

**AUDITED  
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT  
CORPORATION**

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**DECEMBER 31, 2017**

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# BUFFALO URBAN DEVELOPMENT CORPORATION

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## **FINANCIAL SECTION**

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## 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), a business-type activity, which comprise the statement of net position as of December 31, 2017, the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### 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 audit. We conducted our audit 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.

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 the entity'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 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 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, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

The financial statements of BUDC as of and for the year ended December 31, 2016 were audited by other auditors whose report dated March 14, 2017 expressed an unmodified opinion on those statements.

### *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 an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

The supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated 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, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the consolidated 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 19, 2018 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 19, 2018



## **BUFFALO URBAN DEVELOPMENT CORPORATION**

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

**December 31, 2017**

**(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, 2017 and 2016. 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, which will be the location of the Western New York Workforce Training Center (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.

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

Included in this Annual Report are the following financial statements:

- 1) Consolidated 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) Consolidated 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) Consolidated 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 97% from \$16,637,000 in 2016 to \$32,714,000 in 2017 primarily due to grant revenue recognized for capital outlays related to development activity at the Training Center.
- BUDC experienced an increase in net position of \$16,076,000 in 2017 compared to an increase of \$1,901,000 in 2016 due to the above-mentioned grant revenue.
- BUDC's total assets increased by \$23,263,000 primarily due to \$22,192,000 of capital asset additions, the majority of which related to the Training Center. Increases in cash (\$9,420,000) and loans receivable (\$8,916,000), coupled with a decrease in receivables of \$12,311,000 comprise the rest of the increase.
- BUDC's total liabilities increased \$7,186,000 as a result of a \$13,732,000 increase in loans payable and \$3,362,000 increase in accounts payable, combined with a \$4,385,000 decrease in unearned grant revenue.

## 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, 2017 and 2016**  
(Amounts in thousands)

|   | <u>2017</u>      | <u>2016</u>      | <u>\$ Change</u> | <u>% Change</u> |
|---|------------------|------------------|------------------|-----------------|
| <b>Assets:</b>                            |                  |                  |                  |                 |
| Cash                                      | \$ 11,307        | \$ 1,887         | \$ 9,420         | 499%            |
| Receivables                               | 14,262           | 26,573           | (12,311)         | -46%            |
| Restricted cash                           | 3,198            | 2,848            | 350              | 12%             |
| Other current assets                      | 473              | 116              | 357              | 308%            |
| Loans receivable                          | 10,416           | 1,500            | 8,916            | 594%            |
| Capital assets, net                       | 6,863            | 5,666            | 1,197            | 21%             |
| Construction in process                   | 15,334           | -                | 15,334           | 100%            |
| Land and improvements held for sale       | 3,997            | 3,997            | -                | 0%              |
| <b>Total assets</b>                       | <b>\$ 65,850</b> | <b>\$ 42,587</b> | <b>\$ 23,263</b> | <b>55%</b>      |
| <b>Liabilities:</b>                       |                  |                  |                  |                 |
| Current liabilities                       | \$ 19,147        | \$ 25,693        | \$ (6,546)       | -25%            |
| Long-term liabilities                     | 13,989           | 257              | 13,732           | 5343%           |
| <b>Total liabilities</b>                  | <b>33,136</b>    | <b>25,950</b>    | <b>7,186</b>     | <b>28%</b>      |
| <b>Net position:</b>                      |                  |                  |                  |                 |
| Net investment in capital assets          | 8,467            | 5,666            | 2,801            | 49%             |
| Restricted                                | 5,254            | 4,019            | 1,235            | 31%             |
| Unrestricted                              | 18,993           | 6,952            | 12,041           | 173%            |
| <b>Total net position</b>                 | <b>32,714</b>    | <b>16,637</b>    | <b>16,077</b>    | <b>97%</b>      |
| <b>Total liabilities and net position</b> | <b>\$ 65,850</b> | <b>\$ 42,587</b> | <b>\$ 23,263</b> | <b>55%</b>      |

**Cash** – Cash increased \$9,420,000 due to loans received by 683 Northland from NMTC investors and grant reimbursements received by BUDC.

**Receivables** – Receivables include grant and other receivables owed as a result of BUDC's development projects. The \$12,311,000 decrease is primarily due to receipt of grant funds from the New York Power Authority (NYPA) and Empire State Development Corporation (ESD) for the development of the Northland Corridor on the East Side of Buffalo.

**Restricted cash** – Restricted cash relates primarily to the Buffalo Brownfields Redevelopment Fund (the Fund) held by the Erie County Industrial Development Agency (ECIDA) on behalf of BUDC. The Fund increased by a net \$146,000 as a result of BBRF activity, including tax receipts less expenditures for eligible Northland Corridor, BLCP, and Riverbend costs.

**Loans receivable** – Loans receivable increased by \$8,916,000 due mainly to a \$9,666,000 loan provided by BUDC to an investment fund in order to leverage NMTC funds. In addition, a \$750,000 loan for an adaptive reuse project made by the BBRP loan fund was repaid during the year.

**Capital assets, net** – Capital assets net of accumulated depreciation increased \$1,197,000 primarily from the improvements made at 537 East Delavan Avenue.

**Construction in process** – Construction in process increased \$15,334,000 in 2017 due to the capitalization and reclassification of the building and improvements at 683 Northland Avenue.

**Land and improvements held for sale** – Land and improvements held for sale represents the property held at BLCP 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 \$6,546,000 decrease in current liabilities was primarily due to recognition of \$15,571,000 of grant revenue to BUDC for Northland Corridor redevelopment, offset by new grant awards of \$5,662,000 and a \$3,362,000 increase in accounts payable.

**Long-term liabilities** – Long-term liabilities increased \$13,732,000 due to loans received by 683 Northland from NMTC investors. Also included in the balance is a note payable to the former owner of certain BLCP property.

## 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, 2017 and 2016**  
(Amounts in thousands)

## 3. Revenue and Expense Analysis:

**Grants** – Grant income includes income from ESD, NYPA and the City of Buffalo for the Northland project, as well as from National Grid and ECIDA for the BBRP. Grant income is recognized as the related grant expenses are incurred. In 2017, \$15,571,000 of grant revenue was recognized for the Northland project and \$325,000 for BBRP. The increase of \$14,199,000 over 2016 reflects the amount of work that was completed related to the Training Center in 2017.

**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 \$34,000 is the result of further development on the Northland properties.

|                                    | <u>2017</u> | <u>2016</u> | <u>\$ Change</u> | <u>% Change</u> |
|------------------------------------|-------------|-------------|------------------|-----------------|
| Revenue:                           |             |             |                  |                 |
| Grants                             | \$ 16,896   | \$ 2,697    | \$ 14,199        | 526%            |
| PILOT agreements                   | 501         | 504         | (3)              | -1%             |
| Other                              | 201         | 86          | 115              | 134%            |
|                                    | <hr/>       | <hr/>       | <hr/>            |                 |
| Total revenue                      | 17,598      | 3,287       | 14,311           | 435%            |
| Expenses:                          |             |             |                  |                 |
| Development costs                  | 558         | 524         | 34               | 6%              |
| Adjustment to net realizable value | 1,013       | 254         | 759              | 299%            |
| Salaries and benefits              | 444         | 420         | 24               | 6%              |
| General and administrative         | 193         | 148         | 45               | 30%             |
| Management fee                     | 53          | 40          | 13               | 33%             |
| Depreciation                       | 5           | 6           | (1)              | -17%            |
|                                    | <hr/>       | <hr/>       | <hr/>            |                 |
| Total expenses                     | 2,266       | 1,392       | 874              | 63%             |
| Operating income                   | 15,332      | 1,895       | 13,437           | 709%            |
| In-kind revenue                    | 730         | -           | 730              | 100%            |
| Interest income                    | 14          | 6           | 8                | 133%            |
|                                    | <hr/>       | <hr/>       | <hr/>            |                 |
| Change in net position             | \$ 16,076   | \$ 1,901    | \$ 14,175        | 746%            |

**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 \$24,000 or 6% due to wage and benefit increases, along with an increase in BUDC’s contribution to employees’ simplified employee pension.

**Management fee - ECIDA** – ECIDA’s 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.

**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.

#### 4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC’s 2017 budget was presented and approved by the Board of Directors on October 25, 2016. The following table (Table 3) presents an analysis of BUDC’s performance compared to the approved 2017 budget.

**Table 3**  
**Budget to Actual Analysis for the year ended December 31, 2017**  
(Amounts in thousands)

|                                    | <u>Actual</u> | <u>Original Budget</u> | <u>Actual to Budget</u> |                 |
|------------------------------------|---------------|------------------------|-------------------------|-----------------|
|                                    |               |                        | <u>\$ Change</u>        | <u>% Change</u> |
| Revenue:                           |               |                        |                         |                 |
| Grants                             | \$ 16,896     | \$ 27,880              | \$ (10,984)             | -39%            |
| Brownfield fund revenue            | 501           | 489                    | 12                      | 2%              |
| Other income                       | 201           | 129                    | 72                      | 56%             |
|                                    | <hr/>         | <hr/>                  | <hr/>                   | <hr/>           |
| Total revenue                      | 17,598        | 28,498                 | (10,900)                | -38%            |
| Expenses:                          |               |                        |                         |                 |
| Development costs                  | 558           | 505                    | 53                      | 10%             |
| Adjustment to net realizable value | 1,013         | -                      | 1,013                   |                 |
| Salaries and benefits              | 444           | 446                    | (2)                     | 0%              |
| General and administrative         | 193           | 708                    | (515)                   | -73%            |
| Management fee - ECIDA             | 53            | 61                     | (8)                     | -13%            |
| Depreciation                       | 5             | 119                    | (114)                   | -96%            |
|                                    | <hr/>         | <hr/>                  | <hr/>                   | <hr/>           |
| Total expenses                     | 2,266         | 1,839                  | 427                     | 23%             |
| Operating income (loss)            | 15,332        | 26,659                 | (11,327)                | -42%            |
| In-kind revenue                    | 730           | -                      | 730                     | 100%            |
| Interest income                    | 14            | 8                      | 6                       | 75%             |
|                                    | <hr/>         | <hr/>                  | <hr/>                   | <hr/>           |
| Change in net position             | \$ 16,076     | \$ 26,667              | \$ (10,591)             | -40%            |

Note: The original 2017 budget was not amended; therefore, only one budget column is presented.

#### Budget to Actual Analysis:

Overall, BUDC’s change in net position fell below the budget by \$10,591,000. Grant revenue was \$10,984,000 below budget due to lower than anticipated recognition of NYPA, ESD, and National Grid grant revenue related to the Northland project. Development expenses (included fair value adjustments) of \$1,571,000 were over budget by \$1,518,000. \$16,536,000 of expenses were capitalized during 2017.

## **5. Economic Factors Impacting BUDC:**

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

## **6. Requests for Information:**

This financial report is designed to provide a general overview of BUDC's finances. Questions concerning any of the financial information provided in this report should be addressed to the CFO 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,**

| <b>ASSETS</b>                                  | <u>2017</u>              | <u>2016</u>              |
|--|--------------------------|--------------------------|
| <b>Current assets:</b>                         |                          |                          |
| Cash   | \$ 11,307,516            | \$ 1,886,957             |
| Grants receivable                              | 14,261,804               | 26,573,540               |
| Restricted cash                                | 3,197,630                | 2,848,080                |
| Other current assets                           | <u>472,826</u>           | <u>115,689</u>           |
| Total current assets                           | <u>29,239,776</u>        | <u>31,424,266</u>        |
| <b>Noncurrent assets:</b>                      |                          |                          |
| Loans receivable, net                          | 10,416,400               | 1,500,000                |
| Capital assets, net                            | 6,862,723                | 5,666,299                |
| Construction in process                        | 15,334,049               | -                        |
| Land and improvements held for sale, net       | <u>3,996,668</u>         | <u>3,996,668</u>         |
| Total noncurrent assets                        | <u>36,609,840</u>        | <u>11,162,967</u>        |
| <br>Total assets                               | <br><u>\$ 65,849,616</u> | <br><u>\$ 42,587,233</u> |
| <br><b>LIABILITIES</b>                         |                          |                          |
| <b>Current liabilities:</b>                    |                          |                          |
| Accounts payable and accrued expenses          | \$ 3,809,969             | \$ 448,374               |
| Unearned grant revenue                         | <u>15,336,932</u>        | <u>25,244,081</u>        |
| Total current liabilities                      | <u>19,146,901</u>        | <u>25,692,455</u>        |
| <b>Noncurrent liabilities:</b>                 |                          |                          |
| Loans payable                                  | 13,731,642               | -                        |
| Note payable                                   | <u>257,381</u>           | <u>257,381</u>           |
| Total noncurrent liabilities                   | <u>13,989,023</u>        | <u>257,381</u>           |
| <br><b>NET POSITION</b>                        |                          |                          |
| Net investment in capital assets (net of debt) | 8,466,772                | 5,666,299                |
| Restricted                                     | 5,254,198                | 4,019,034                |
| Unrestricted                                   | <u>18,992,722</u>        | <u>6,952,064</u>         |
| Total net position                             | <u>32,713,692</u>        | <u>16,637,397</u>        |
| <br>Total liabilities and net position         | <br><u>\$ 65,849,616</u> | <br><u>\$ 42,587,233</u> |

See accompanying notes.

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

|  | <u>2017</u>          | <u>2016</u>          |
|--|----------------------|----------------------|
| <b>Operating revenues:</b>               |                      |                      |
| Grant revenue                            | \$ 16,895,680        | \$ 2,696,743         |
| Brownfield funds                         | 501,294              | 504,026              |
| Loan interest and commitment fees        | 125,787              | 73,657               |
| Rental and other revenue                 | 74,806               | 12,775               |
| Total operating revenues                 | <u>17,597,567</u>    | <u>3,287,201</u>     |
| <b>Operating expenses:</b>               |                      |                      |
| Development costs                        | 557,688              | 524,385              |
| Adjustment to net realizable value       | 1,012,693            | 253,993              |
| Salaries and benefits                    | 444,407              | 420,276              |
| General and administrative               | 193,486              | 147,485              |
| Management fee                           | 52,541               | 40,257               |
| Depreciation                             | 5,275                | 5,690                |
| Total operating expenses                 | <u>2,266,090</u>     | <u>1,392,086</u>     |
| Operating income                         | 15,331,477           | 1,895,115            |
| <b>Nonoperating revenues (expenses):</b> |                      |                      |
| Interest income                          | 14,470               | 5,685                |
| In-kind revenue                          | 730,348              | -                    |
| Total nonoperating revenues              | <u>744,818</u>       | <u>5,685</u>         |
| Change in net position                   | 16,076,295           | 1,900,800            |
| Net position - beginning of year         | <u>16,637,397</u>    | <u>14,736,597</u>    |
| Net position - end of year               | <u>\$ 32,713,692</u> | <u>\$ 16,637,397</u> |

See accompanying notes.



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

|   | <u>2017</u>          | <u>2016</u>         |
|---|----------------------|---------------------|
| <b>Cash flows from operating activities:</b>  |                      |                     |
| Amounts received from Brownfields funds   | \$ 349,595           | \$ 436,462          |
| Grants received   | 19,300,267           | 2,258,979           |
| Receipts from loans and commitment fees   | 125,787              | 73,657              |
| Other revenue   | 74,806               | 12,775              |
| Payments on loans issued  | (8,916,400)          | (1,500,000)         |
| Payments to employees, suppliers, and other   | (1,536,982)          | (1,242,600)         |
| <b>Net cash provided by operating activities</b>  | <u>9,397,073</u>     | <u>39,273</u>       |
| <b>Cash flows from capital and related financing activities:</b>                              |                      |                     |
| Acquisition and construction of capital assets  | (13,373,110)         | (1,056,458)         |
| Proceeds from loans   | 13,731,676           | -                   |
| <b>Net cash provided (used) by capital and related financing activities</b>                   | <u>358,566</u>       | <u>(1,056,458)</u>  |
| <b>Cash flows from investing activities:</b>  |                      |                     |
| Change in restricted cash   | (349,550)            | (89,315)            |
| Interest earned   | 14,470               | 5,685               |
| <b>Net cash used by investing activities</b>  | <u>(335,080)</u>     | <u>(83,630)</u>     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                   | <b>9,420,559</b>     | <b>(1,100,815)</b>  |
| <b>Cash and cash equivalents - beginning of year</b>  | <u>1,886,957</u>     | <u>2,987,772</u>    |
| <b>Cash and cash equivalents - end of year</b>  | <u>\$ 11,307,516</u> | <u>\$ 1,886,957</u> |
| <b>Reconciliation of income from operations to net cash provided by operating activities:</b> |                      |                     |
| Income from operations  | \$ 15,331,477        | \$ 1,895,115        |
| Adjustment to reconcile income from operations to net cash provided by operating activities:  |                      |                     |
| Depreciation  | 5,275                | 5,690               |
| Net realizable value adjustment   | 1,012,693            | 253,993             |
| Change in assets and liabilities:   |                      |                     |
| (Increase) decrease in:   |                      |                     |
| Grants receivable   | 2,404,553            | (437,764)           |
| Other current assets  | (357,137)            | (80,525)            |
| Loans receivable  | (8,916,400)          | (1,500,000)         |
| Increase (decrease) in:   |                      |                     |
| Accounts payable and accrued expenses   | (83,388)             | (97,236)            |
| <b>Net cash provided by operating activities</b>  | <u>\$ 9,397,073</u>  | <u>\$ 39,273</u>    |
| <b>Noncash transactions:</b>  |                      |                     |
| In-kind revenue   | \$ 730,348           | \$ -                |
| Capital asset purchases not yet disbursed   | 3,444,983            | 259,656             |
| Grants receivable but not yet earned  | 15,336,932           | 24,310,161          |

See accompanying notes.

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## **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 (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) which 683 WTC, LLC has a 95% equity interest holding in.

In accordance with accounting standards, BUDC is not considered a component unit of another entity.

##### **B. BASIS OF PRESENTATION**

Revenues from grants, Brownfields funds, rental 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. 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 revolving 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.

## **F. 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.

## **G. CASH AND RESTRICTED CASH**

The 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. The proceeds restricted cash relates to the revolving loan activity of BUDC.

## **H. 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.

## **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. PREPAID EXPENSES

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

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

## L. STATEMENT OF CASH FLOWS

For the purposes of the statement of cash flows, the BUDC considers all cash to be all unrestricted and restricted cash and demand accounts.

## M. ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2017, BUDC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*; Statement No. 81, *Split-Interest Agreements*; and Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and 73*.

The primary object of Statement No. 73 is to improve the usefulness of information about pensions included in the financial statements that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

The primary objective of Statement No. 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

The primary objective of Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.

The primary objective of Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

BUDC has evaluated Statements No. 73, 74, 80, 81, and 82 and have determined that they have no impact on BUDC's operations.

The GASB has issued the following new pronouncements:

- Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending December 31, 2018;

- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending December 31, 2019;
- Statement No. 84, *Fiduciary Activities*, which will be effective for the year ending December 31, 2019;
- Statement No. 85, *Omnibus*, which will be effective for the year ending December 31, 2018;
- Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ending December 31, 2018; and
- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2020.

BUDC is currently reviewing these statements and plans on adoption, as required.

## **N. 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.

### **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 and obligations of the State and its municipalities and school districts.

As of December 31, 2017 and 2016, 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 Controller.

#### 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.

### 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 at December 31, 2017 and 2016 were \$ \$750,000 and \$1,500,000, respectively. Interest payments are due monthly and principal is due at maturity, in January 2019.

During the year BUDC made a loan in the amount of \$9,666,400 to Northland NMTC Investment Fund, LLC. (NMTC). Interest shall accrue at the rate of one percent (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 2017 and 2016.

|                        | <u>2017</u>          | <u>2016</u>         |
|------------------------|----------------------|---------------------|
| Total loans receivable | \$ <u>10,416,400</u> | \$ <u>1,500,000</u> |

#### NOTE 4. CAPITAL ASSETS

Capital asset activity for the BUDC for the year ended December 31, 2017 was as follows:

|  | <u>Balance</u><br><u>01/1/17</u> | <u>Additions</u>     | <u>Deletions</u> | <u>Balance</u><br><u>12/31/17</u> |
|--|----------------------------------|----------------------|------------------|-----------------------------------|
| Non-depreciable capital assets                 |                                  |                      |                  |                                   |
| Land   | \$ 515,623                       | \$ -                 | \$ -             | \$ 515,623                        |
| Construction work in process                   | -                                | 15,334,032           |                  | 15,334,032                        |
| Idle buildings and improvements                | <u>5,140,519</u>                 | <u>1,201,700</u>     | <u>-</u>         | <u>6,342,219</u>                  |
| Total non-depreciable capital assets           | <u>5,656,142</u>                 | <u>16,535,732</u>    | <u>-</u>         | <u>22,191,874</u>                 |
| Depreciable capital assets:                    |                                  |                      |                  |                                   |
| Furniture and equipment                        | 23,569                           | -                    | -                | 23,569                            |
| Less accumulated depreciation                  | <u>13,412</u>                    | <u>5,276</u>         | <u>-</u>         | <u>18,688</u>                     |
| Total depreciable assets, net                  | <u>10,157</u>                    | <u>(5,276)</u>       | <u>-</u>         | <u>4,881</u>                      |
| Total capital assets<br>being depreciated, net | <u>\$ 5,666,299</u>              | <u>\$ 16,530,456</u> | <u>\$ -</u>      | <u>\$22,196,755</u>               |
|  | <u>Balance</u><br><u>01/1/16</u> | <u>Additions</u>     | <u>Deletions</u> | <u>Balance</u><br><u>12/31/16</u> |
| Non-depreciable capital assets                 |                                  |                      |                  |                                   |
| Land   | \$ 515,623                       | \$ -                 | \$ -             | \$ 515,623                        |
| Idle Building and improvements                 | <u>4,078,398</u>                 | <u>1,062,121</u>     | <u>-</u>         | <u>5,140,519</u>                  |
| Total non-depreciable capital assets           | <u>4,594,021</u>                 | <u>1,062,121</u>     | <u>-</u>         | <u>5,656,142</u>                  |
| Depreciable capital assets:                    |                                  |                      |                  |                                   |
| Furniture and equipment                        | 23,569                           |                      | -                | 23,569                            |
| Less accumulated depreciation                  | <u>7,722</u>                     | <u>5,690</u>         | <u>-</u>         | <u>13,412</u>                     |
| Total depreciable assets, net                  | <u>15,847</u>                    | <u>(5,690)</u>       | <u>-</u>         | <u>10,157</u>                     |
| Total capital assets                           | <u>\$ 4,609,868</u>              | <u>\$ 1,056,431</u>  | <u>\$ -</u>      | <u>\$5,666,299</u>                |

Land, buildings, and improvements related to the Northland Corridor amounted to \$22,191,874 and \$5,656,142 at December 31, 2017 and 2016. 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 11), 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 \$1,007,433 and \$249,868 for the years ended December 31, 2017 and 2016.



**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.

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>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| BLCP                                     | \$ 9,085,843        | \$ 9,080,583        |
| Less adjustment to net realizable value  | <u>5,089,175</u>    | <u>5,083,915</u>    |
| Total land held for development and sale | <u>\$ 3,996,668</u> | <u>\$ 3,996,668</u> |

**NOTE 6. GRANTS RECEIVABLE AND UNEARNED GRANT 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) and also awarded a \$15,000,000 grant from the New York Power Authority (NYPA) for the renovation and restoration of the Training Center.

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. BUDC also was awarded grants in the amount of \$550,000 from National Grid for the Project in the current year.

Grants are recognized at the time awarded, with timing differences resulting from funds spent and earned.

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

|                         | <u>2017</u>          | <u>2016</u>         |
|-------------------------|----------------------|---------------------|
| Grants receivable:      |                      |                     |
| ESD                     | \$ 10,100,970        | \$11,568,364        |
| National Grid           | 550,000              | -                   |
| City                    | 605,957              | -                   |
| NYPA                    | 3,000,000            | 15,000,000          |
| Other                   | <u>4,877</u>         | <u>5,176</u>        |
|                         | <u>\$ 14,261,804</u> | <u>\$26,573,540</u> |
| Unearned grant revenue: |                      |                     |
| ESD                     | \$ 7,735,171         | \$10,243,001        |
| National Grid           | 550,000              | -                   |
| City                    | 279,074              | -                   |
| NYPA                    | 6,771,607            | 15,000,000          |
| Other                   | <u>1,080</u>         | <u>1,080</u>        |
|                         | <u>\$ 15,336,932</u> | <u>\$25,244,081</u> |

## NOTE 7. 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, 2017 and 2016, 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 8. LOANS PAYABLE

During the year Northland borrowed amounts totaling \$13,730,000 related to the Northland Corridor project from BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. Interest shall accrue at the rate of one percent (1.33776%) and is due quarterly. Interest only payments from the date of agreement, which was December 28, 2017, through December 31, 2024 are payable quarterly. Principal and interest shall be paid quarterly commencing December 31, 2024 until the maturity date of December 28, 2052. Northland also received investor funds in the amount of \$1,642 for which there are no stated repayment terms.

Current maturities of loans payable are as follows for the years ending December 31:

|           | <b>Principal</b>    | <b>Interest</b>    |
|-----------|---------------------|--------------------|
| 2018      | \$ -                | \$ 165,727         |
| 2019      | -                   | 165,727            |
| 2020      | -                   | 165,727            |
| 2021      | -                   | 165,727            |
| 2022      | -                   | 165,727            |
| 2023-2027 | 1,328,909           | 804,762            |
| 2028-2032 | 2,160,498           | 687,221            |
| 2033-2037 | 2,309,695           | 552,603            |
| 2038-2042 | 2,469,194           | 408,689            |
| 2043-2047 | 2,639,708           | 254,837            |
| 2048-2052 | <u>2,821,996</u>    | <u>90,360</u>      |
| Total     | <u>\$13,730,000</u> | <u>\$3,627,107</u> |

## NOTE 9. RESTRICTED NET POSITION

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$2,104,162 and \$1,958,237 at December 31, 2017 and 2016, respectively and a revolving loan fund in the amount of \$3,150,036 and \$2,060,797 at December 31, 2017 and 2016, respectively.

## NOTE 10. NOTE RECEIVABLE WTC

BUDC and WTC have a note agreement in the amount of \$25,243,639 whereby BUDC will advance proceeds to WTC as requested. The note carries an interest rate of one percent (1%), compounded annually and the note is for a period of thirty years. The balance of the note plus accrued interest is due upon the maturity date of December 28, 2047. The total outstanding balance on this note at December 31, 2017 is \$10,447,254.

**NOTE 11. 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 12. SUBSEQUENT EVENTS**

BUDC was awarded grants totaling \$31,000,000 from ESD for equipment and the Workforce Training Center in January and February 2018. These financial statements have not been updated for subsequent events occurring after March 19, 2018 which is the date these financial statements were available to be issued.

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## **SUPPLEMENTARY INFORMATION**

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**BUFFALO URBAN DEVELOPMENT CORPORATION  
CONSOLIDATING STATEMENTS OF NET POSITION  
DECEMBER 31, 2017**

|  | <b>Buffalo Urban<br/>Development<br/>Corporation</b> | <b>683 WTC<br/>LLC</b> | <b>683 Northland<br/>LLC</b> | <b>Eliminations</b>    | <b>Total</b>         |
|--|--|------------------------|------------------------------|------------------------|----------------------|
| <b>ASSETS</b>                            |  |                        |                              |                        |                      |
| <b>Current assets:</b>                   |  |                        |                              |                        |                      |
| Cash and cash equivalents                | \$ 3,236,850   | \$ -                   | \$ 8,070,666                 | \$ -                   | \$ 11,307,516        |
| Grants receivable                        | 14,261,804   | -                      | -                            | -                      | 14,261,804           |
| Restricted cash                          | 3,197,630  | -                      | -                            | -                      | 3,197,630            |
| Other current assets                     | 310,558  | -                      | 163,127                      | (859)                  | 472,826              |
| Total current assets                     | <u>21,006,842</u>                                    | <u>-</u>               | <u>8,233,793</u>             | <u>(859)</u>           | <u>29,239,776</u>    |
| <b>Noncurrent assets:</b>                |  |                        |                              |                        |                      |
| Loans receivable                         | 20,863,654   | -                      | -                            | (1) (10,447,254)       | 10,416,400           |
| Equity investment                        | -  | 10,447,254             | -                            | (1) (10,447,254)       | -                    |
| Capital assets, net                      | 2,804,987  | -                      | 4,057,736                    | -                      | 6,862,723            |
| Construction in process                  | -  | -                      | 15,334,049                   | -                      | 15,334,049           |
| Land and improvements held for sale, net | 3,996,668  | -                      | -                            | -                      | 3,996,668            |
| Total noncurrent assets                  | <u>27,665,309</u>                                    | <u>10,447,254</u>      | <u>19,391,785</u>            | <u>(20,894,508)</u>    | <u>36,609,840</u>    |
| Total assets                             | <u>\$ 48,672,151</u>                                 | <u>\$ 10,447,254</u>   | <u>\$ 27,625,578</u>         | <u>\$ (20,895,367)</u> | <u>\$ 65,849,616</u> |
| <b>LIABILITIES</b>                       |  |                        |                              |                        |                      |
| <b>Current liabilities:</b>              |  |                        |                              |                        |                      |
| Accounts payable and accrued expenses    | \$ 363,459   | \$ 859                 | \$ 3,446,510                 | (1) \$ (859)           | \$ 3,809,969         |
| Unearned grant revenue                   | 15,336,932   | -                      | -                            | -                      | 15,336,932           |
| Total liabilities                        | <u>15,700,391</u>                                    | <u>859</u>             | <u>3,446,510</u>             | <u>(859)</u>           | <u>19,146,901</u>    |
| <b>Noncurrent liabilities:</b>           |  |                        |                              |                        |                      |
| Loans payable                            | -  | 10,447,254             | 13,930,002                   | (1) (10,645,614)       | 13,731,642           |
| Note payable                             | 257,381  | -                      | -                            | -                      | 257,381              |
| Total noncurrent liabilities             | <u>257,381</u>                                       | <u>10,447,254</u>      | <u>13,930,002</u>            | <u>(10,645,614)</u>    | <u>13,989,023</u>    |
| <b>NET POSITION</b>                      |  |                        |                              |                        |                      |
| Net investment in capital assets         | 2,804,987  | -                      | 5,661,785                    | -                      | 8,466,772            |
| Restricted                               | 5,254,198  | -                      | -                            | -                      | 5,254,198            |
| Unrestricted                             | 24,655,194   | (859)                  | 4,587,281                    | (1) (10,248,894)       | 18,992,722           |
| Total net position                       | <u>32,714,379</u>                                    | <u>(859)</u>           | <u>10,249,066</u>            | <u>(10,248,894)</u>    | <u>32,713,692</u>    |
| Total liabilities and net position       | <u>\$ 48,672,151</u>                                 | <u>\$ 10,447,254</u>   | <u>\$ 27,625,578</u>         | <u>\$ (20,895,367)</u> | <u>\$ 65,849,616</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, 2017**

|  | <b>Buffalo Urban<br/>Development<br/>Corporation</b> | <b>683 WTC<br/>LLC</b> | <b>683 Northland<br/>LLC</b> | <b>Eliminations</b>    | <b>Total</b>         |
|--|--|------------------------|------------------------------|------------------------|----------------------|
| <b>Operating revenues:</b>               |  |                        |                              |                        |                      |
| Grant revenue                            | \$ 16,895,680  | \$ -                   | \$ -                         | \$ -                   | \$ 16,895,680        |
| Brownfield funds                         | 501,294  | -                      | -                            | -                      | 501,294              |
| Loan interest and commitment fees        | 125,787  | -                      | -                            | -                      | 125,787              |
| Rental and other revenue                 | 75,665   | -                      | -                            | (859)                  | 74,806               |
| Total operating revenue                  | <u>17,598,426</u>                                    | <u>-</u>               | <u>-</u>                     | <u>(859)</u>           | <u>17,597,567</u>    |
| <b>Operating expenses:</b>               |  |                        |                              |                        |                      |
| Development costs                        | 557,688  | -                      | -                            | -                      | 557,688              |
| Adjustment to net realizable value       | 1,012,693  | -                      | -                            | -                      | 1,012,693            |
| Salaries and benefits                    | 444,407  | -                      | -                            | -                      | 444,407              |
| General and administrative               | 193,486  | -                      | -                            | -                      | 193,486              |
| Management fee                           | 52,541   | -                      | -                            | -                      | 52,541               |
| Depreciation                             | 5,275  | -                      | -                            | -                      | 5,275                |
| Total operating expenses                 | <u>2,266,090</u>                                     | <u>-</u>               | <u>-</u>                     | <u>-</u>               | <u>2,266,090</u>     |
| Operating income                         | 15,332,336   | -                      | -                            | (859)                  | 15,331,477           |
| <b>Nonoperating revenues (expenses):</b> |  |                        |                              |                        |                      |
| Interest income                          | 14,298   | -                      | 172                          | (1)                    | -                    |
| In-kind revenue                          | 730,348  | -                      | -                            | -                      | -                    |
| Interest expense                         | -  | (859)                  | -                            | (1)                    | 859                  |
| Total nonoperating revenues (expenses)   | <u>744,646</u>                                       | <u>(859)</u>           | <u>172</u>                   | <u>859</u>             | <u>-</u>             |
| Change in net position                   | 16,076,982   | (859)                  | 172                          | -                      | 16,076,295           |
| Net position - beginning of year         | 16,637,397   | -                      | -                            | -                      | 16,637,397           |
| Add: capital contributions               | -  | -                      | 10,248,894                   | (10,248,894)           | -                    |
| Net position - end of year               | <u>\$ 32,714,379</u>                                 | <u>\$ (859)</u>        | <u>\$ 10,249,066</u>         | <u>\$ (10,248,894)</u> | <u>\$ 32,713,692</u> |



**FEDERAL FINANCIAL ASSISTANCE**

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**BUFFALO URBAN DEVELOPMENT CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017**

| <b>Federal Grantor/Pass-Through<br/>Grantor/Program Title</b>  | <b>Federal CFDA<br/>Number</b> | <b>Entity Identifying<br/>Number</b> | <b>Passed-through to<br/>Subrecipients</b> | <b>Disbursements/<br/>Expenditures</b> |
|--|--------------------------------|--------------------------------------|--|--|
| <b><u>U.S. Department of Housing and Urban Development</u></b> |                                |                                      |  |  |
| <i>Passed through City of Buffalo, New York</i>                |                                |                                      |  |  |
| Community Development Block Grants/<br>Entitlement Grants      | 14.218                         | B-15-MC-36-0001                      | --   | \$ 2,920,926                           |
| <b>Total Expenditures of Federal Awards</b>                    |                                |                                      |  | <b><u>\$ 2,920,926</u></b>             |

See notes to schedule of expenditures of federal awards.

**BUFFALO URBAN DEVELOPMENT CORPORATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of the federal financial assistance programs administered by the Buffalo Urban Development Corporation (BUDC), an entity as defined in Note 1 to the BUDC's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Federal awards passed through from other governmental agencies are included in the schedule. Because the schedule presents only a selected portion of the operations of BUDC, it is not intended and does not present the financial position, changes in net position, or cash flows of BUDC.

**NOTE 2 - BASIS OF ACCOUNTING**

The Schedule is presented using the accrual basis of accounting. The amounts reported as federal expenditures were obtained from BUDC's financial reporting system, which is the source of BUDC's financial statements.

**NOTE 3 - INDIRECT COST RATE**

BUDC has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

## **INTERNAL CONTROL AND COMPLIANCE**

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**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 Members 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) a business-type activity, as of and for the year ended December 31, 2017, 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 19, 2018.

**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) to determine the 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 determination of consolidated financial statement amounts. 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 19, 2018



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the  
Buffalo Urban Development Corporation

**Report on Compliance for Each Major Federal Program**

We have audited the Buffalo Urban Development Corporation's (BUDC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of BUDC's major federal programs for the year ended December 31, 2017. BUDC's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of BUDC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BUDC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on BUDC's compliance.

**Opinion on Each Major Federal Program**

In our opinion, BUDC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

## Report on Internal Control over Compliance

Management of BUDC is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RDC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BUDC's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 19, 2018

**BUFFALO URBAN DEVELOPMENT CORPORATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2017**

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**I. SUMMARY OF THE AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

Noncompliance material to financial statements noted?

Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None Reported

Type of auditor's report issued on compliance for major programs:

Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes  No

Identification of major programs:

CFDA Number(s)

Name of Federal Program

14.218

Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between type A and type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

Yes  No

**II. FINDINGS – FINANCIAL STATEMENT AUDIT**

There were no findings related to the financial statement audit noted in the current year.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

There were no findings or questioned costs related to federal awards noted in the current year.

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## **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, 2017 through December 31, 2017. 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 aforementioned requirements for the period January 1, 2017 through December 31, 2017.

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 19, 2018

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