

**AUDITED
CONSOLIDATED FINANCIAL STATEMENTS**

**BUFFALO URBAN DEVELOPMENT
CORPORATION**

DECEMBER 31, 2018

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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 statements of net position as of December 31, 2018 and 2017, the related statements of revenues, expenses and changes in net position and cash flows for the years 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 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 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, 2018 and 2017, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2019 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 15, 2019

BUFFALO URBAN DEVELOPMENT CORPORATION

Management's Discussion and Analysis

December 31, 2018

(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, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with BUDC's audited financial statements.

In 2017, BUDC's financial reporting entity expanded as a result of a tax credit transaction to bring historic tax credits (HTC) and new markets tax credit (NMTC) funding to the development project at 683 Northland Avenue (the Project), which will be the location of the Western New York 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 the managing member of 683 Northland Master Tenant, LLC (Master Tenant) and holds a 1% equity interest.

Basic Overview of the Financial Statements

Included in this Annual Report are the following financial statements:

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

Financial Highlights

- BUDC's net position increased by 16% from \$32,713,000 in 2017 to \$53,357,000 in 2018 primarily due to grant revenue recognized for capital outlays related to Phase I and Phase II of the Project at 683 Northland Avenue.
- BUDC experienced an increase in net position of \$18,595,000 in 2018 compared to an increase of \$16,076,000 in 2017 due mainly to the above-mentioned grant revenue.
- BUDC's total assets increased by \$67,297,000 primarily due to \$60,781,000 of capital asset additions, the majority of which related to the Project at 683 Northland Avenue. An increase in restricted cash of \$18,570,000 coupled with decreases in cash (\$6,883,000) and receivables (\$4,699,000) comprised the rest of the increase.
- BUDC's total liabilities increased \$46,653,000 as a result of a \$25,184,000 increase in loans payable, a \$6,986,000 increase in accounts payable, a \$4,991,000 increase in unearned grant revenue, \$4,924,000 in deferred developer fees and \$4,498,000 of deferred rent liability.

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, 2018 and 2017
(Amounts in thousands)

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Cash	\$ 4,312	\$ 11,094	\$ (6,782)	-61%
Receivables	9,563	14,262	(4,699)	-33%
Restricted cash	21,880	3,411	18,469	541%
Other current assets	616	473	143	30%
Loans receivable	10,416	10,416	-	0%
Equity investment	198	198	-	0%
Capital assets, net	67,644	6,594	61,050	926%
Construction in process	14,365	15,334	(969)	-6%
Land and improvements held for sale	4,082	3,997	85	2%
Total assets	\$ 133,076	\$ 65,779	\$ 67,297	102%
Liabilities:				
Current liabilities	\$ 31,124	\$ 19,147	\$ 11,977	63%
Long-term liabilities	48,595	13,919	34,676	249%
Total liabilities	79,719	33,066	46,653	141%
Net position:				
Net investment in capital assets	43,094	8,198	34,896	426%
Restricted	4,989	5,254	(265)	-5%
Unrestricted	5,274	19,261	(13,987)	-73%
Total net position	\$ 53,357	\$ 32,713	\$ 20,644	63%
Total liabilities and net position	\$ 133,076	\$ 65,779	\$ 67,297	102%

Cash – Cash decreased \$6,782,000 due primarily to capital outlays related to the Workforce Training Center and other development in the Northland Corridor.

Receivables – Receivables include grant and other receivables owed as a result of BUDC's development projects. The \$4,699,000 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 includes amounts held by the Erie County Industrial Development Agency (ECIDA) on behalf of BUDC related to the Buffalo Brownfields Redevelopment Fund and the Regionally Significant Project Fund. Also included in restricted cash are amounts received from ESD held in segregated imprest accounts, which may be drawn down upon approval from ESD. The increase of \$18,469,000 is mainly due to amounts held in these imprest accounts at year end.

Loans receivable – Loans receivable remained consistent from 2017 to 2018, as no new loans were made.

Capital assets, net – Capital assets net of accumulated depreciation increased \$61,050,000 primarily due to the capitalization of Phase I of the Project at 683 Northland Avenue.

Construction in process – Construction in process decreased \$969,000 in 2018 due to the construction costs incurred for Phase II of the Project at 683 Northland Avenue and the reclassification of the Phase I Project costs.

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 \$11,977,000 increase in current liabilities was primarily due to recognition of \$26,253,000 of grant revenue to BUDC for Northland Corridor redevelopment, offset by new grant awards of \$31,248,000 and a \$6,986,000 increase in accounts payable.

Long-term liabilities – Long-term liabilities increased \$34,676,000 due an increase in loans payable of \$25,184,000 along with newly recorded liabilities for deferred developer fees (\$4,924,000) and deferred rent liability (\$4,498,000).

2. Change in Net Position:

The following table (Table 2) presents condensed comparative financial information and was derived from BUDC's audited statements of revenues, expenses, and changes in net position.

Table 2
Change in Net Position for the Years ended December 31, 2018 and 2017
(Amounts in thousands)

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 26,253	\$ 16,896	\$ 9,357	55%
PILOT agreements	447	501	(54)	-11%
Loan interest and commitment fees	138	126	12	10%
Other	645	75	570	760%
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Total revenue	27,483	17,598	9,885	56%
Expenses:				
Development costs	594	558	36	6%
Adjustment to net realizable value	2,727	1,013	1,714	169%
Salaries and benefits	437	444	(7)	-2%
General and administrative	3,550	193	3,357	1739%
Management fee	115	53	62	117%
Depreciation	1,044	5	1,039	20780%
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Total expenses	8,467	2,266	6,201	274%
Operating income (loss)	19,016	15,332	3,684	24%
Interest income	13	14	(1)	-7%
Interest expense	(359)	-	(359)	100%
Amortization expense	(75)	-	(75)	100%
In-kind revenue	-	730	(730)	-100%
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Change in net position	\$ 18,595	\$ 16,076	\$ 2,519	16%

3. Revenue and Expense Analysis:

Grants – Grant income includes income from ESD, NYPA and the City of Buffalo for the Project at 683 Northland Avenue, as well as from National Grid and ECIDA for the BBRP. Grant income is recognized as the related grant expenses are incurred. In 2018, \$26,156,000 of grant revenue was recognized for the Project and \$96,000 for BBRP. The increase of \$9,357,000 over 2017 reflects the amount of work that was completed related to Phase I and Phase II of the Project.

Development costs – Development costs include those costs related to various BUDC projects but excludes certain BLCF and Northland development costs that are reflected in “adjustment to net realizable value” as discussed below. The increase of \$36,000 is the result of further development on the Northland properties.

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

Salaries and benefits – Salaries and benefits decreased by \$7,000 or 2% due to a reduction in the use of interns in 2018 and a slight reduction in the cost of employee benefits.

General and administrative – General and administrative costs increased \$3,357,000 from \$193,000 in 2017 to \$3,550,000 in 2018. The main reason for this increase was a grant from BUDC to Buffalo Brownfield Restoration Corporation (BBRC) of around \$2,000,000. In addition, 683 Northland recognized general and administrative expenses of \$1,314,000, much of which was contained within construction in process in 2017.

Management fee – The management fee represents costs charged for certain ECIDA staff that spend a portion of their time performing financial, compliance, administrative and property management services on behalf of BUDC under a shared services agreement along with asset management fees charged to 683 Northland by NMTC and HTC investors.

Depreciation – Depreciation expense increased \$1,039,000 from \$5,000 in 2017 to \$1,044,000 in 2018. The majority of depreciation expense (\$1,038,000) was related to the capitalization of Phase I of the Project at 683 Northland Avenue.

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

4. Budget Analysis:

Each year, BUDC prepares an operating budget and three-year forecast. BUDC’s 2018 budget was presented and approved by the Board of Directors on October 31, 2017. The following table (Table 3) presents an analysis of BUDC’s performance compared to the approved 2018 budget.

Table 3
Budget to Actual Analysis for the year ended December 31, 2018
(Amounts in thousands)

	<u>Actual</u>	<u>Original Budget</u>	<u>Actual to Budget</u>	
			<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Grants	\$ 26,253	\$ 2,665	\$ 23,588	885%
Brownfield fund revenue	447	467	(20)	-4%
Other income	783	273	510	187%
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Total revenue	27,483	3,405	24,078	707%
Expenses:				
Development costs	594	2,103	(1,509)	-72%
Adjustment to net realizable value	2,727	-	2,727	
Salaries and benefits	437	524	(87)	-17%
General and administrative	3,550	713	2,837	398%
Management fee	115	68	47	69%
Depreciation	1,044	1	1,043	104300%
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	8,467	3,409	5,058	148%
Operating income (loss)	19,016	(4)	19,020	-475500%
Interest income	13	5	8	160%
Amortization expense	(75)	-		100%
Interest expense	(359)	-	(359)	100%
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Change in net position	\$ 18,595	\$ 1	\$ 18,594	1859400%

Note: The original 2018 budget was not amended; therefore, only one budget column is presented.

Budget to Actual Analysis:

Overall, BUDC's change in net position exceeded the budget by \$18,594,000. Grant revenue was \$23,588,000 above budget due to higher than anticipated recognition of ESD and NYPA grant revenue related to the Project at 683 Northland Avenue. Development expenses of \$594,000 were under budget by \$1,509,000. \$60,557,000 of costs incurred for Phase I and Phase II of the project were capitalized during 2018.

5. Economic Factors Impacting BUDC:

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

6. Requests for Information:

This financial report is designed to provide a general overview of BUDC's finances. Questions concerning any of the financial information provided in this report should be addressed to the Treasurer of BUDC at (716) 856-6525. General information relating to BUDC can be found at its website www.buffalourbandevelopment.com.

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

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 4,312,129	\$ 11,094,315
Grants receivable	9,562,865	14,261,804
Restricted cash	21,880,344	3,410,831
Other current assets	<u>614,620</u>	<u>472,826</u>
Total current assets	<u>36,369,958</u>	<u>29,239,776</u>
Noncurrent assets:		
Loans receivable, net	10,416,400	10,416,400
Equity investment	198,360	198,360
Capital assets, net	67,644,301	6,594,431
Construction in process	14,365,384	15,334,049
Land and improvements held for sale, net	<u>4,081,967</u>	<u>3,996,668</u>
Total noncurrent assets	<u>96,706,412</u>	<u>36,539,908</u>
 Total assets	 <u>\$ 133,076,370</u>	 <u>\$ 65,779,684</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,796,000	\$ 3,809,969
Unearned revenue	<u>20,327,583</u>	<u>15,336,932</u>
Total current liabilities	<u>31,123,583</u>	<u>19,146,901</u>
Noncurrent liabilities:		
Deferred rent liability	4,497,913	200,002
Deferred developer fees	4,924,392	-
Loans payable	38,915,462	13,461,708
Note payable	<u>257,381</u>	<u>257,381</u>
Total noncurrent liabilities	<u>48,595,148</u>	<u>13,919,091</u>
NET POSITION		
Net investment in capital assets (net of debt)	43,094,223	8,198,480
Restricted	4,989,392	5,254,198
Unrestricted	<u>5,274,024</u>	<u>19,261,014</u>
Total net position	<u>53,357,639</u>	<u>32,713,692</u>
 Total liabilities and net position	 <u>\$ 133,076,370</u>	 <u>\$ 65,779,684</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>2018</u>	<u>2017</u>
Operating revenues:		
Grant revenue	\$ 26,252,678	\$ 16,895,680
Brownfield funds	446,764	501,294
Loan interest and commitment fees	137,914	125,787
Rental and other revenue	<u>645,238</u>	<u>74,806</u>
Total operating revenues	<u>27,482,594</u>	17,597,567
Operating expenses:		
Development costs	593,863	557,688
Adjustment to net realizable value	2,726,938	1,012,693
Salaries and benefits	437,323	444,407
General and administrative	3,550,172	193,486
Management fee	114,722	52,541
Depreciation	<u>1,043,861</u>	<u>5,275</u>
Total operating expenses	<u>8,466,879</u>	<u>2,266,090</u>
Operating income	19,015,715	15,331,477
Nonoperating revenues (expenses):		
Interest income	12,733	14,470
In-kind revenue	-	730,348
Amortization expense	(74,872)	-
Interest expense	<u>(358,923)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(421,062)</u>	<u>744,818</u>
Change in net position	18,594,653	16,076,295
Net position - beginning of year	32,713,692	16,637,397
Add: capital contributions	<u>2,049,294</u>	<u>-</u>
Net position - end of year	<u>\$ 53,357,639</u>	<u>\$ 32,713,692</u>

See accompanying notes.

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Amounts received from Brownfields funds	\$ 550,686	\$ 349,595
Grants received	35,942,268	19,300,267
Receipts from loans and commitment fees	137,914	125,787
Other revenue	4,890,245	74,806
Payments on loans issued	-	(8,916,400)
Payments to employees, suppliers, and other	(6,674,368)	(1,536,982)
Net cash provided by operating activities	<u>34,846,745</u>	<u>9,397,073</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(50,232,126)	(13,373,110)
Proceeds from loans	25,453,754	13,731,676
Capital contributions	2,049,294	-
Net cash provided (used) by capital and related financing activities	<u>(22,729,078)</u>	<u>358,566</u>
Cash flows from investing activities:		
Change in restricted cash	(18,469,513)	(562,751)
Interest earned	12,733	14,470
Interest paid	(443,073)	-
Net cash used by investing activities	<u>(18,899,853)</u>	<u>(548,281)</u>
Net increase (decrease) in cash and cash equivalents	(6,782,186)	9,207,358
Cash and cash equivalents - beginning of year	<u>11,094,315</u>	<u>1,886,957</u>
Cash and cash equivalents - end of year	\$ <u>4,312,129</u>	\$ <u>11,094,315</u>
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 19,015,715	\$ 15,331,477
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,043,861	5,275
Net realizable value adjustment	-	1,012,693
Change in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	4,698,939	12,311,736
Other current assets	(45,130)	(357,137)
Loans receivable	-	(8,916,400)
Increase (decrease) in:		
Accounts payable and accrued expenses	844,798	(83,388)
Unearned revenue	4,990,651	(9,707,181)
Deferred rent liability	4,297,911	(200,002)
Net cash provided by operating activities	\$ <u>34,846,745</u>	\$ <u>9,397,073</u>
Noncash transactions:		
In-kind revenue	\$ -	\$ 730,348
Capital asset purchases not yet disbursed	7,681,476	3,444,983
Grants received but not yet earned	20,327,583	15,336,932

See accompanying notes.

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BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

B. BASIS OF PRESENTATION

Revenues from grants, Brownfields 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.

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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. These amounts are included in other assets and amounted to \$241,269 and \$228,261 for December 31, 2018 and 2017, respectively.

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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

L. STATEMENT OF CASH FLOWS

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

M. ACCOUNTING PRONOUNCEMENTS

The Corporation evaluated the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement No. 85, *Omnibus 2017*; and Statement No. 86, *Certain Debt Extinguishment Issues*, which became effective for the year ended December 31, 2018. The Corporation determined that these Statements have no significant impact on BUDC's financial statements in the current year.

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. 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. 87, *Leases*, which will be effective for the year ending December 31, 2020.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which will be effective for the year ending December 31, 2019.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the year ending December 31, 2020.
- Statement No. 90, *Majority Equity Interests-an Amendment of GASB Statements No. 14 and 61*, which will be effective for the year ending December 31, 2019.

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.

O. RECLASSIFICATIONS

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

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS

BUDC's investment policies are governed by State statutes. In addition, 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, 2018 and 2017, BUDC's aggregate bank deposits were considered fully collateralized.

Investment and Deposit Policy

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk

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

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

NOTE 3. LOANS RECEIVABLE

BUDC has an agreement with New York Business Development Corporation to provide loans to facilitate the development and adaptive reuse of vacant or underutilized buildings in certain designated areas. The loan agreement provides for \$9,000,000 in total funding from five participating lending banks, with interest rates determined by the banks. The balance of the loans outstanding at December 31, 2018 and 2017 were \$750,000. Interest payments are due monthly and principal is due at maturity, in February 2019. The Board is in the process of approving a one year extension to February 2020 for this loan.

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Total loans receivable	\$ <u>10,416,400</u>	\$ <u>10,416,400</u>

NOTE 4. CAPITAL ASSETS

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

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

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

	<u>Balance 01/01/17</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/17</u>
Non-depreciable capital assets				
Land	\$ 515,623	\$ -	\$ -	\$ 515,623
Construction work in progress	-	15,334,049	-	15,334,049
Idle buildings and improvements	<u>5,140,519</u>	<u>933,408</u>	<u>-</u>	<u>6,073,927</u>
Total non-depreciable capital assets	<u>5,656,142</u>	<u>16,267,457</u>	<u>-</u>	<u>21,923,599</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, net	\$ <u>5,666,299</u>	\$ <u>16,262,181</u>	\$ <u>-</u>	\$ <u>21,928,480</u>

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Land, buildings, and improvements related to the Northland Corridor amounted to \$18,316,003 and \$21,928,480 at December 31, 2018 and 2017. 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 \$2,699,549 and \$1,007,433 for the years ended December 31, 2018 and 2017, respectively.

NOTE 5. LAND HELD FOR DEVELOPMENT AND SALE

In 2002, on behalf of the City, BUDC agreed to undertake a multi-phase Brownfield reclamation and redevelopment project at the former Hanna Furnace site and land surrounding the Union Ship Canal, now known as Buffalo Lakeside Commerce Park (BLCP). BUDC accepted 104 acres of tax foreclosed property from the City, demolished derelict structures, and constructed approximately 5,000 linear feet of roads and infrastructure. Funding for this work was provided by the State, the City, and the County. With additional funding from the State, BUDC purchased 130 acres of land to add to the BLCP and constructed additional roads and infrastructure. Between 2004 and 2008 there were multiple BLCP parcels sold to local businesses.

In 2018, BUDC purchased approximately 7 acres of property at 308 Crowley Street in the City of Buffalo for the purpose of remediation and redevelopment. The property includes a derelict building that may be completely demolished.

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>2018</u>	<u>2017</u>
BLCP	\$ 9,085,843	\$ 9,085,843
308 Crowley	85,299	-
Less adjustment to net realizable value (BLCP)	<u>5,089,175</u>	<u>5,089,175</u>
Total land held for development and sale	<u>\$ 4,081,967</u>	<u>\$ 3,996,668</u>

NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE

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

In 2016, BUDC was awarded a \$10,300,000 grant from ESD for the demolition, remediation, renovation, construction, and site/street improvements for various Northland properties and Western New York Workforce Training Center project (Training Center) and was also awarded a \$15,000,000 grant from the New York Power Authority (NYPA) for the renovation and restoration of the Training Center. In 2018, BUDC was awarded grants totaling \$31,000,000 from ESD for further construction and site improvements.

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

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	<u>2018</u>	<u>2017</u>
Grants receivable:		
ESD	\$ 8,964,365	\$ 10,100,970
National Grid	550,000	550,000
City	-	605,957
NYPA	-	3,000,000
National Fuel	48,500	-
Other	-	4,877
	<u>\$ 9,562,865</u>	<u>\$ 14,261,804</u>
Unearned revenue:		
ESD	\$ 17,166,064	\$ 7,735,171
National Grid	550,000	550,000
City	-	279,074
NYPA	2,511,019	6,771,607
National Fuel	98,500	-
Other	2,000	1,080
	<u>\$ 20,327,583</u>	<u>\$ 15,336,932</u>

NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>2018</u>	<u>2017</u>
Accounts payable	\$ 8,838,275	\$ 3,758,996
Accrued payroll	50,556	48,046
Accrued interest	88,913	1,527
Accrued developer fee	1,817,354	-
Other accrued expenses	900	1,400
	<u>\$ 10,795,998</u>	<u>\$ 3,809,969</u>

NOTE 8. 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, 2018 and 2017, 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 9. 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. There was no amount outstanding as of December 31, 2018 and 2017.

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 at December 31, 2018 totaled \$25,378,882 (\$0 - 2017). 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 (4.19% and 5.06%, respectively, at December 31, 2018). Accrued interest amounted to \$88,913 as December 31, 2018 (\$0 - 2017).

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

	<u>2018</u>	<u>2017</u>
KeyBank	\$ 25,378,882	\$ -
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	5,000,000	5,000,000
	<u>39,108,882</u>	<u>13,730,000</u>
Less: debt issuance costs	193,420	268,292
	<u>\$ 38,915,462</u>	<u>\$ 13,461,708</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>
2019	\$ -	\$ 74,872	\$ (74,872)
2020	-	74,872	(74,872)
2021	-	43,676	(43,676)
2022	-	-	-
2023	-	-	-
Thereafter	39,108,882	-	39,108,882
	<u>\$ 39,108,882</u>	<u>\$ 193,420</u>	<u>\$ 38,915,462</u>

Interest expense for the year ending December 31, 2018 was \$358,923. Capitalized interest related to Phase I amounted to \$399,628 for the year ending December 31, 2018 and is properly included in the building.

NOTE 10. EQUITY INVESTMENT

Equity investment represents WTC's 1% investment in 683 Northland Master Tenant, LLC (Master Tenant). WTC utilizes the historical cost method of accounting for its investment in the Master Tenant which results in the equity investment balance being comprised of WTC's original capital contribution in the Master Tenant.

NOTE 11. RESTRICTED NET POSITION

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$1,798,106 and \$2,104,162 at December 31, 2018 and 2017, respectively and a revolving loan fund in the amount of \$3,191,286 and \$3,150,036 at December 31, 2018 and 2017, respectively.

BUFFALO URBAN DEVELOPMENT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. NOTE RECEIVABLE WTC

BUDC and WTC have a note agreement in the amount of \$25,045,279 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 was \$20,446,535 and \$10,447,254 at December 31, 2018 and 2017, respectively. Accrued interest on the loan amounted to \$136,521 and \$859 at December 31, 2018 and 2017, respectively.

NOTE 13. 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 14. BUILDING AND LAND ACQUISITION COMMITMENT

The Board approved the purchase of a building and real property located at 714 Northland Avenue in the amount of \$425,000 on December 18, 2018. The purchase will be financed through a loan secured through a financial institution. Subsequent to year end the acquisition was finalized.

NOTE 15. SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after March 15, 2019 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, 2018

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 3,575,992	\$ -	\$ 736,137	\$ -	\$ 4,312,129
Grants receivable	9,562,865	-	-	-	9,562,865
Restricted cash	19,647,157	-	2,233,187	-	21,880,344
Other current assets	8,249,739	-	266,289	(1) (7,901,408)	614,620
Total current assets	<u>41,035,753</u>	<u>-</u>	<u>3,235,613</u>	<u>(7,901,408)</u>	<u>36,369,958</u>
Noncurrent assets:					
Loans receivable	30,862,935	-	-	(1) (20,446,535)	10,416,400
Equity investment	-	20,445,035	-	(1) (20,246,675)	198,360
Capital assets, net	3,655,804	-	63,988,497	-	67,644,301
Construction in process	-	-	14,365,384	-	14,365,384
Land and improvements held for sale, net	4,081,967	-	-	-	4,081,967
Total noncurrent assets	<u>38,600,706</u>	<u>20,445,035</u>	<u>78,353,881</u>	<u>(40,693,210)</u>	<u>96,706,412</u>
Total assets	<u>\$ 79,636,459</u>	<u>\$ 20,445,035</u>	<u>\$ 81,589,494</u>	<u>\$ (48,594,618)</u>	<u>\$ 133,076,370</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 470,664	\$ 136,521	\$ 10,411,250	(1) \$ (222,435)	\$ 10,796,000
Unearned grant revenue	20,327,583	-	-	-	20,327,583
Total liabilities	<u>20,798,247</u>	<u>136,521</u>	<u>10,411,250</u>	<u>(222,435)</u>	<u>31,123,583</u>
Noncurrent liabilities:					
Deferred rent liability	-	-	12,176,884	(1) (7,678,971)	4,497,913
Deferred developer fees	4,924,392	-	-	-	4,924,392
Loans payable	-	20,446,535	38,915,462	(1) (20,446,535)	38,915,462
Note payable	257,381	-	-	-	257,381
Total noncurrent liabilities	<u>5,181,773</u>	<u>20,446,535</u>	<u>51,092,346</u>	<u>(28,125,506)</u>	<u>48,595,148</u>
NET POSITION (DEFICIT)					
Net investment in capital assets	3,655,804	-	39,438,419	-	43,094,223
Restricted	4,989,392	-	-	-	4,989,392
Unrestricted (deficit)	45,011,243	(138,021)	(19,352,521)	(1) (20,246,677)	5,274,024
Total net position (deficit)	<u>53,656,439</u>	<u>(138,021)</u>	<u>20,085,898</u>	<u>(20,246,677)</u>	<u>53,357,639</u>
Total liabilities and net position	<u>\$ 79,636,459</u>	<u>\$ 20,445,035</u>	<u>\$ 81,589,494</u>	<u>\$ (48,594,618)</u>	<u>\$ 133,076,370</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, 2018

	Buffalo Urban Development Corporation	683 WTC LLC	683 Northland LLC	Eliminations	Total
Operating revenues:					
Grant revenue	\$ 26,252,678	\$ -	\$ -	\$ -	\$ 26,252,678
Brownfield funds	446,764	-	-	-	446,764
Loan interest and commitment fees	273,576	-	-	(135,662)	137,914
Rental and other revenue	18,657	-	626,581	-	645,238
Total operating revenue	<u>26,991,675</u>	<u>-</u>	<u>626,581</u>	<u>(135,662)</u>	<u>27,482,594</u>
Operating expenses:					
Development costs	593,863	-	-	-	593,863
Adjustment to net realizable value	2,726,938	-	-	-	2,726,938
Salaries and benefits	437,323	-	-	-	437,323
General and administrative	2,234,238	1,500	1,314,434	-	3,550,172
Management fee	59,722	-	55,000	-	114,722
Depreciation	6,241	-	1,037,620	-	1,043,861
Total operating expenses	<u>6,058,325</u>	<u>1,500</u>	<u>2,407,054</u>	<u>-</u>	<u>8,466,879</u>
Operating income (loss)	20,933,350	(1,500)	(1,780,473)	(135,662)	19,015,715
Nonoperating revenues (expenses):					
Interest income	8,710	-	4,023	-	12,733
Amortization expense	-	-	(74,872)	-	(74,872)
Interest expense	-	(135,662)	(358,923)	135,662	(358,923)
Total nonoperating revenues (expenses)	<u>8,710</u>	<u>(135,662)</u>	<u>(429,772)</u>	<u>135,662</u>	<u>(421,062)</u>
Change in net position	20,942,060	(137,162)	(2,210,245)	-	18,594,653
Net position - beginning of year	32,714,379	(859)	10,249,066	(10,248,894)	32,713,691
Add: capital contributions	-	-	12,047,077	(9,997,783)	2,049,294
Net position - end of year	<u>\$ 53,656,439</u>	<u>\$ (138,021)</u>	<u>\$ 20,085,898</u>	<u>\$ (20,246,677)</u>	<u>\$ 53,357,639</u>

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



**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, 2018, 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 15, 2019. 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) 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 15, 2019

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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, 2018 through December 31, 2018. 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, 2018 through December 31, 2018.

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 15, 2019