

BUFFALO URBAN  
DEVELOPMENT CORPORATION

Financial Statements and  
Supplemental Information

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

BUFFALO URBAN  
DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Buffalo Urban Development Corporation:

We have audited the accompanying statements of financial position of the Buffalo Urban Development Corporation (BUDC) as of December 31, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BUDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buffalo Urban Development Corporation as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2011 on our consideration of Buffalo Urban Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Toski, Schaefer & Co. P.C.

Williamsville, New York  
March 9, 2011

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statements of Financial Position  
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
<b>Current assets:</b>		
Cash	\$ 538,130	662,704
Restricted cash for Brownfields Fund	<u>663,471</u>	<u>1,452,315</u>
Total cash	<u>1,201,601</u>	<u>2,115,019</u>
<b>Receivables:</b>		
Current installments of mortgages and notes receivable	200,246	193,839
Grants	2,944,000	525,886
Interest	717	986
Other	<u>1,151,600</u>	<u>2,034</u>
Total receivables	<u>4,296,563</u>	<u>722,745</u>
Prepaid expenses	<u>93,939</u>	<u>87,906</u>
Total current assets	5,592,103	2,925,670
Land and improvements held for sale	8,710,617	8,705,530
Mortgages and notes receivable, excluding current installments	<u>319,084</u>	<u>519,275</u>
Total assets	<u>\$ 14,621,804</u>	<u>12,150,475</u>
<u>Liabilities and Net Assets</u>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	424,051	249,697
Security deposits	2,500	-
Due to related parties	109,554	61,058
Deferred grant income	<u>2,420,592</u>	<u>-</u>
Total current liabilities	2,956,697	310,755
Note payable	<u>257,381</u>	<u>257,381</u>
Total liabilities	<u>3,214,078</u>	<u>568,136</u>
<b>Net assets:</b>		
Unrestricted net assets	9,829,272	10,130,024
Temporarily restricted net assets (Brownfields Fund)	<u>1,578,454</u>	<u>1,452,315</u>
Total net assets	<u>11,407,726</u>	<u>11,582,339</u>
Commitments and contingencies (notes 10 and 11)	<u>-</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 14,621,804</u>	<u>12,150,475</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statements of Revenue, Expenses and Changes in Net Assets  
Years ended December 31, 2010 and 2009

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
Operating revenue:				
Grant income	\$ 664,408	-	664,408	1,191,901
Brownfields Fund revenue	-	711,617	711,617	839,796
Rental income	25,000	-	25,000	56,048
Interest income on mortgages and notes receivable	26,331	-	26,331	32,746
Regionally Significant Fund revenue	23,191	-	23,191	26,091
Other income	715	-	715	24,959
Net assets released from restrictions	<u>588,181</u>	<u>(588,181)</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>1,327,826</u>	<u>123,436</u>	<u>1,451,262</u>	<u>2,171,541</u>
Operating expenses:				
Development projects	1,256,729	-	1,256,729	798,866
Management fee - ECIDA	296,472	-	296,472	258,826
General and administrative	<u>76,226</u>	<u>-</u>	<u>76,226</u>	<u>73,568</u>
Total operating expenses	<u>1,629,427</u>	<u>-</u>	<u>1,629,427</u>	<u>1,131,260</u>
Increase (decrease) in net assets from operating activities	(301,601)	123,436	(178,165)	1,040,281
Non-operating activities - interest income	<u>849</u>	<u>2,703</u>	<u>3,552</u>	<u>4,940</u>
Increase (decrease) in net assets before extraordinary gain	(300,752)	126,139	(174,613)	1,045,221
Extraordinary gain - fire insurance recovery	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,509</u>
Increase (decrease) in net assets	(300,752)	126,139	(174,613)	1,136,730
Net assets at beginning of year	<u>10,130,024</u>	<u>1,452,315</u>	<u>11,582,339</u>	<u>10,445,609</u>
Net assets at end of year	<u>\$ 9,829,272</u>	<u>1,578,454</u>	<u>11,407,726</u>	<u>11,582,339</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statement of Revenue, Expenses and Changes in Net Assets  
Year ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue:			
Grant income	\$ 1,077,851	114,050	1,191,901
Brownfields Fund revenue	-	839,796	839,796
Rental income	56,048	-	56,048
Interest income on mortgages and notes receivable	32,746	-	32,746
Regionally Significant Fund revenue	26,091	-	26,091
Other income	24,959	-	24,959
Net assets released from restrictions	<u>3,290</u>	<u>(3,290)</u>	<u>-</u>
Total operating revenue	<u>1,220,985</u>	<u>950,556</u>	<u>2,171,541</u>
Operating expenses:			
Development projects	798,866	-	798,866
Management fee - ECIDA	258,826	-	258,826
General and administrative	<u>73,568</u>	<u>-</u>	<u>73,568</u>
Total operating expenses	<u>1,131,260</u>	<u>-</u>	<u>1,131,260</u>
Increase in net assets from operating activities	89,725	950,556	1,040,281
Non-operating activities - interest income	<u>402</u>	<u>4,538</u>	<u>4,940</u>
Increase in net assets before extraordinary gain	90,127	955,094	1,045,221
Extraordinary gain - fire insurance recovery	<u>91,509</u>	<u>-</u>	<u>91,509</u>
Increase in net assets	181,636	955,094	1,136,730
Net assets at beginning of year	<u>9,948,388</u>	<u>497,221</u>	<u>10,445,609</u>
Net assets at end of year	<u>\$ 10,130,024</u>	<u>1,452,315</u>	<u>11,582,339</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statements of Cash Flows  
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (174,613)	1,136,730
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Extraordinary gain on fire insurance recovery	-	(91,509)
Changes in:		
Receivables	(3,567,411)	(102,795)
Prepaid expenses	(6,033)	34,352
Accounts payable and accrued expenses	174,354	69,666
Security deposits	2,500	(16,542)
Due to related parties	48,496	(88,740)
Deferred grant income	<u>2,420,592</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>(1,102,115)</u>	<u>941,162</u>
Cash flows from investing activities:		
Purchase of land and improvements held for sale	(5,087)	(9,259)
Collections of mortgages and notes receivable	<u>193,784</u>	<u>187,379</u>
Net cash provided by investing activities	<u>188,697</u>	<u>178,120</u>
Cash flows from financing activities - net proceeds from fire insurance recovery	<u>-</u>	<u>91,509</u>
Net increase (decrease) in cash	(913,418)	1,210,791
Cash at beginning of year	<u>2,115,019</u>	<u>904,228</u>
Cash at end of year	<u>\$ 1,201,601</u>	<u>2,115,019</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Buffalo Urban Development Corporation (BUDC), formerly Development Downtown, Inc., was incorporated in 1978 by the City of Buffalo, New York (the City) to facilitate partnership with the private sector in the development of the City, primarily through the administration of Federal Urban Development Action (UDAG) grants.

Funding was initially received from the City; however, the City has not allocated direct funding to the Corporation for several years, and future allocations are not expected. Cash flows are 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 Brownfields Fund). This fund dedicates certain related payments received in lieu of real estate tax (PILOT) for future eligible project costs. The fund is administered by ECIDA and is available to reimburse BUDC for eligible project costs incurred. The activity of the Brownfields Fund is included in these financial statements.

Riverbend LLC (Riverbend), a wholly owned subsidiary of BUDC, was created in 2008 to purchase approximately 185 acres of land along South Park Avenue in Buffalo, New York. Riverbend is also responsible for maintenance, the administration of site improvements, marketing, leasing and eventual sale of the property.

(b) Basis of Presentation

BUDC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. BUDC had only unrestricted and temporarily restricted net assets in 2010 and 2009.

(c) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Mortgages and Notes Receivable and Allowance for Doubtful Loans

Mortgages and notes receivable are stated at their principal amount outstanding, less an allowance for doubtful loans. Interest on mortgages and notes receivable is accrued and included in the outstanding principal balance when management considers collection of such interest to be probable, based upon economic condition of the borrower. The allowance for doubtful loans is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential loan losses based on an evaluation of past loan experience, current economic conditions and known risks in the loan portfolio.

(e) Subsequent Events

BUDC has evaluated events after December 31, 2010, and through March 9, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(f) Income Taxes

BUDC is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code; therefore, no provision for taxes is reflected in these financial statements.

(g) Reclassifications

Reclassifications have been made to certain 2009 balances in order to conform them to the 2010 presentation.

(2) Cash

Cash balances as of December 31, 2010 and 2009 were either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized.

(3) Mortgages and Notes Receivable

Mortgages and notes receivable consist of various loans made to assist the private sector in City development or to facilitate land sales. Loan terms vary with interest rates ranging from 0% to 4%, and generally specify periodic or lump sum principal repayments.

Excluded from mortgages and notes receivable is a note in the amount of \$536,000 in connection with certain development property. The note is offset by a \$536,000 payable to the City for demolition costs of the original building located on the property. Terms of the note require that if the façade of the original building is used in future development of the property, the note will be forgiven. If the façade is not used, the note is due in full and the proceeds will be used to reimburse the City for the original cost of the demolition. BUDC is otherwise not responsible for the repayment of this loan.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(3) Mortgages and Notes Receivable, Continued

In January 2008, an agreement was reached between BUDC, Buffalo Economic Renaissance Corporation (BERC) and West Genesee Hotel Associates (WGHA) in settlement of WGHA's outstanding \$8,000,000 note receivable. The settlement consisted of a \$305,891 payment and a \$229,418 note receivable to BUDC in full consideration for the outstanding \$8,000,000 note receivable. The \$229,418 note receivable has not been recorded in the financial statements because it is conditioned upon the debtor receiving subsequent additional financing, which management believes is unlikely.

At December 31, 2010 and 2009, notes receivable consisted of the following:

	<u>2010</u>	<u>2009</u>
Amounts due in one year	\$ 200,246	193,839
Amounts due after one year	<u>319,084</u>	<u>519,275</u>
Total mortgages and notes receivable	\$ <u>519,330</u>	<u>713,114</u>

(4) Grants Receivable

In 2006, BUDC was approved to receive a grant amounting to \$5 million from New York State, administered by the Dormitory Authority of the State of New York (DASNY), for the development of Buffalo Lakeside Commerce Park (BLCP).

In 2010, BUDC was approved to receive a grant amounting to \$2.44 million from New York State administered by Empire State Development Corporation (ESDC) for reimbursement of costs at BLCP (Phase IV) for final site improvements and road construction. The grant funds will be disbursed by ESDC upon project completion.

Grants receivable at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
ESDC - Phase IV	\$ 2,440,000	-
ESDC - Wi-Fi	125,000	-
DASNY	-	505,886
Other	<u>379,000</u>	<u>20,000</u>
Total grants receivable	\$ <u>2,944,000</u>	<u>525,886</u>

(5) Other Receivables

BUDC has agreed to assist the County and City in connection with the development of Parcel 3 (Ship Canal Commons) of the BLCP. BUDC will be reimbursed by the County and City from Federal, State and local sources earmarked by grants from the New York State Department of Transportation and New York State Department of Environmental Conservation. BUDC is providing management services and cash flow financing through the Brownfields Fund. At December 31, 2010, the receivable from the County and City amounted to \$871,345.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(5) Other Receivables, Continued

The Brownfields Fund retains a portion of PILOTs that are to be used in the development of BLCP. At December 31, 2010, \$206,865 was due to the Brownfields Fund for PILOTs.

Other receivables at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
County and City	\$ 871,345	-
PILOTs	206,865	-
Other	<u>73,390</u>	<u>2,034</u>
Total other receivables	\$ <u>1,151,600</u>	<u>2,034</u>

(6) Land and Improvements Held for Sale

(a) Buffalo Lakeside Commerce Park

In 2002, 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, on behalf of the City. This is now known as the 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 of New York, the City and the County.

Subsequently, BUDC purchased an additional 130 acres of land to add to the BLCP and constructed an additional 2,000 linear feet of road and infrastructure, with additional funding from the State of New York. The land was purchased for \$965,000 in cash (including grant funds of \$890,000) and promissory notes of \$675,000.

In 2010, BUDC began construction of an additional 2,000 feet of road and infrastructure. At December 31, 2010 and 2009, land held for sale at BLCP amounted to \$3,996,668.

(b) Riverbend, LLC

In 2008, Riverbend acquired approximately 185 acres of land from Steelfields Ltd for \$4,638,250. The City provided this funding through BEREC with the agreement that BUDC will pay for all costs incurred to plan, improve, market, sell and lease the property. In the event that income exceeds total costs, BUDC will equally split the net profit with BEREC. In addition, BEREC agreed to equally split with BUDC the net profit of two properties they own at 1176 and 1140 South Park Avenue in the City. Riverbend has not generated a net profit since acquisition and, therefore, no amounts are due to BEREC at December 31, 2010. At December 31, 2010 and 2009 the carrying value of this land amounted to \$4,713,949 and \$4,708,862, respectively.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(6) Land and Improvements Held for Sale, Continued

A summary of land and improvements held for sale is as follows:

	<u>2010</u>	<u>2009</u>
Buffalo Lakeside Commerce Park	\$ 3,996,668	3,996,668
Riverbend, LLC	<u>4,713,949</u>	<u>4,708,862</u>
	<u>\$ 8,710,617</u>	<u>8,705,530</u>

(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, 2010 and 2009, the note payable liability amounted to \$257,381, which represents the remaining 19.61 acres of land at \$13,125 per acre.

(8) Extraordinary Gain

In August 2009, a fire completely destroyed the Feine building, which is owned by Riverbend. BUDC received insurance proceeds, net of legal fees, of \$91,509 during the year ended December 31, 2009. This amount has been recorded as an extraordinary gain - fire insurance recovery in the accompanying statements of revenue, expenses and changes in net assets.

(9) Related Party Transactions

Effective June 2003, BUDC entered into an agreement with ECIDA, to provide certain personnel to perform administrative and managerial functions on behalf of BUDC. Total expenses incurred amounted to \$296,472 and \$258,826 for the years ended December 31, 2010 and 2009, respectively. Amounts owed to ECIDA under this agreement totaled \$109,554 and \$61,058 at December 31, 2010 and 2009, respectively.

(10) Commitments

Associated with the development of Parcel 3 of the BLCP as described in note 5, BUDC has agreed to pay for change orders and cost overages of up to \$50,000 from the Brownfields Fund.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(11) Contingencies

Contingencies at December 31, 2010 consist of the following:

(a) Legal Proceedings

BUDC is involved in various legal proceedings, which in the opinion of management, will not have a material adverse effect upon its financial position.

(b) Environmental Remediation

BUDC has remediation responsibility under two Voluntary Clean-Up Agreements with New York State for approximately 42 acres of the BLCP. BUDC maintains insurance to mitigate the exposure of additional costs related to potential remediation, which cannot be determined. Additionally, upon future sale of the land, BUDC will require that the purchaser provide the remediation necessary to satisfy the State. Also, the purchaser will be allowed to become an additional insured on the BUDC insurance coverage. Management estimates that the maximum amount of exposure to BUDC will not be significant to the financial statements.

(12) Subsequent Events

On February 4, 2011, BUDC entered into a construction loan agreement with Key Bank for up to \$2,440,000. This loan provides cash flow financing to BUDC during the construction of Phase IV of the BLCP. BUDC is the recipient of a grant from ESDC in the amount of \$2,440,000, which is to be paid upon reaching certain milestones of completion of the entire project (note 4).

Terms of the construction loan require that all principal and interest be repaid February 29, 2012. Interest shall be at the adjusted LIBOR rate. BUDC pledged all proceeds from the ESDC grant agreement, cash in the Brownfields Fund and a negative pledge of the property which requires 50% of the sale proceeds be remitted to the lender.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Schedule of Receipts and Disbursements of Riverbend LLC  
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Receipts - rental income	<u>\$ 25,000</u>	<u>56,048</u>
Disbursements:		
Monitoring and maintenance	96,253	98,853
Insurance	17,846	16,378
Utilities	8,084	15,689
Taxes and sewer assessments	4,013	4,309
Professional fees	<u>5,088</u>	<u>702</u>
Total disbursements	<u>131,284</u>	<u>135,931</u>
Net proceeds from fire insurance recovery	<u>-</u>	<u>91,509</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (106,284)</u>	<u>11,626</u>

# TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Buffalo Urban Development Corporation:

We have audited the financial statements of Buffalo Urban Development Corporation (BUDC) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 9, 2011. 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.

### Internal Control Over Financial Reporting

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

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 BUDC's financial statements will not be prevented, detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BUDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including compliance with Investment Guidelines for Public Authorities and BUDC's Investment Policy, noncompliance with which would have a direct and material effect on the determination of 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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors and management of BUDC and is not intended to be and should not be used by anyone other than these specified parties.

*Toski, Schaefer & Co. P.C.*

Williamsville, New York  
March 9, 2011