUDC will advance proceeds to WTC as requested. The notes carry an interest rate of one percent (1%), compounded annually and the notes are for a period of thirty years. The balance of the notes plus accrued interest is due upon maturity date at December 28, 2047. The total outstanding balance on these notes was \$51,049,259 and \$45,538,272 at December 31, 2020 and 2019, respectively. Accrued interest on the loan amounted to \$952,415 and \$481,009 at December 31, 2020 and 2019, respectively.

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

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**NOTE 15. POLLUTION REMEDIATION**

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

**NOTE 16. CONTINGENCIES**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. This event is not expected to have a structural impact on BUDC. This may result in a reduction of business development projects in the short-term. BUDC will be further assessing small business relief programs from the government to determine BUDC's role in helping local businesses when additional information is available.

**NOTE 17. SUBSEQUENT EVENTS**

On February 21, 2021, Northland made a \$5,532,421 payment on Key Bank Loan A, with prepaid rent from 683 Northland Master Tenant, LLC under the Master Lease Agreement. Northland made subsequent payments of \$10,000,000 (Loan B) and \$3,386,769 (Loan A) on March 22, 2021 with equity investments from its members.

Management has evaluated subsequent events through March 30, 2021, which is the date the financial statements are available for issuance and have determined there are no subsequent events that require disclosure under generally accepted accounting principles, other than those noted above.

## **SUPPLEMENTARY INFORMATION**

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**CONSOLIDATING STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2020**

	<u>Buffalo Urban Development Corporation</u>	<u>683 WTC LLC</u>	<u>683 Northland LLC</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 321,288	\$ -	\$ 48,784	\$ -	\$ 370,072
Grants receivable	13,649,610	-	-	-	13,649,610
Restricted cash	3,253,108	-	500,248	-	3,753,356
Other current assets	9,360,710	1,515	176,276	(1) (2,385,775)	7,152,726
Total current assets	<u>26,584,716</u>	<u>1,515</u>	<u>725,308</u>	<u>(2,385,775)</u>	<u>24,925,764</u>
<b>Noncurrent assets:</b>					
Loans receivable	61,465,659	-	-	(1) (51,049,259)	10,416,400
Equity investment	-	45,640,977	-	(1) (45,462,926)	178,051
Capital assets, net	8,055,394	-	104,779,983	-	112,835,377
Land and improvements held for sale, net	4,080,387	-	-	-	4,080,387
Total noncurrent assets	<u>73,601,440</u>	<u>45,640,977</u>	<u>104,779,983</u>	<u>(96,512,185)</u>	<u>127,510,215</u>
Total assets	<u>\$ 100,186,156</u>	<u>\$ 45,642,492</u>	<u>\$ 105,505,291</u>	<u>\$ (98,897,960)</u>	<u>\$ 152,435,979</u>
<b>LIABILITIES</b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	\$ 797,394	\$ 952,415	\$ 1,510,539	(1) \$ (2,385,775)	\$ 874,573
Unearned grant revenue	13,822,911	-	-	-	13,822,911
Lines of credit	923,370	-	493,583	-	1,416,953
Current portion of loans payable	85,620	-	29,056,324	-	29,141,944
Total liabilities	<u>15,629,295</u>	<u>952,415</u>	<u>31,060,446</u>	<u>(2,385,775)</u>	<u>45,256,381</u>
<b>Noncurrent liabilities:</b>					
Deferred rent liability	-	-	16,079,828	-	16,079,828
Loans payable	369,750	51,049,259	13,730,000	(1) (51,049,259)	14,099,750
Note payable	257,381	-	-	-	257,381
Total noncurrent liabilities	<u>627,131</u>	<u>51,049,259</u>	<u>29,809,828</u>	<u>(51,049,259)</u>	<u>30,436,959</u>
<b>NET POSITION (DEFICIT)</b>					
Net investment in capital assets	11,766,031	-	61,993,659	-	73,759,690
Restricted	4,020,554	-	-	-	4,020,554
Unrestricted (deficit)	68,143,145	(6,359,182)	(17,358,642)	(1) (45,462,926)	(1,037,605)
Total net position (deficit)	<u>83,929,730</u>	<u>(6,359,182)</u>	<u>44,635,017</u>	<u>(45,462,926)</u>	<u>76,742,639</u>
Total liabilities and net position	<u>\$ 100,186,156</u>	<u>\$ 45,642,492</u>	<u>\$ 105,505,291</u>	<u>\$ (98,897,960)</u>	<u>\$ 152,435,979</u>

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

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Buffalo Urban Development Corporation</u>	<u>683 WTC LLC</u>	<u>683 Northland LLC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Operating revenues:</b>					
Grant revenue	\$ 8,816,375	\$ -	\$ -	\$ -	\$ 8,816,375
Brownfield funds	171,903	-	-	-	171,903
Loan interest and commitment fees	624,003	-	-	(1) (471,406)	152,597
Rental and other revenue	155,688	-	1,878,119	-	2,033,807
Total operating revenue	<u>9,767,969</u>	<u>-</u>	<u>1,878,119</u>	<u>(471,406)</u>	<u>11,174,682</u>
<b>Operating expenses:</b>					
Development costs	5,055,984	-	238,341	-	5,294,325
Adjustment to net realizable value	418,386	-	-	-	418,386
Salaries and benefits	546,021	-	-	-	546,021
General and administrative	1,825,613	1,515	264,130	-	2,091,258
Management fee	91,454	-	-	-	91,454
Depreciation	77,916	-	4,120,464	-	4,198,380
Total operating expenses	<u>8,015,374</u>	<u>1,515</u>	<u>4,622,935</u>	<u>-</u>	<u>12,639,824</u>
Operating income (loss)	1,752,595	(1,515)	(2,744,816)	(1) (471,406)	(1,465,142)
<b>Nonoperating revenues (expenses):</b>					
Interest income	1,081	-	197	-	1,278
Amortization expense	-	-	(74,872)	-	(74,872)
Interest expense	(28,116)	(471,406)	(905,294)	(1) 471,406	(933,410)
Total nonoperating revenues (expenses)	<u>(27,035)</u>	<u>(471,406)</u>	<u>(979,969)</u>	<u>471,406</u>	<u>(1,007,004)</u>
Change in net position	1,725,560	(472,921)	(3,724,785)	-	(2,472,146)
Net position (deficit) - beginning of year	82,204,170	(485,509)	42,219,146	(1) (45,333,911)	78,603,896
Add: capital contributions	<u>-</u>	<u>(5,400,752)</u>	<u>6,140,656</u>	<u>(1) (129,015)</u>	<u>610,889</u>
Net position (deficit) - end of year	<u>\$ 83,929,730</u>	<u>\$ (6,359,182)</u>	<u>\$ 44,635,017</u>	<u>\$ (45,462,926)</u>	<u>\$ 76,742,639</u>

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

## **INTERNAL CONTROL AND COMPLIANCE**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Buffalo Urban Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Buffalo Urban Development Corporation (BUDC) as of and for the year ended December 31, 2020, and the related notes to the consolidated financial statements, which collectively comprise BUDC's consolidated financial statements, and have issued our report thereon dated March 30, 2021. The financial statements of 683 Northland, LLC were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with 683 Northland, LLC.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered BUDC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion of the effectiveness of BUDC's internal control. Accordingly, we do not express an opinion of the effectiveness of BUDC's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the BUDC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BUDC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of BUDC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BUDC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 30, 2021





## **INDEPENDENT ACCOUNTANT'S REPORT**

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

We have examined the Buffalo Urban Development Corporation's (the "BUDC") compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") for the period January 1, 2020 to December 31, 2020. Management of the BUDC is responsible for the BUDC's compliance with the specified requirements. Our responsibility is to express an opinion on the BUDC's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the BUDC complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the BUDC complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the BUDC's compliance with specified requirements.

In our opinion, the BUDC complied, in all material respects, with the Investment Guidelines for the period January 1, 2020 to December 31, 2020.

This report is intended solely for the information and use of the Board of Directors, management and others within the BUDC and the New York State Authorities Budget Office 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 30, 2021