

ATC OF BUFFALO AND ERIE COUNTY, INC.

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

ATC OF BUFFALO AND ERIE COUNTY, INC.

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TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DRIVE

WILLIAMSVILLE, NEW YORK 14221

TELEPHONE (716) 634-0700

FAX (716) 634-0764

INDEPENDENT AUDITORS' REPORT

The Board of Directors
ATC of Buffalo and Erie County, Inc.:

We have audited the accompanying statements of financial position of the ATC of Buffalo and Erie County, Inc. (ATC) 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 ATC'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 ATC 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 ATC'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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 19, 2010

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Financial Position
 December 31, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets - cash and equivalents	\$ 364,302	183,165
Property and equipment, at cost	13,252,086	13,162,084
Less accumulated depreciation and amortization	<u>(4,992,418)</u>	<u>(4,626,521)</u>
Net property and equipment	<u>8,259,668</u>	<u>8,535,563</u>
Other assets - deferred debt issue costs	<u>7,417</u>	<u>22,252</u>
Total assets	<u><u>\$ 8,631,387</u></u>	<u><u>8,740,980</u></u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Accounts payable	15,665	63,449
Accrued expenses	7,243	8,079
Deferred revenue	11,343	-
Due to affiliate	189,011	129,855
Demand note payable	645,717	645,717
Demand note payable to affiliate	-	129,006
Current installments of mortgages payable	<u>3,687,755</u>	<u>202,918</u>
Total current liabilities	4,556,734	1,179,024
Security deposits payable	55,243	155,243
Mortgages payable, less current installments	<u>470,611</u>	<u>4,158,366</u>
Total liabilities	5,082,588	5,492,633
Unrestricted net assets	<u>3,548,799</u>	<u>3,248,347</u>
Total liabilities and net assets	<u><u>\$ 8,631,387</u></u>	<u><u>8,740,980</u></u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue - rental income, less vacancies of \$23,417 in 2008	\$ 1,234,714	1,214,855
Operating expenses:		
Maintenance:		
Utilities	150,504	193,356
Repairs and maintenance	27,328	29,201
Snowplowing and landscaping	26,079	24,617
Cleaning costs	27,114	24,480
Trash removal	3,039	2,654
Miscellaneous	72	756
Total maintenance	<u>234,136</u>	<u>275,064</u>
Administrative:		
Management fee - ECIDA	39,000	55,000
Other third-party services	-	11,008
Audit	2,800	2,700
Legal	16,459	14,564
Miscellaneous	271	328
Total administrative	<u>58,530</u>	<u>83,600</u>
Taxes and insurance:		
Sewer assessments	10,003	10,101
Insurance	16,880	18,052
Total taxes and insurance	<u>26,883</u>	<u>28,153</u>
Total operating expenses	<u>319,549</u>	<u>386,817</u>
Increase in net assets from operating activities	<u>915,165</u>	<u>828,038</u>
Non-operating activities:		
Interest income	72	6,737
Other income	-	11,648
Interest expense	(231,285)	(274,231)
Depreciation and amortization	(383,500)	(388,661)
Net non-operating activities	<u>(614,713)</u>	<u>(644,507)</u>
Increase in unrestricted net assets	300,452	183,531
Unrestricted net assets at beginning of year	<u>3,248,347</u>	<u>3,064,816</u>
Unrestricted net assets at end of year	<u>\$ 3,548,799</u>	<u>3,248,347</u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Cash Flows
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 300,452	183,531
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	383,500	388,661
Changes in:		
Other assets	-	(22,252)
Accounts payable	58	(12,952)
Accrued expenses	(836)	(22,517)
Deferred revenue	11,343	-
Due to affiliate	59,156	62,817
Security deposits payable	<u>(100,000)</u>	<u>2,993</u>
Net cash provided by operating activities	<u>653,673</u>	<u>580,281</u>
Cash flows from investing activities - additions to property and equipment	<u>(140,612)</u>	<u>(504,489)</u>
Cash flows from financing activities:		
Repayment of demand note payable to affiliate	(129,006)	(150,000)
Repayment of mortgages payable	<u>(202,918)</u>	<u>(294,567)</u>
Net cash used in financing activities	<u>(331,924)</u>	<u>(444,567)</u>
Net increase (decrease) in cash and equivalents	181,137	(368,775)
Cash and equivalents at beginning of year	<u>183,165</u>	<u>551,940</u>
Cash and equivalents at end of year	<u>\$ 364,302</u>	<u>183,165</u>
Supplemental disclosures of cash flow information - cash paid during the years for interest	<u>\$ 231,285</u>	<u>274,231</u>
Non-cash investing activities:		
Property financed through accounts payable	<u>\$ 1,924</u>	<u>49,766</u>
Property retired and fully depreciated	<u>\$ 2,768</u>	<u>-</u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

ATC of Buffalo and Erie County, Inc. (ATC) was created for the purpose of developing, through a public-private alliance of business, education and government, a responsive training facility in the Buffalo area to meet the human resource development needs of area businesses. In 2003, ATC discontinued the training center and leased the majority of its space to the Enterprise Charter School (the School), a not-for-profit organization with a school charter issued by the Buffalo Board of Education.

ATC has a related party relationship with Erie County Industrial Development Agency (ECIDA), Buffalo and Erie County Industrial Land Development Corporation (ILDC) and Buffalo and Erie County Regional Development Corporation (RDC). All four entities are managed by the same personnel. These entities share the same mission, which is to provide the resources that encourage investment, innovation, growth and global competitiveness thereby creating a successful business climate that benefits the residents of the region.

(b) Basis of Presentation

ATC 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. ATC had only unrestricted 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.

(d) Cash and Equivalents

For the purpose of the statements of cash flows, ATC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(e) Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over an estimated useful asset life of 3 to 40 years. Leasehold improvements are stated at cost, net of accumulated amortization. Amortization is computed on the straight-line method not to exceed 30 years.

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Long-Lived Assets

ATC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In determining whether there is an impairment of long-lived assets, ATC compares the sum of the expected future net cash flows (undiscounted and without interest charges) to the carrying amount of the assets. At December 31, 2009, no impairment in value has been recognized.

(g) Rental Income

ATC recognizes rental income on a monthly basis in accordance with the terms of the operating leases that ATC has with its tenants.

(h) 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 ATC's accounting policies. The adoption of the Codification did not have a material impact on the ATC's financial position or results of operations.

(i) Subsequent Events

ATC 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.

(j) Income Taxes

ATC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for taxes is reflected in these financial statements.

(2) Collateralization

As of December 31, 2009 and 2008, cash and equivalents consisted of \$364,302 and \$183,165, respectively, in checking and savings accounts. The checking and money market funds are stated at fair value, which equal their cost, and were fully insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2009 and 2008 in accordance with the ATC's investment policy.

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements, Continued

(3) Property and Equipment

Property and equipment at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 200,000	200,000
Buildings	9,010,752	8,992,754
Furniture and fixtures	186,882	175,191
Equipment	222,769	162,456
Leasehold improvements	<u>3,631,683</u>	<u>3,631,683</u>
Total property and equipment	13,252,086	13,162,084
Less accumulated depreciation and amortization	<u>(4,992,418)</u>	<u>(4,626,521)</u>
Net property and equipment	\$ <u>8,259,668</u>	<u>8,535,563</u>

(4) Mortgages Payable

At December 31, 2009 and 2008, ATC was indebted under the following mortgages:

	<u>2009</u>	<u>2008</u>
Mortgage payable to M&T Real Estate Trust, which was refinanced in 2008, with interest fixed at 4.5%, payable in monthly installments of \$23,602 including interest with an amortization period of 20 years, secured by real estate and guaranteed by ECIDA. A balloon payment of \$3,530,155 is due on June 30, 2010.	\$ 3,594,036	3,710,419
Mortgage payable to Buffalo Economic Renaissance Corporation, interest fixed at 8%, payable in monthly installments of \$11,290 including interest, subject to acceleration of principal on the occurrence of certain events, due January 1, 2015, secured by real estate.	<u>564,330</u>	<u>650,865</u>
Total mortgages payable	4,158,366	4,361,284
Less current installments	<u>(3,687,755)</u>	<u>(202,918)</u>
Mortgages payable, less current installments	\$ <u>470,611</u>	<u>4,158,366</u>

Principal payments due subsequent to December 31, 2009 are as follows:

2010	\$ 3,687,755
2011	101,498
2012	109,922
2013	119,046
2014	128,927
Thereafter	<u>11,218</u>
	\$ <u>4,158,366</u>

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements, Continued

(5) Demand Note Payable

The demand note payable is a secured loan that partially funded the purchase of the ATC facility complex in April 2001. The note, which amounted to \$645,717 at December 31, 2009 and 2008, bears interest at LIBOR plus 2% (2.234% at December 31, 2009) and is payable to Manufacturers and Traders Trust Company. The note is guaranteed by ECIDA and secured by a certificate of deposit in the amount of \$650,000 held by ECIDA.

(6) Related Party Transactions

ECIDA allocates a portion of its personnel and overhead costs to ATC under a cost allocation plan. ATC was charged \$39,000 and \$55,000 for the years ended December 31, 2009 and 2008, respectively, for such costs. In addition, ATC provides space, utilities and parking to ECIDA. Rental income from ECIDA amounted to \$197,030 and \$273,464 for the years ended December 31, 2009 and 2008, respectively. ATC owed \$189,011 and \$129,855 at December 31, 2009 and 2008 respectively, for costs allocated by ECIDA.

ATC held a security deposit from ECIDA for the rental of its facility in the amount of \$100,000 at December 31, 2008. The current lease does not require a security deposit and ATC returned the deposit to ECIDA in 2009.

The Board of Directors of ILDC approved funding of up to \$850,000 to ATC to provide for remodeling and reconstruction of the ATC facility. The funding was provided by the ILDC's Urban Development Action Grant Fund. At December 31, 2008, the amount due for the demand note was \$129,006 and was due on August 1, 2009. ATC paid the note in full during 2009.

(7) Leases

ATC acts as a lessor in several operating leases for office and educational space. The following is a schedule of minimum future rentals receivable under noncancellable operating leases as of December 31, 2009:

2010	\$ 920,835
2011	857,042
2012	851,056
2013	619,185
2014	141,252
Thereafter	<u>447,298</u>
	\$ <u>3,836,668</u>

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements, Continued

(7) Leases, Continued

On June 1, 2003, the School entered into a lease agreement, effective August 18, 2003, for five years. On May 16, 2008, this agreement was renewed for an additional five years. Beginning September 1, 2008, the base rent amounted to \$850,041. ATC and the School disagreed on certain terms of the lease and have agreed to arbitration in 2010. In April 2010, the arbitration decided in favor of the School. ATC is expected to pay the School approximately \$242,000, which includes interest. ATC is currently investigating methods of appeal.

Terms of the lease agreement, among others, provide for an option to purchase the property at a price based on the outstanding mortgage debt of ATC at the date of sale plus unamortized leasehold improvement costs, closing costs and \$500,000. The option to purchase the property expires on August 31, 2010.

Effective February 4, 2008, ATC entered into a sublease agreement with Upstate New York Transplant Services (UNYTS). The terms of the lease provide that UNYTS pay ATC \$40,715 each year through February 4, 2011.

Effective March 1, 2008, ATC entered into a sublease agreement with the New York State Division of Lottery (the Lottery). The terms of the lease provide that the Lottery pay ATC \$131,791 each year through February 28, 2013 and then \$141,252 each year for the five-year period through February 28, 2018.

(8) Economic Dependence

The ATC's lease with the School accounted for 69% and 64% of rental income in 2009 and 2008, respectively. The School's charter expires on June 30, 2013 and requires approval from the Buffalo School Board before being renewed.

TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DRIVE

WILLIAMSVILLE, NEW YORK 14221

TELEPHONE (716) 634-0700

FAX (716) 634-0764

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
ATC of Buffalo and Erie County, Inc.:

We have audited the financial statements of ATC of Buffalo and Erie County, Inc. (ATC) 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 ATC'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 ATC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ATC'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 ATC'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ATC'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 the ATC'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 ATC 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