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CONFIDENTIAL

The Board of Directors
Buffalo Urban Development Corporation

Dear Board Members:

We have completed our audit of the financial statements of the Buffalo Urban Development Corporation (BUDC) for the year ended December 31, 2009. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within BUDC.

Documentation for PILOTs Received

Erie County Industrial Development Agency (ECIDA) receives payments in lieu of taxes (PILOT) for BUDC controlled accounts, such as the Buffalo Brownfields Redevelopment Fund and the Regionally Significant Fund. These funds allow the BUDC to collect PILOTs and retain a portion of the receipts for specific purposes. There are currently controls in place to ensure that the funds are properly administered in accordance with the funding agreements between ECIDA, BUDC, Buffalo Economic Renaissance Corporation (BERC), and various taxing jurisdictions. During our audit, we noted several instances where payments received did not contain documentation to support the PILOT amount. We recommend that management require the taxpayer to provide documentation to accompany the payments to ensure that the amount paid is the proper amount based on PILOT agreements.

Status of Prior Recommendations

We reviewed the disposition of our comments and recommendations included in our letter dated March 12, 2009. The following is a summary of action taken with regard to our recommendations:

Collateral Statement - Bank of New York holds collateral for the purpose of ensuring that cash held in BUDC's Bank of America bank accounts, above the FDIC insurance, is secure. The collateral statement was in the name of Development Downtown, Inc., the former name of BUDC. We previously recommended that management continue its efforts to change the name on the collateral statement with its current bank. The December 2009 collateral statements were properly in the name of BUDC.

BUDC/BERC Funding Agreement - During 2008, BUDC and BERC agreed to a funding agreement with regard to the purchase of the "Steelfields" property. BUDC purchased the property with funds provided by BERC through the City of Buffalo. The agreement includes a requirement that BUDC deposit all income into a separate interest bearing account. We previously recommended that management either establish a separate bank account or modify the agreement with BERC in order to meet the requirements of the agreement. Management has informed us that this agreement is no longer applicable as BUDC and BERC have agreed that the property will be transferred to BUDC in 2010.

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We take this opportunity to thank the staff of BUDC for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.



Ronald C. Toski, CPA
Managing Director