

BUFFALO URBAN
DEVELOPMENT CORPORATION

Financial Statements and
Supplemental Information

December 31, 2009 and 2008

(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, 2009 and 2008, 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 audits 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, 2009 and 2008, 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 19, 2010 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 19, 2010

BUFFALO URBAN
DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2009 and 2008

	<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:			
Cash		\$ 662,704	404,907
Restricted cash for Brownfields Fund		<u>1,452,315</u>	<u>499,321</u>
Total cash		<u>2,115,019</u>	<u>904,228</u>
Receivables:			
Current installments of mortgages and notes receivable		193,839	177,776
Grants		525,886	952,820
Interest		986	1,224
Other		<u>2,034</u>	<u>10,934</u>
Total receivables		<u>722,745</u>	<u>1,142,754</u>
Prepaid expenses		<u>87,906</u>	<u>122,258</u>
Total current assets		2,925,670	2,169,240
Land and improvements held for sale		8,705,530	8,696,271
Mortgages and notes receivable, excluding current installments		<u>519,275</u>	<u>722,717</u>
Total assets		<u>\$ 12,150,475</u>	<u>11,588,228</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses		249,697	26,087
Security deposits		-	16,542
Due to related parties		61,058	149,798
Deferred grant income		<u>-</u>	<u>692,811</u>
Total current liabilities		310,755	885,238
Note payable		<u>257,381</u>	<u>257,381</u>
Total liabilities		<u>568,136</u>	<u>1,142,619</u>
Net assets:			
Unrestricted net assets		10,130,024	9,946,288
Temporarily restricted net assets (Brownfields Fund)		<u>1,452,315</u>	<u>499,321</u>
Total net assets		<u>11,582,339</u>	<u>10,445,609</u>
Total liabilities and net assets		<u>\$ 12,150,475</u>	<u>11,588,228</u>

See accompanying notes to financial statements.

BUFFALO URBAN
DEVELOPMENT CORPORATION
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Grant income	\$ 1,191,901	7,723,838
Buffalo Brownfields Redevelopment Fund revenue	844,334	456,524
Rental income	56,048	119,834
Interest income on mortgages and notes receivable	32,746	28,007
Regionally Significant Fund revenue	26,091	-
Other income	24,959	8,293
	<u>2,176,079</u>	<u>8,336,496</u>
Total operating revenue		
Operating expenses and losses:		
Development projects	798,866	299,553
Management fee - ECIDA	258,826	292,688
General and administrative	73,568	59,768
Loss on sale of land	-	713,186
	<u>1,131,260</u>	<u>1,365,195</u>
Total operating expenses and losses		
Increase in net assets from operating activities	1,044,819	6,971,301
Non-operating activities - interest income	402	7,140
Increase in net assets before extraordinary item	1,045,221	6,978,441
Extraordinary gain - fire insurance recovery	91,509	-
Increase in net assets	1,136,730	6,978,441
Net assets at beginning of year	10,445,609	3,467,168
Net assets at end of year	<u>\$ 11,582,339</u>	<u>10,445,609</u>

See accompanying notes to financial statements.

BUFFALO URBAN
DEVELOPMENT CORPORATION
Statements of Cash Flows
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,136,730	6,978,441
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Extraordinary gain on fire insurance recovery	(91,509)	-
Loss on sale of assets	-	713,186
Changes in:		
Receivables	(102,795)	(59,485)
Prepaid expenses	34,352	20,089
Accounts payable and accrued expenses	69,666	(80,546)
Security deposits	(16,542)	16,542
Due to related parties	(88,740)	(101,312)
Net cash provided by operating activities	<u>941,162</u>	<u>7,486,915</u>
Cash flows from investing activities:		
Proceeds from sale of land	-	627,561
Purchase of land and improvements held for sale	(9,259)	(8,513,761)
Collections of mortgages and notes receivable	187,379	422,787
Net cash provided by (used in) investing activities	<u>178,120</u>	<u>(7,463,413)</u>
Cash flows from financing activities:		
Repayment of notes payable	-	(267,619)
Net proceeds from fire insurance recovery	91,509	-
Net cash provided by (used in) financing activities	<u>91,509</u>	<u>(267,619)</u>
Net increase (decrease) in cash	1,210,791	(244,117)
Cash at beginning of year	<u>904,228</u>	<u>1,148,345</u>
Cash at end of year	<u>\$ 2,115,019</u>	<u>904,228</u>
Supplemental information on non-cash investing activities - property sold in exchange for notes receivable	<u>\$ -</u>	<u>598,125</u>

See accompanying notes to financial statements.

BUFFALO URBAN
DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2009 and 2008

(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) payments for future eligible project costs. The fund is administered by ECIDA and is available to reimburse BUDC for eligible project costs incurred.

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 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 2009 and 2008.

(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) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the BUDC's accounting policies. The adoption of the Codification did not have a material impact on the BUDC's financial position or results of operations.

(f) Subsequent Events

BUDC has evaluated events after December 31, 2009, and through March 19, 2010, 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.

(g) 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.

(h) Reclassifications

Reclassifications have been made to certain 2008 amounts in order to conform them to 2009 presentation.

(2) Cash

Cash balances as of December 31, 2009 and 2008 were either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized.

BUFFALO URBAN
DEVELOPMENT CORPORATION
Notes to Financial Statements, Continued

(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.

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, 2009 and 2008, notes receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Amounts due in one year	\$ 193,839	177,776
Amounts due after one year	<u>519,275</u>	<u>722,717</u>
Total mortgages and notes receivable	\$ <u>713,114</u>	<u>900,493</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). Grants receivable at December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
DASNY	\$ 505,886	902,820
Other	<u>20,000</u>	<u>50,000</u>
Total grants receivable	\$ <u>525,886</u>	<u>952,820</u>

BUFFALO URBAN
DEVELOPMENT CORPORATION
Notes to Financial Statements, Continued

(5) Land and Improvements

(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. 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 2008, BUDC sold approximately 52 acres of BLCP for \$1,173,050 and an additional six acres for \$79,445 for a net loss on the sales of \$713,186. At December 31, 2009 and 2008, 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 BERC 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 BERC. In addition, BERC agreed to equally split the net profit of two properties they own at 1176 and 1140 South Park Avenue in the City with BUDC. Riverbend has not generated a net profit since acquisition and, therefore, no amounts are due to BERC at December 31, 2009. At December 31, 2009 and 2008 the carrying value of this land amounted to \$4,708,862 and \$4,699,603, respectively.

(6) Note Payable

BUDC has a non-interest bearing note payable which is to be repaid as certain property at BLCP is sold. The note payable amounted to \$257,381 at December 31, 2009 and 2008.

(7) Extraordinary Item

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.

BUFFALO URBAN
DEVELOPMENT CORPORATION
Notes to Financial Statements, Continued

(8) 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 were \$258,826 and \$292,688 for the years ended December 31, 2009 and 2008, respectively. Amounts owed to ECIDA under this agreement totaled \$61,058 and \$109,770 at December 31, 2009 and 2008, respectively.

Buffalo Brownfield Restoration Corporation (BBRC), related to BUDC through common management and board members, was created in 2005. BUDC was holding the funds of BBRC until such time as BBRC had substantial operations. During 2009, BBRC began substantial operations and all funds held on behalf of BBRC were deposited into a BBRC bank account. At December 31, 2008, amounts owed to BBRC were \$40,028.

(9) Contingencies

(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) Promissory Note

In connection with the purchase of property related to BLCP, BUDC issued a promissory note in an amount equal to the greater of \$525,000 or a percentage of the resale price of the developed property. BUDC had previously recorded a liability of \$525,000 since any contingent additional liabilities are uncertain and cannot be determined at this time. In 2008, \$267,619 of this note was repaid as property was sold (note 6).

(c) Environmental Remediation

BUDC has remediation responsibility under two Voluntary Clean-Up Agreements with New York State for approximately 42 acres of the BLCP. BUDC also maintains insurance to mitigate the exposure of additional costs related to potential remediation which cannot be determined at this time for this portion. Management estimates that the maximum amount of uninsured exposure to BUDC will not be material to the financial statements.

BUFFALO URBAN
DEVELOPMENT CORPORATION
Schedule of Receipts and Disbursements of Riverbend LLC
December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Receipts - rental income	\$ <u>56,048</u>	<u>119,834</u>
Disbursements:		
Monitoring and maintenance	98,853	59,249
Insurance	16,378	8,698
Utilities	15,689	4,253
Taxes and sewer assessments	4,309	32,682
Professional fees	<u>702</u>	<u>32,730</u>
Total disbursements	<u>135,931</u>	<u>137,612</u>
Net proceeds from fire insurance recovery	<u>91,509</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>\$ 11,626</u>	<u>(17,778)</u>

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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 basic financial statements of Buffalo Urban Development Corporation (BUDC) as of and for the year ended December 31, 2009 and have issued our report thereon dated March 19, 2010. 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 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.

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 would not necessarily identify all deficiencies in internal control that might be 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.

We noted certain matters that we reported to management in a letter dated March 19, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 19, 2010