

ERIE COUNTY INDUSTRIAL
DEVELOPMENT AGENCY

Management's Discussion and Analysis
and Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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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

Board of Directors

Erie County Industrial Development Agency:

We have audited the accompanying statements of net assets of Erie County Industrial Development Agency (the Agency) 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. We also have audited the Agency's internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Agency's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Agency's internal control over financial reporting 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, and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the

entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency 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. Also in our opinion, the Agency maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on Internal Control - Integrated Framework issued by COSO.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreement 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. 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.

Management's Discussion and Analysis as listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 38 to 40 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



MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Erie County Industrial Development Agency's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining effective internal control over financial reporting. Management assessed the effectiveness of Erie County Industrial Development Agency's internal control over financial reporting as of December 31, 2009, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework. Based on that assessment, management concluded that, as of December 31, 2009, Erie County Industrial Development Agency's internal control over financial reporting is effective based on the criteria established in Internal Control - Integrated Framework.

Erie County Industrial Development Agency
March 19, 2010

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2009

The Erie County Industrial Development Agency (ECIDA) is a public-benefit corporation that provides tax abatements, grant administration and other economic development services to the City of Buffalo and Erie County. In accomplishing its mission, the ECIDA does not receive any operational funding from Federal, State, County or local sources. Instead, the ECIDA relies primarily upon administrative fees charged to those companies that utilize its products and services.

As a public benefit corporation, the ECIDA is required to comply with accounting standards issued by the Governmental Accounting Standards Board. In 2005, the ECIDA adopted GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Under this standard, the ECIDA is required to present a management discussion and analysis (MD&A) to assist readers in understanding the ECIDA's financial performance.

In compliance with GASB No. 34, we present the attached overview and analysis of the financial activities of the ECIDA for the fiscal years ended December 31, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the ECIDA's audited financial statements.

Basic Overview of the Financial Statements

Included in this Annual Report are the following financial statements:

- 1) Statements of Net Assets - The Statements of Net Assets show the reader what the ECIDA owns (assets) and what the ECIDA owes (liabilities). The difference between the ECIDA's assets and liabilities (net assets) can be one way to measure ECIDA's financial position. Over time, increases or decreases in the ECIDA's net assets are one indicator of whether its financial health is improving or deteriorating.
- 2) Statements of Revenue, Expenses and Changes in Net Assets - This statement reports the ECIDA's operating and non-operating revenues by major source along with operating and non-operating expenses. The difference between total revenues and expenses can be one way to measure the ECIDA's operating results for the year.
- 3) Statements of Cash Flows - This statement reports the ECIDA's cash flows from operating, investing, and financing activities.

Corporate Restructuring

During 2009, the ECIDA restructured the operations of its affiliated organizations: the Buffalo and Erie County Industrial Land Development Corporation (ILDC) and ILDC's for-profit subsidiary Buffalo Niagara Regional Development Corporation (BNRDC). This restructuring allowed the ILDC to issue tax-exempt interest debt to assist local not-for-profit organizations in Erie County, New York finance projects at a lower cost. The restructuring also simplified the ECIDA's corporate structure and reduced income taxes payable on certain venture capital investments. As a result of the restructuring, the majority of BNRDC's and ILDC's assets were granted to the ECIDA resulting in grant revenue to the ECIDA of \$4.7 million in 2009.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

Financial Highlights

- The ECIDA's total net assets increased by approximately 77% from \$7.4 million in 2008 to \$13.1 million in 2009.
- The ECIDA experienced an "increase in net assets" (net profit) of \$5,785,587 in 2009 compared to a net profit of \$1,610,432 in 2008.
- Administrative fees, a key source of revenue for the ECIDA, increased by approximately 20% from \$2.0 million in 2008 to \$2.4 million in 2009.
- Operating expenses increased from \$2.6 million in 2008 to \$3.5 million in 2009, an increase of approximately 35%.

Condensed Comparative Financial Statements:

1. Net Assets:

The following table (Table 1) presents condensed comparative financial information and was derived from the audited balance sheet of the ECIDA.

Table 1
Net Assets as of December 31, 2009 and 2008
(Amounts in thousands)

	<u>2009</u>	<u>Restated 2008</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Net capital assets	\$ 151	154	(3)	(2%)
Special project grants receivable	3,588	3,470	118	3%
Notes receivable	1,009	129	880	682%
Equity investments	5,053	4,542	511	11%
Other investments	1,989	-	1,989	100%
Other assets	<u>10,238</u>	<u>6,375</u>	<u>3,863</u>	61%
Total assets	\$ <u>22,028</u>	<u>14,670</u>	<u>7,358</u>	50%
Liabilities:				
Current liabilities	4,333	4,432	(99)	(2%)
Long-term liabilities	<u>4,550</u>	<u>2,879</u>	<u>1,671</u>	58%
Total liabilities	<u>8,883</u>	<u>7,311</u>	<u>1,572</u>	22%
Net Assets:				
Invested in capital assets	151	154	(3)	(2%)
Restricted	9,131	4,152	4,979	120%
Unrestricted	<u>3,863</u>	<u>3,053</u>	<u>810</u>	27%
Total net assets	<u>13,145</u>	<u>7,359</u>	<u>5,786</u>	79%
Total liabilities and net assets	\$ <u>22,028</u>	<u>14,670</u>	<u>7,358</u>	50%

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

2008 Restatement - The 2008 financial statements were restated to reflect the transfer of an equity investment in Gemcor II LLC from BNRDC to the ECIDA effective January 1st, 2006 as outlined in Note 15 to the financial statements.

Special Project Grants Receivable - Special project grants receivable represents brownfield or infrastructure grants awarded to the ECIDA by New York State, Erie County and other sources, which have not been fully drawn down.

Notes Receivable & Other Investments - Loans Receivable & Other Investments were previously held by the ILDC/BNRDC and were transferred to the ECIDA as part of the Corporate Restructuring discussed above.

Equity Investment - Equity Investment represents the ECIDA's investment in Gemcor II LLC ("Gemcor"). The ECIDA utilizes the equity method of accounting for its investment in Gemcor which results in the Equity Investment balance being increased by ECIDA's share of Gemcor's net earnings less any distributions the ECIDA receives.

Other Assets - The increase in other assets of \$3.9 million, or 61% is due to a corresponding increase in cash and equivalents of \$3.7 million, or 69%. Cash and equivalents increased due to: 1) \$2.6 million in restricted UDAG cash that was transferred as part of the Corporate Restructuring discussed above, 2) a \$1.4 million increase in cash held on behalf of other organizations pursuant to certain Fund Administration Agreements and 3) various other timing differences related to the receipt and disbursement of cash.

Long-Term Liabilities - Long-term liabilities primarily consist of the long-term portion of deferred revenues on special project grants and a liability for a tax contingency. The \$1.7 million increase in long-term liabilities is primarily due to a new \$600,000 Bethlehem Steel grant and a \$1 million tax contingency.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

2. Change in Net Assets:

The following table (Table 2) presents condensed comparative financial information and was derived from the ECIDA's audited statements of revenue, expenses and changes in fund balance.

Table 2
Change in Net Assets for the Years ended December 31, 2009 and 2008
(Amounts in thousands)

	<u>2009</u>	<u>Restated 2008</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Administrative fees	\$ 2,443	1,963	480	24%
Affiliate management fees	241	332	(91)	(27%)
Other revenue	<u>809</u>	<u>466</u>	<u>343</u>	74%
Total revenue	<u>3,493</u>	<u>2,761</u>	<u>732</u>	27%
Expenses:				
Salaries and benefits	1,899	1,727	172	10%
General and administrative	991	811	180	22%
Administrative services fee	226	-	226	100%
Bad debt expense	345	-	345	100%
Depreciation and other	<u>82</u>	<u>49</u>	<u>33</u>	67%
Total expenses	<u>3,543</u>	<u>2,587</u>	<u>956</u>	27%
Increase (decrease) in net assets from operations before grants	<u>(50)</u>	<u>174</u>	<u>(224)</u>	(129%)
Grant income	4,677	-	4,677	100%
Earnings from equity investment	1,673	2,479	(806)	(33%)
Provision for tax contingency	(62)	(1,016)	954	(94%)
Unrealized investment loss	(466)	-	(466)	100%
Net special project grants	(24)	(55)	31	(56%)
Interest income, net	<u>38</u>	<u>28</u>	<u>10</u>	36%
Increase in net assets	<u>\$ 5,786</u>	<u>1,610</u>	<u>4,176</u>	259%

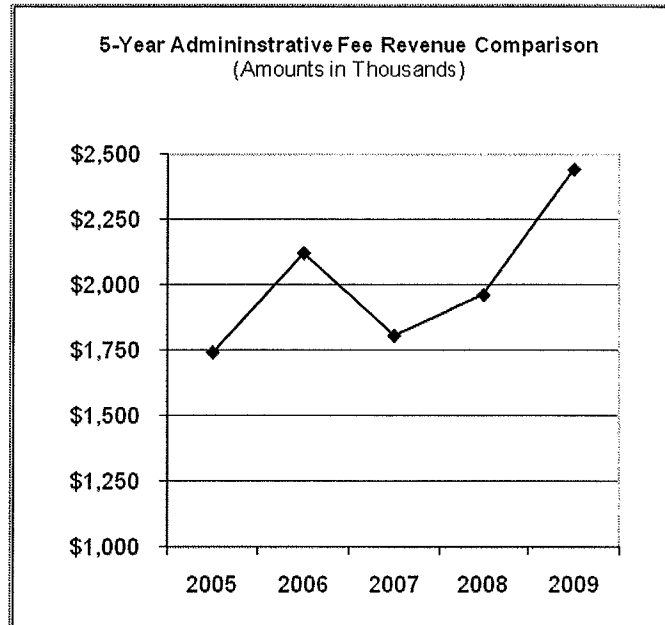
ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

3. Revenue Analysis:

Administrative Fee Revenue:

Administrative fees are primarily collected from the issuance of various forms of tax abatements. The ECIDA relies on these fees to cover its operating costs, however the amount of fees collected in any given year is largely dependent upon capital projects occurring in the local community serviced by the ECIDA.

Administrative fee revenue increased by \$480,000 or 24% in 2009. This increase was due to several large projects that occurred in 2009 including: the fourth phase of the Buffalo Schools Reconstruction Project, NRG Energy and Buffalo State College Housing Foundation Corp.



Affiliate Management Fees:

Affiliate management fees represent salaries and overhead costs charged to the ECIDA's affiliated companies (RDC, BUDC, ATC & ILDC) for services that the ECIDA's employees provide to these organizations. The following table (Table 3) illustrates the amounts charged to the ECIDA's affiliated corporations in 2009 with comparisons for 2008:

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

Table 3
Affiliate Management Fees for the Years ended December 31, 2009 and 2008
(Amounts in thousands)

	<u>2009</u>	<u>2008</u>	<u>\$ Change</u>	<u>% Change</u>
Affiliate Management Fees Charged:				
Buffalo & Erie County Regional Development Corporation (RDC)	\$ 201	172	29	17%
Buffalo Urban Development Corporation (BUDC)	1	40	(39)	(98%)
ATC of Buffalo & Erie County (ATC)	39	55	(16)	(29%)
Buffalo & Erie County Industrial Land Development Corp. (ILDC)	—	65	(65)	(100%)
Total Affiliate Management Fees	\$ <u>241</u>	<u>332</u>	<u>(91)</u>	<u>(27%)</u>

Affiliate management fees charged to RDC increased due to an overall increase in the number of loans funded from 18 loans in 2008 to 21 in 2009 as well as the full-year impact of a new Business Development Officer hired in late 2008 to increase awareness of the loan program. Affiliate management fees charged to ILDC were eliminated in 2009 due to the impact of the Corporate Restructuring in 2009 which resulted in the transfer of the majority of ILDC's assets to the ECIDA. Affiliate management fees charged to BUDC were suspended in 2009 due to BUDC's financial position and the ECIDA's desire to support development in the City of Buffalo.

Other Income:

Other income increased by \$343,000 or 74% due to the Corporate Restructuring discussed above which resulted in \$266,000 of additional rental income and \$51,000 in interest income from notes receivable. In addition, the ECIDA also increased sales of international credit reports to local exporters in 2009 leading to an increase in other income.

Grant Income:

Grant income represents the book value of the net assets that were granted by the ILDC to the ECIDA as part of the Corporate Restructuring.

Earnings from Equity Investment - Earnings from Equity Investment represents the ECIDA's proportionate share of net income derived from its venture capital investment in Gemcor II LLC.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

4. Expense Analysis:

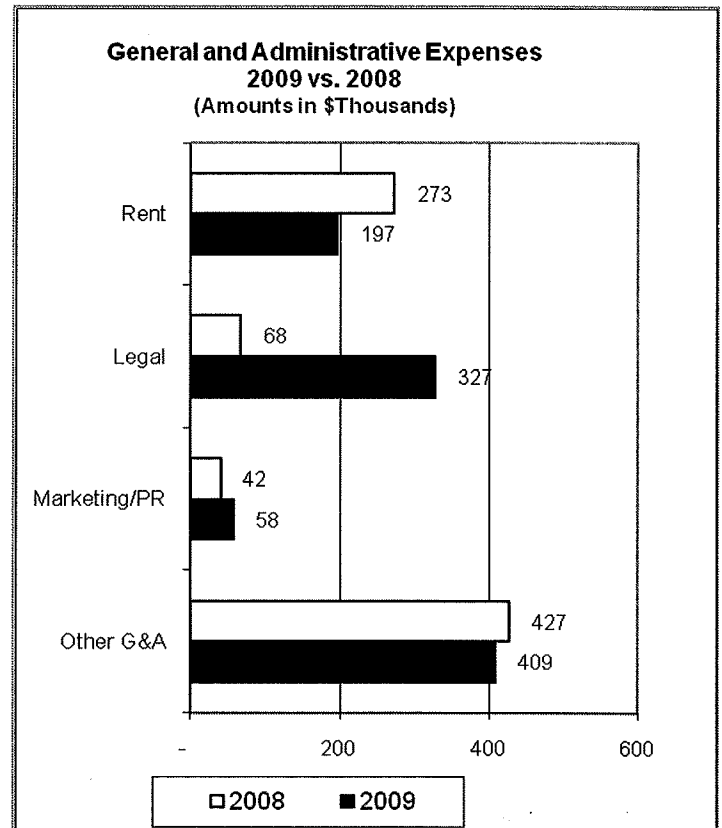
Salaries and Benefits:

Payroll costs increased by approximately \$172,000 or 10% in 2009. This increase is attributable to the full-year impact of a new Business Development Officer hired in November 2008 plus the impact of salary and benefit cost increases.

General & Administrative Expenses:

In 2009, General & Administrative expenses increased by 22% from \$811 thousand to \$991 thousand. Key expense differences in 2009 include the following:

- Rent decreased by \$76,000 or 28% due to the full year impact of a new lease agreement that was signed between the ECIDA and ATC effective July 1, 2008.
- Legal expenses increased by \$259,000 in 2009 due to the hiring of a new law firm that resulted in a complete review and overhaul of all ECIDA legal policies and procedures. In addition, the Corporate Restructuring resulted in increased costs due to the numerous legal documents that were required to effectuate the transfer the assets and liabilities of ILDC and BNRDC to the ECIDA. Finally, legal costs previously reflected in ILDC and BNRDC were charged to the ECIDA during 2009 resulting in an increase in this balance.
- Marketing/PR increased by \$16,000 or 38% due to increased use of a professional marketing/PR firm to assist the ECIDA with developing marketing material and drafting press releases.



ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

Administrative Services Assessment Fee

The Administrative services assessment fee represents a new tax imposed by New York State on industrial development agencies. This fee was assessed based on the ECIDA's 2008 gross revenue and is payable in 2010.

Bad Debt Expense & Unrealized Investment Loss

Bad debt expense and unrealized investment loss result from the Corporate Restructuring that resulted in loans receivable and venture capital investments being granted to ECIDA by ILDC.

Depreciation and Other

Depreciation and other expenses increased by \$33,000 primarily due to increased sales of international credit reports as discussed in "Other Income" above.

Provision for Tax Contingency

The provision for tax contingency decreased in 2009 from \$1 million to \$62,000. This decrease is a result of a reduction in taxes paid in 2009 as a result of the Corporate Restructuring discussed above.

5. Budget Analysis:

Each year, the ECIDA prepares a budget for the ECIDA and its affiliated organizations (RDC, ILDC, ATC and BUDC). Since the ECIDA does not control its affiliated organizations, separate unconsolidated budgets are prepared for each corporation. The ECIDA's unconsolidated budget was presented and approved by the Board of Director's on October 20, 2008. The following table (Table 4) on page 12 presents an analysis of the ECIDA's performance compared to the approved 2009 budget.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis, Continued

Table 4
Budget to Actual Analysis for the year ended December 31, 2009
(Amounts in thousands)

	<u>Actual</u>	<u>Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Administrative fees	\$ 2,443	1,836	607	33%
Affiliate management fees	241	448	(207)	(46%)
Other revenue	<u>809</u>	<u>442</u>	<u>367</u>	83%
Total revenue	<u>3,493</u>	<u>2,726</u>	<u>767</u>	28%
Expenses:				
Salaries and benefits	1,899	2,016	(117)	(6%)
General and administrative	991	692	299	43%
Admin services assessment fee	226	-	226	100%
Bad debt expense	345	-	345	100%
Depreciation and other	<u>82</u>	<u>68</u>	<u>14</u>	21%
Total expenses	<u>3,543</u>	<u>2,776</u>	<u>767</u>	28%
Increase (decrease) in net assets from				
operations before grants	<u>(50)</u>	<u>(50)</u>	<u>-</u>	0%
Grant income	4,677	-	4,677	100%
Earnings from equity invest.	1,673	-	1,673	100%
Provision for tax contingency	(62)	-	(62)	(100%)
Unrealized investment loss	(466)	-	(466)	100%
Net special project grants	(24)	-	(24)	(100%)
Interest income, net	<u>38</u>	<u>50</u>	<u>(12)</u>	(24%)
Increase in net assets	\$ <u>5,786</u>	<u>-</u>	<u>5,786</u>	100%

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

Budget to Actual Analysis:

Overall, the ECIDA exceeded its budgeted "increase in net assets" (net income) for 2009 by approximately \$5,786,000 due primarily to the Corporate Restructuring that resulted in a grant of \$4,677,000 from the ILDC and the related "earnings from equity investment" of \$1,673,000. Both administrative fees and total revenue exceeded budget due to three large projects that occurred in 2009 as discussed in Section 3 as well as the impact of a new Adaptive Re-use tax incentive policy. Salaries and benefits were 6% lower than budget due to the ECIDA not filling two budgeted positions (a Business Development / Development Project Manager and a Compliance & Reporting Officer). All other expenses exceeded budget due to the impact of the Corporate Restructuring as discussed in Section 4.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

6. Economic Factors Impacting the ECIDA:

The ECIDA relies extensively upon administrative fees to generate the majority of its annual revenue. As a result of the global recession, the ECIDA has begun to experience a reduction in administrative fees due to local businesses cancelling or postponing their capital investment projects. In addition, the New York State legislature continues to introduce legislation that could seriously impact the ECIDA's ability to provide meaningful incentives to companies investing in the region. Consequently, the ECIDA may experience reduced administrative fee revenue if this legislation were to be enacted.

7. Requests for Information:

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

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Net Assets
 December 31, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>Restated 2008</u>
Current assets:		
Cash and equivalents	\$ 2,431,459	2,758,505
Restricted cash	<u>6,530,570</u>	<u>2,541,090</u>
Total cash and equivalents	<u>8,962,029</u>	<u>5,299,595</u>
Receivables:		
Interest	6,398	-
Distributions	79,370	18,523
Special project grants	567,714	1,278,982
Conduit	106,855	145,884
Notes	178,312	-
Affiliates	759,120	271,653
Other	<u>54,375</u>	<u>100,409</u>
Total receivables	<u>1,752,144</u>	<u>1,815,451</u>
Prepaid expenses	<u>34,064</u>	<u>100,431</u>
Total current assets	<u>10,748,237</u>	<u>7,215,477</u>
Long-term receivables:		
Special project grants receivable, less current portion	3,020,431	2,190,533
Conduit receivables, less current portion	234,985	338,278
Notes, less current portion, net of allowance of \$363,351 in 2009	<u>831,145</u>	<u>129,168</u>
Total long-term receivables	<u>4,086,561</u>	<u>2,657,979</u>
Security deposit with affiliate	-	100,000
Rental property, less accumulated depreciation	144,000	144,000
Equipment, less accumulated depreciation	6,884	10,481
Equity investment	5,053,239	4,542,332
Other investments at fair value	<u>1,989,179</u>	<u>-</u>
Total assets	<u>\$ 22,028,100</u>	<u>14,670,269</u>

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Assets, Continued

<u>Liabilities and Net Assets</u>	<u>2009</u>	<u>Restated 2008</u>
Current liabilities:		
Accounts payable	\$ 628,106	1,419,429
Accrued expenses	234,400	362,436
Deferred revenue	21,922	-
Current portion of conduit debt	43,551	140,406
Current portion of deferred revenues on special project grants	268,190	743,803
Funds held on behalf of others	<u>3,137,272</u>	<u>1,766,311</u>
Total current liabilities	4,333,441	4,432,385
Tax contingency, net	980,520	-
Conduit debt, less current portion	65,326	338,279
Deferred revenues on special project grants, less current portion	3,353,658	2,540,037
Participations	<u>150,000</u>	<u>-</u>
Total liabilities	<u>8,882,945</u>	<u>7,310,701</u>
Net assets:		
Invested in capital assets	150,884	154,481
Unrestricted	3,862,863	3,053,178
Restricted net assets	<u>9,131,408</u>	<u>4,151,909</u>
Total net assets	<u>13,145,155</u>	<u>7,359,568</u>
Contingencies (note 19)	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 22,028,100</u>	<u>14,670,269</u>

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>Restated 2008</u>
Operating revenue:		
Administrative fees	\$ 2,442,687	1,963,243
Affiliate management fees	241,402	331,786
Rental income	314,060	47,942
Interest income	67,508	16,591
Other income	<u>425,731</u>	<u>401,835</u>
Total operating revenue	<u>3,491,388</u>	<u>2,761,397</u>
Operating expenses:		
Salaries and benefits	1,898,537	1,727,315
General and administrative	990,676	810,712
Administrative services assessment fee	226,240	-
Bad debt expense	344,860	-
Depreciation of equipment and leasehold improvements	3,597	5,051
Other	<u>78,442</u>	<u>44,583</u>
Total operating expenses	<u>3,542,352</u>	<u>2,587,661</u>
Increase (decrease) in net assets from operations before special projects grants	(50,964)	173,736
Special project grants:		
Revenue	850,889	2,000,846
Expenses	<u>(874,668)</u>	<u>(2,055,964)</u>
Net special project grants	<u>(23,779)</u>	<u>(55,118)</u>
Increase (decrease) in net assets from operations	<u>(74,743)</u>	<u>118,618</u>
Non-operating activities:		
Grant income	4,676,954	-
Earnings from equity investment	1,673,280	2,479,307
Provision for tax contingency	(61,907)	(1,016,378)
Unrealized investment loss	(466,492)	-
Interest income	44,957	40,505
Interest expense	<u>(6,462)</u>	<u>(11,620)</u>
Total non-operating activities	<u>5,860,330</u>	<u>1,491,814</u>
Increase in net assets	<u>5,785,587</u>	<u>1,610,432</u>
Net assets at beginning of year, as previously stated	7,359,568	2,956,267
Restatement of net assets	-	<u>2,792,869</u>
Net assets at beginning of year, as restated	<u>7,359,568</u>	<u>5,749,136</u>
Net assets at end of year	<u>\$ 13,145,155</u>	<u>7,359,568</u>

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Cash Flows
 Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>Restated 2008</u>
Cash flows from operating activities:		
Special project grants received	\$ 954,689	3,892,713
Special project grants disbursed	(673,237)	(2,927,895)
Fees received	2,435,580	2,543,168
Rental income received	314,060	47,942
Interest income received from loans	63,110	16,591
Payments to employees and vendors	(4,104,730)	(1,817,588)
Other income received	<u>513,827</u>	<u>384,326</u>
Net cash provided by (used in) operating activities	<u>(496,701)</u>	<u>2,139,257</u>
Cash flows from investing activities:		
Distributions received	1,101,526	974,287
Taxes refunded	980,520	-
Taxes paid	(61,907)	(1,016,378)
Receipts from other investments	1,563	-
Receipts from conduit receivables	142,322	186,277
Repayments received on notes receivable	253,276	-
Grant from ILDC, excluding non-cash items	475,690	-
Return of deposit with affiliate	100,000	-
Receipt of demand note from affiliate	129,006	-
Increase in funds held on the behalf of others	1,370,960	203,052
Interest income	<u>44,957</u>	<u>40,505</u>
Net cash provided by investing activities	<u>4,537,913</u>	<u>387,743</u>
Cash flows from financing activities:		
Repayment of long-term debt and participations	(372,316)	(191,429)
Interest expense	<u>(6,462)</u>	<u>(11,620)</u>
Net cash provided by (used in) financing activities	<u>(378,778)</u>	<u>(203,049)</u>
Net increase in cash and equivalents	3,662,434	2,323,951
Cash and equivalents at beginning of year	<u>5,299,595</u>	<u>2,975,644</u>
Cash and equivalents at end of year	<u>\$ 8,962,029</u>	<u>5,299,595</u>

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows, Continued

	<u>2009</u>	<u>Restated</u> <u>2008</u>
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	\$ (74,743)	118,618
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation of equipment and leasehold improvements	3,597	5,051
Provision for loan losses	344,860	-
Changes in:		
Receivables	(61,011)	2,122,497
Prepaid expenses	66,367	(72,207)
Accounts payable	(849,166)	857,990
Accrued expenses	(128,036)	(20,761)
Deferred revenues	<u>201,431</u>	<u>(871,931)</u>
Net cash provided by (used in) operating activities	<u>\$ (496,701)</u>	<u>2,139,257</u>
Reconciliation of non-cash items granted to (assumed by) the Agency:		
Interest receivable	2,000	-
Special project grant receivable	149,299	-
Receivables from affiliates	238,958	-
Loans receivable, net of allowance of \$63,900	1,478,425	-
Demand note from affiliate	129,006	-
Other investments at fair value	2,457,234	-
Lease receivable	42,061	-
Accounts payable	(57,842)	-
Deferred revenue	(85,369)	-
Participations payable	<u>(152,508)</u>	<u>-</u>
Total non-cash items	4,201,264	-
Cash	<u>475,690</u>	<u>-</u>
Total grant to the Agency	<u>\$ 4,676,954</u>	<u>-</u>

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Erie County Industrial Development Agency (the Agency) was created in 1970 by an act of the Legislature of the State of New York (NYS) for the purpose of encouraging financially sound companies to establish themselves and prosper in Erie County (the County).

The Agency has related party relationships with the Buffalo and Erie County Industrial Land Development Corporation (ILDC), the Buffalo and Erie County Regional Development Corporation (RDC), and ATC of Buffalo and Erie County, Inc. (ATC). The same personnel manage all four entities. 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.

In 2009, ILDC by-laws and organizing documents were amended to reflect a change in its purpose. Effective January 1, 2009, all activities, except for the SBA Microloan Fund (SBA Microloan) and the Erie County Business Development Fund (Erie County BDF), were granted by resolution of the Board of ILDC to ECIDA. This change was made to allow for ILDC to provide tax-exempt financing to not-for-profit organizations.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance 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 Agency applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The Agency has evaluated the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, that was effective for the Agency for the year ended December 31, 2008, and has determined that there is no effect on the Agency's financial statements as the Agency does not currently pay for any post-employment benefits for its retirees. GASB Statement No. 49 - "Accounting for Pollution Remediation Obligations," established standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. The requirements of the Statement became effective 2008. Management has determined that this statement does not have a material effect on the financial statements of the Agency.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Reporting Entity

The financial reporting entity includes organizations, functions, and activities over which appointed officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing Agency, designation of management, ability to significantly influence operations, and accountability for fiscal matters. No other organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary entity which is the Erie County Industrial Development Agency, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary entity is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement No. 14 as amended by GASB No. 39. The decision to include a potential unit in the Agency's reporting entity is based on several criteria set forth in GASB Statement No. 14, as amended by GASB No. 39, including legal standing, fiscal dependency, and financial accountability.

(d) Restricted Net Assets

Restricted net assets consist of Urban Development Action Grant Funds (UDAG). These assets are deemed restricted based on the fact that they can be used only as defined by criteria within the UDAG grant agreements.

(e) 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.

(f) Cash and Equivalents

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

(g) Notes Receivable and Allowance for Doubtful Notes

Notes receivable are stated at their principal amount outstanding, less an allowance for doubtful notes. Notes are accounted for from inception within the individual fund from which the grant funds were received. Similarly, interest income and commitment fees on notes are recorded directly to the individual fund in which the note is maintained. The allowance for doubtful notes is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential losses based on an evaluation of past loan experience, current economic conditions and known risks in the loan portfolio. Interest is not accrued on notes receivable when management believes that the borrower's financial condition after giving consideration to economic and business conditions and collection efforts, is such that collection of interest is doubtful. In such cases, interest is recognized on a cash basis when collection occurs.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(h) Equity Investment

The Agency has a one-third investment in Gemcor II, LLC (Gemcor). The Agency accounts for this investment in accordance with the equity method, which applies to investments made in an enterprise greater than 20% and less than 50%. In accordance with this accounting method, equity investments are recorded at original cost plus increases or decreases in its share of net income or loss, less distributions received.

(i) Other Investments

The Agency has acquired, from its affiliate ILDC, several venture capital investments in local private companies. The Agency accounts for these investments at lower of cost or fair value as determined by management based on recurring financial analysis or valuations published by a publicly traded venture capital company that also invests in the same local private companies.

(j) Stock Purchase Option Accounting

In connection with certain loans, the Agency has received, at no cost, stock purchase options from the borrower. The borrower is sometimes given the right to repurchase these options from the Agency at a predetermined price. The Agency does not allocate a cost to these options when received, and has determined that these options have no recordable value at December 31, 2009.

(k) Industrial Development Revenue Bond and Note Transactions

Industrial development revenue bonds and notes issued by the Agency are secured by the properties that are leased to companies and are retired by lease payments. The conduit debt arising from bonds and notes are not obligations of the Agency, the County or NYS. The Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to facilitate the financing between the borrowing companies and the bond and note holders. The Agency receives bond administrative fees from the borrowing companies for providing this service. The original issue value of bonds and notes issued by the Agency aggregated approximately \$303 million and \$201 million in 2009 and 2008, respectively.

(l) Lease Transactions

The Agency maintains a lease program to provide state and local tax benefits to companies developing commercial properties. Under this program, the Agency receives title or a leasehold interest to properties under development, and leases the property to the previous title holder (lessee). Title to these properties is transferred to the lessee at the end of the maximum tax benefit period or at any time during the lease period at the option of the lessee. The Agency does not record assets acquired under the lease program since the leases are capital leases to the lessee. The Agency receives administrative fees from the lessee for providing the service. Such administrative fee income is recognized at lease inception (unconditional lease) or over the term of the lease (conditional lease) depending on the terms of the agreement. The original value of the property leased by the Agency aggregated approximately \$277.6 million and \$152.6 million in 2009 and 2008, respectively.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(m) Capitalization and Depreciation

Rental property and equipment are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenses for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of revenue, expenses and changes in net assets.

(n) Grant and Loan Accounting

The Agency receives special project grants from various local governments, as well as from New York State (NYS), awarded through the Department of Transportation (DOT), Empire State Development Corporation (ESDC) or the Department of Environmental Conservation. The Agency also acts as a pass-through entity for certain companies who receive funding from various NYS departments including DOT, ESDC and the Department of Economic Development Industrial Infrastructure Development Program (DED). In certain cases, funding is received in the form of a combination of a grant and a loan. One year after completion of the specified project and NYS approval and acceptance, companies begin repaying the loan. A long-term liability and a repayment plan receivable are established as the companies receiving the funding from NYS have contractually obligated themselves to repay the Agency for its debt-service requirements to NYS. The payment terms of the conduit receivables are equivalent to terms of the Agency's loans to NYS.

(o) Rental Property

In 1989, the Agency developed a public warehouse and trans-shipment facility (the Port Terminal Facility) at the Gateway Metroport facility in the City of Lackawanna. The Port Terminal Facility provides enclosed storage facilities and materials handling services for the transshipment of goods by water, rail and truck. The facility is owned by the Agency and is operated by Gateway Trade Center, Inc. Rental property is recorded at cost which includes all costs incurred during the development stage, net of accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

(p) Affiliate Management Fees

The Agency incurs personnel and overhead costs on behalf of its affiliates, which include RDC, ILDC and ATC. The affiliates are generally charged for their proportionate share of such costs under a cost allocation plan which results in the recognition of affiliate management fees by the Agency.

(q) Income Taxes

The Agency is a quasi-governmental organization. The Agency is not subject to federal or state income taxes, nor is it required to file federal or state income tax returns; therefore, no provision for income taxes is reflected in these financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(2) Cash and Equivalents

Deposits in bank accounts in the Agency's name in financial institutions are covered by federal depository insurance and other collateral that has been assigned to funds over the FDIC coverage. The Chief Financial Officer of the Agency is authorized to use demand accounts and repurchase agreements. Permissible investments include obligations of the U.S. Treasury and obligations of NYS and its localities. Collateral is required for demand deposits and repurchase agreements at 102% of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

At December 31, 2009, the Agency's financial institution bank account balances amounted to \$9,148,205. These balances included checking and money market accounts and certificates of deposit. Deposits are recorded at cost plus accrued interest and categorized as either:

- (A) FDIC insured, or
- (B) Collateralized with securities held by the pledging financial institution in the Agency's name, or
- (C) Uncollateralized

Total deposits are categorized as follows:

<u>A</u>	<u>B</u>	<u>C</u>
\$ <u>1,175,540</u>	<u>7,972,665</u>	<u>-</u>

Cash and equivalents at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Checking accounts	\$ 599,915	1,434,490
Petty cash	100	100
Money market accounts	5,962,014	3,215,005
Certificate of Deposit - 0.40% due on March 31, 2009, restricted to secure ATC's second mortgage	-	650,000
Certificate of Deposit - 0.10% due on March 1, 2010	750,000	-
Certificate of Deposit - 0.10% due on March 31, 2010	1,000,000	-
Certificate of Deposit - 0.10% due on March 31, 2010, restricted to secure ATC's second mortgage	<u>650,000</u>	<u>-</u>
Total cash and equivalents	\$ <u>8,962,029</u>	<u>5,299,595</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(2) Cash and Equivalents, Continued

Restricted cash at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Funds held on behalf of others:		
Regionally Significant Project Fund - Buffalo Economic Renaissance Corporation	\$ 17,387	-
Regionally Significant Project Fund - Buffalo Urban Development Corporation	26,091	-
Buffalo Brownfields Redevelopment Fund - Buffalo Urban Development Corporation	1,452,737	499,321
Regional Redevelopment Fund - Erie County	<u>1,641,057</u>	<u>1,266,990</u>
	3,137,272	1,766,311
Other:		
Railway Trust Fund	126,501	124,779
Certificate of deposit - to secure ATC's second mortgage	650,000	650,000
UDAG Fund	<u>2,616,797</u>	-
Total restricted cash	\$ <u>6,530,570</u>	<u>2,541,090</u>

(3) Special Project Grants Receivable

The following is a list of special project grants receivable at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
DOT - Bethlehem Steel	\$ 545,958	-
DOT - Buffalo Southern	24,581	24,581
DOT - Buffalo Southern 2	-	5,657
DOT - CrossPoint Business Park	-	104,500
DOT - General Mills	-	59,250
Erie County/NYS/National Grid - Spaulding Fibre	2,699,832	2,966,906
Erie County - Union Ship	-	62,818
Erie County - Union Ship Phase 2	-	117,328
ESDC - Buffalo Wi-Fi	149,299	-
ESDC - Trade Missions	<u>168,475</u>	<u>128,475</u>
Total special project grants	3,588,145	3,469,515
Less current portion	<u>(567,714)</u>	<u>(1,278,982)</u>
Special project grants receivable, less current portion	\$ <u>3,020,431</u>	<u>2,190,533</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(4) Deferred Revenues on Special Project Grants

The following is a list of deferred revenues on special project grants at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
DOT - Bethlehem Steel	\$ 503,380	-
DOT - Buffalo Southern	24,315	24,315
DOT - Buffalo Southern 2	-	5,614
DOT - CrossPoint Business Park	115,991	61,992
DOT - Union Ship Phase 2	-	2,707
Erie County/NYS/National Grid - Spaulding Fibre	2,906,254	3,079,913
Erie County - Union Ship	-	62,818
ESDC - Buffalo Wi-Fi	63,446	-
ESDC - Trade Missions	<u>8,462</u>	<u>46,481</u>
Total deferred revenue on special project grants	3,621,848	3,283,840
Less current portion	<u>(268,190)</u>	<u>(743,803)</u>
Deferred revenue on special projects, less current portion	\$ <u>3,353,658</u>	<u>2,540,037</u>

The Agency's responsibilities relating to these grants is to provide services in accordance with the grant requirements and to contract with external parties for services that the Agency is unable to perform. Certain transactions as well as interest earnings on grant funds create project revenue which can only be used to pay for qualified project costs. The grants receivable are collected over varying terms depending upon the specifics of the grants.

The following is a summary of the significant special project grants entered into by the Agency:

- DOT - Bethlehem Steel - Funding represents a grant awarded by DOT under the Multi-Modal Program for the purpose of improving rail road service on the former Bethlehem Steel site.
- DOT - Buffalo Southern - Funding represents a grant awarded by DOT to rehabilitate the track and track structure of the Buffalo Southern Railroad between the City and the Village of Gowanda.
- DOT - Buffalo Southern 2 - Funding represents a grant awarded by DOT to Buffalo Southern Railroad to rehabilitate track and railroad crossings in the County.
- DOT - CrossPoint Business Park - Funding represents various grants by DOT under the Industrial Access Program and Uniland Development Company to be used for design and construction of various road improvements at the CrossPoint Business Park in the Town of Amherst.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(4) Deferred Revenues on Special Project Grants, Continued

- DOT - General Mills - Funding represents a grant awarded by DOT to reconstruct 1,100 linear feet of rail siding, including a grade crossing at the General Mills' cereal facility in the City.
- DOT - Union Ship Phase 2 - Funding represents a grant awarded by DOT for construction of infrastructure at the Buffalo Lakeside Commerce Park.
- Erie County/NYS/National Grid - Spaulding Fibre - Funding represents a grant by the County to match funds provided by NYS and National Grid to conduct demolition, environmental investigation and remediation at the former Spaulding Fibre site in Tonawanda.
- Erie County - Union Ship and Union Ship Phase 2 - Funding represents a grant awarded by the County for design and construction of roadways, sewers and lighting at the Buffalo Lakeside Commerce Park (formerly Union Ship canal).
- ESDC - Buffalo Wi-Fi - Funding represents a grant from Empire State Development Corporation (ESDC) to establish free, public wireless broadband telecommunications infrastructure and services within the City of Buffalo.
- ESDC - Trade Missions - Funding represents a grant from ESDC to assist companies market their products at various international trade shows, trade missions and through other activities to enhance their ability to compete internationally.

(5) Conduit Receivables

The following is a list of conduit receivables at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
HSBC Bank (payments-in-lieu of taxes)	\$ -	37,442
Harlequin Sales Corporation	39,095	67,408
Sonwil Distribution Center	67,157	80,890
TSV, Inc. (Servotronics)	126,711	145,994
Speed Transportation	<u>108,877</u>	<u>152,428</u>
Total conduit receivables	341,840	484,162
Less current portion	<u>(106,855)</u>	<u>(145,884)</u>
Conduit receivables, less current portion	\$ <u>234,985</u>	<u>338,278</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(6) Notes Receivable

Notes receivable represent loans made to local businesses to compliment private financing at interest rates between 0% and 18% with varying repayment terms. At December 31, 2009 and 2008, notes receivable were comprised of the following:

	<u>2009</u>	<u>2008</u>
Notes receivable	\$ 1,372,808	129,168
Less allowance for doubtful loans	<u>(363,351)</u>	<u>-</u>
	1,009,457	129,168
Amounts due in one year	<u>(178,312)</u>	<u>-</u>
Notes receivable, long-term	\$ <u><u>831,145</u></u>	<u><u>129,168</u></u>

(7) Allowance for Doubtful Loans

Changes in the allowance for doubtful loans for the years ended December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ -	-
Amount granted from ILDC	63,900	-
Provision for loan losses	344,860	-
Write-off of uncollectible loans	<u>(45,409)</u>	<u>-</u>
Balance at end of year	\$ <u><u>363,351</u></u>	<u><u>-</u></u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(8) Equity Investment

The Agency owns 25 membership units, which represents one-third ownership, in Gemcor, initially purchased at \$500,000. The Agency and two other investors each have an equal (33.33%) equity share and voting rights. The Agency has declined a seat on the Board of Managers and does not participate in the operations or management decisions of Gemcor. The Agency's equity investment in Gemcor as of December 31, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 4,542,332	3,055,835
Equity in earnings from Gemcor	1,673,280	2,479,307
Less distributions	<u>(1,162,373)</u>	<u>(992,810)</u>
Total equity investment at end of year	\$ <u>5,053,239</u>	<u>4,542,332</u>

(9) Other Investments

Other investments consist of venture capital investments in local, privately-owned companies and amounted to \$1,989,179 December 31, 2009. These investments were granted to the Agency from ILDC at January 1, 2009 (Note 16). The following reconciles the beginning to ending balance of other investments:

Other investments at beginning of year	\$ -	
Grant of other investments at fair value from ILDC	2,457,234	
Return of capital	(1,563)	
Unrealized loss on investments	<u>(466,492)</u>	
Total other investments at end of year	\$ <u>1,989,179</u>	

(10) Rental Property

A summary of rental property at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 144,000	144,000
Buildings and improvements	<u>1,383,424</u>	<u>1,383,424</u>
Total rental property	1,527,424	1,527,424
Less accumulated depreciation	<u>(1,383,424)</u>	<u>(1,383,424)</u>
Net rental property	\$ <u>144,000</u>	<u>144,000</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(10) Rental Property, Continued

Gateway Trade Center, Inc. manages the ECIDA's Port Terminal Facility in exchange for a portion of the revenue and net income generated from the facility. The ECIDA's share of net income related to this property amounted to \$61,695 and \$47,942 for the years ended December 31, 2009 and 2008, respectively. At December 31, 2009, the buildings and improvements were fully depreciated.

Rental income of \$252,365 for the year ended December 31, 2009 is related to property that was granted from ILDC to ECIDA as of January 1, 2009. The tenant had the option to purchase the property at no cost and exercised this option in June 2009.

Total rental income amounted to \$314,060 and \$47,942 for the years ended December 31, 2009 and 2008, respectively.

(11) Equipment

A summary of equipment at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Equipment	\$ 52,518	64,324
Leasehold improvements	<u>2,550</u>	<u>2,550</u>
Total equipment	55,068	66,874
Less accumulated depreciation	(48,184)	(56,393)
Net equipment	\$ <u>6,884</u>	<u>10,481</u>

Depreciation expense relating to equipment and leasehold improvements amounted to \$3,597 and \$5,051 for the years ended December 31, 2009 and 2008, respectively. Depreciation is computed using the straight-line method based on estimated useful lives ranging from three to ten years. In 2009, the Agency disposed of fully depreciated obsolete equipment of \$11,806.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(12) Conduit Debt

Conduit debt at December 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
HSBC Bank Project Funding:		
Loan payable to DED	\$ -	4,090
Loan payable to ESDC	-	31,329
Harlequin Project Funding - loan payable to ESDC	-	65,081
Sonwil Distribution Center Project Funding - loan payable to ESDC	-	79,763
TSV, Inc. (Servotronics) Project Funding - loan payable to ESDC	-	145,994
Speed Transportation Project Funding - loan payable to DOT	<u>108,877</u>	<u>152,428</u>
Total conduit debt	108,877	478,685
Less current portion	<u>(43,551)</u>	<u>(140,406)</u>
Conduit debt, less current portion	\$ <u>65,326</u>	<u>338,279</u>

The following is a summary of the various conduit debt obligations:

- HSBC Bank Project Funding - Funding represents a series of loans from DED and ESDC for the development of an office facility in downtown Buffalo, New York by HSBC Bank, N.A. The loan payable to DED bears interest at 3% and is payable in quarterly installments of principal and interest of \$2,068 through 2009. The loan payable to ESDC bears an interest at 1% per year and is payable in monthly installments of principal and interest of \$2,862 through 2009. These loans were paid in full during 2009.
- Harlequin Project Funding - In 1991, ESDC loaned \$450,000 to the Agency for use in the construction of a manufacturing and distribution facility for Harlequin Sales Corporation. The loan bears interest at 3% per year and is payable in monthly installments of principal and interest of \$2,496 through 2011. The Agency paid this loan in full during 2009.
- Sonwil Distribution Center Project Funding - In 1994, ESDC loaned \$240,000 to the Agency for use in infrastructure development for a warehouse for Sonwil Distribution Center, Inc. The loan bears interest at 3% per year and is payable in monthly installments of principal and interest of \$1,331 through 2014. The Agency paid this loan in full during 2009.
- TSV, Inc. (Servotronics) Project Funding - In 1995, ESDC loaned \$351,600 to the Agency for use in the construction of a manufacturing facility for Servotronics, Inc. The loan bears interest at 3% per year and is payable in monthly installments of principal and interest of \$1,950 through 2015. The Agency paid this loan in full during 2009.
- Speed Transportation Project Funding - In 2003, DOT loaned \$217,754 to the Agency for use in the construction of certain infrastructure improvements related to Speed Motor Express of WNY. Terms are 0% interest with 5 annual payments starting in May 2007. The loan is payable as follows: year 1 - 10%; years 2 - 4 - 20%; year 5 - 30%.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(12) Conduit Debt, Continued

Principal maturities of conduit debt at December 31, 2009 are as follows:

2010		\$	43,551
2011			<u>65,326</u>
Total		\$	<u>108,877</u>

(13) Funds Held on Behalf of Others

Funds held on behalf of others at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Regionally Significant Project Fund - Funds held on behalf of the BUDC and BEREC for the purpose of funding eligible projects within the County.		
BEREC	\$ 17,387	-
BUDC	26,091	-
Buffalo Brownfields Redevelopment Fund - Funds held on behalf of BUDC for the purpose of remediation and redevelopment of brownfields in the City.	1,452,737	499,321
Regional Redevelopment Fund - Funds held on behalf of the County for the purpose of developing infrastructure for the North Youngman Commerce Center (NYCC) in the Town of Tonawanda.	<u>1,641,057</u>	<u>1,266,990</u>
Total funds held on behalf of others	\$ <u>3,137,272</u>	<u>1,766,311</u>

(14) Tax Contingency

The Agency previously paid taxes on unrelated business income tax items related to its investment in Gemcor under the former ownership of the ILDC, a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. The investment in Gemcor has been retroactively amended, in substance and legally, as an investment made by the Agency. The Agency, a political subdivision and an entity tax-exempt under Section 115, is exempt from unrelated business income tax. The Agency will file for approximately \$2,075,000 in income taxes previously paid to the taxing jurisdictions. However, management of the Agency will not recognize the tax refunds as income to the Agency until the statute of limitations on the tax years involved (2006, 2007, 2008) expire. In 2009, the Agency received \$980,520 in tax refunds, reported as tax contingency at December 31, 2009.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(15) Restatement of Net Assets

Management, with the approval of the Board of Directors, has determined that ILDC's investment in Gemcor is more beneficial to the Agency and its affiliates if the investment is owned by the Agency. The investment and all earnings will be used for the purposes allowed by the Urban Development Action Grant program. As such, the investment and related accounts have been reflected in the financial statements as if all activity since January 1, 2006 was originally recorded by the Agency. An adjustment was made in the amount of \$2,792,869 to properly record the investment, and all related activity, in Gemcor as of January 1, 2008. A corresponding adjustment was made to the ILDC financial statements.

The net assets that were transferred to the Agency consisted of the following as of January 1, 2008:

Equity investment in Gemcor	\$ 3,055,835
Distributions received from Gemcor	1,739,946
Income taxes and other expenses paid related to Gemcor	<u>(2,002,912)</u>
Total restatement of net assets	\$ <u>2,792,869</u>

(16) Related Party Transactions

Effective January 1, 2009, certain assets and liabilities were granted from ILDC to ECIDA. The ILDC UDAG Fund was funded by UDAG program income, which is restricted for economic development purposes. Additionally, the ILDC general fund was funded through grants from the Agency. The Board of Directors of ILDC and the Agency approved the transfer of the assets and liabilities associated with these two funds to the Agency effective January 1, 2009.

The assets and liabilities granted to the Agency on January 1, 2009 were as follows:

	General <u>Fund</u>	UDAG <u>Fund</u>	<u>Total</u>
Cash	\$ 131,808	343,882	475,690
Receivables, net	445,300	1,594,449	2,039,749
Investments, net	564,390	1,892,844	2,457,234
Liabilities	<u>(236,710)</u>	<u>(59,009)</u>	<u>(295,719)</u>
	\$ <u>904,788</u>	<u>3,772,166</u>	<u>4,676,954</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(16) Related Party Transactions, Continued

The Agency has an operating lease for its offices with ATC. Rental expense paid to ATC amounted to \$197,030 and \$273,464 for the years ended December 31, 2009 and 2008, respectively. The current lease expires June 30, 2023, however, the Agency may terminate the lease at any time by providing ATC with 90 days notice. Minimum rental payments required under the lease for 90 days amount to \$33,846.

At December 31, 2008, the Agency had a \$100,000 security deposit with the ATC in conjunction with the operating lease. The amended lease does not require a security deposit and, therefore, was returned during 2009.

The Agency allocates a portion of its payroll, personnel and overhead costs under a cost allocation plan for the years ended December 31, 2009 and 2008 to the following related parties:

	<u>2009</u>	<u>2008</u>
Buffalo and Erie County Regional Development Corporation	\$ 181,000	144,000
Buffalo and Erie County Industrial Land Development Corporation	-	51,766
Buffalo Urban Development Corporation	1,699	40,000
ATC of Buffalo and Erie County, Inc.	<u>39,000</u>	<u>55,000</u>
	<u>\$ 221,699</u>	<u>290,766</u>

In addition, ECIDA also charges BUDC for the salary and benefit costs of BUDC-dedicated management staff who are employed by ECIDA. The total amount charged was \$255,966 and \$248,075 for the years ended December 31, 2009 and 2008, respectively and is included in other income.

The Agency also allocates a portion of its rental costs paid to the ATC under a cost allocation plan for the years ended December 31, 2009 and 2008 to the following related parties:

	<u>2009</u>	<u>2008</u>
Buffalo and Erie County Regional Development Corporation	\$ 19,703	27,347
Buffalo and Erie County Industrial Land Development Corporation	-	13,673
	<u>\$ 19,703</u>	<u>41,020</u>

Accounts receivable from affiliates amounted to \$759,120 and \$271,653 at December 31, 2009 and 2008, respectively.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(17) Pension Plan

The Agency maintains a contributory retirement plan covering all of its employees. Employees are eligible to participate upon employment, with employer contributions vesting immediately. During 2008, the Agency transitioned from a 401(k) retirement plan to a Simplified Employee Pension (SEP) plan and the New York State Deferred Compensation Plan. In 2009 and 2008, the Agency made discretionary contributions of up to 7% of eligible employees' salary. The Agency's expense for contributing to and administering these plans for the years ended December 31, 2009 and 2008 amounted to \$92,529 and \$94,002, respectively.

(18) Administrative Services Assessment Fee

Through the Public Authorities Law Section 2975, NYS may assess an administrative fee for industrial development agencies. The State Division of Budget has determined that the amount of administrative fees to be paid by the industrial development agencies is to be equal to 4.727% of total 2008 revenue. The Agency's total 2008 revenue, prior to restatement, amounted to 4,786,157, which resulted in an administrative assessment fee of \$226,240. This amount is included in accounts payable at December 31, 2009. There are currently proposed laws in the State legislature that, if passed, could rescind this fee.

(19) Contingencies

(a) Legal Proceedings

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

(b) Environmental Remediation

In conjunction with certain financing and rehabilitation projects, the Agency takes title to various properties. The Agency is required to estimate and accrue potential liabilities arising from required environmental remediation. Management is not aware of any environmental remediation activities that would be required to be accrued in the accompanying financial statements.

(c) Mortgage and Demand Note Guarantee

On April 13, 2001, the ATC entered into a first mortgage with M&T Real Estate, Inc. to finance a portion of the purchase of BTC Block 20, an office building located in downtown Buffalo. The mortgage is secured by the real estate and is due in monthly installments until June 2010, when a balloon payment of \$3,530,155 is due. The outstanding balance of the mortgage at December 31, 2009 amounted to \$3,594,036. In connection with the purchase of BTC Block 20, the ATC also entered into a demand note payable to Manufacturers and Traders Trust Company. Interest only is due monthly. The outstanding balance of the demand note at December 31, 2009 amounted to \$645,717. The Agency guarantees the mortgage and demand note and has pledged a \$650,000 certificate of deposit as additional cash collateral for the demand note. The Agency would be obligated to satisfy these borrowings should ATC end up in default.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(19) Contingencies, Continued

(d) Grants

The Agency also enters into various grant agreements as described in notes 3 and 4. In connection with certain of these agreements, the Agency may be required to repay the Grantor a portion or the entire grant in the event that obligations set forth in the agreements are not fulfilled. Management believes, to the best of its knowledge, that the Agency is in compliance with its obligations under these grant agreements and is not required to repay any grant amounts that would have a material adverse effect on the financial position of the Agency.

(e) Office of Inspector General

During late 2003 and early 2004, the U.S. Department of Commerce - Office of Inspector General (OIG) conducted an audit of RDC. In June 2005, the OIG issued a draft audit report that questioned approximately \$352,000 of overhead and rental costs allocated by the ECIDA to the RDC for the period 2001 to 2003. In September 2005, the OIG issued its final audit report and in February 2006, the Philadelphia office of the U.S. Department of Commerce - Economic Development Administration (EDA), completed its review of the OIG audit report. Both the OIG and Philadelphia EDA upheld the initial draft audit report findings.

The Agency appealed to the Washington office of the EDA as management believes that based on its subsequently prepared cost allocation plan for the period, \$30,723 of administrative costs should have been considered unallowable. Accordingly, the Agency has recorded a liability for \$30,723, which is included in accounts payable in the accompanying statements of net assets. The remaining balance of approximately \$321,000 has not been resolved. The Agency's management believes the effect of any additional adjustment will not have a material effect on its financial statements. Since the audit is under appeal, no additional amount has been recorded in the accompanying financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Schedule of Net Assets by Fund
 December 31, 2009

<u>Assets</u>	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$ 2,431,459	-	2,431,459
Restricted cash	<u>3,913,773</u>	<u>2,616,797</u>	<u>6,530,570</u>
Total cash and equivalents	<u>6,345,232</u>	<u>2,616,797</u>	<u>8,962,029</u>
Receivables:			
Interest	-	6,398	6,398
Distributions	-	79,370	79,370
Special project grants	567,714	-	567,714
Conduit	106,855	-	106,855
Notes	-	178,312	178,312
Affiliates	687,242	71,878	759,120
Other	<u>54,375</u>	<u>-</u>	<u>54,375</u>
Total receivables	<u>1,416,186</u>	<u>335,958</u>	<u>1,752,144</u>
Prepaid expenses	<u>34,064</u>	<u>-</u>	<u>34,064</u>
Total current assets	<u>7,795,482</u>	<u>2,952,755</u>	<u>10,748,237</u>
Long-term receivables:			
Special project grants receivable, less current portion	3,020,431	-	3,020,431
Conduit receivables, less current portion	234,985	-	234,985
Notes, less current portion, net of allowance of \$363,351	<u>-</u>	<u>831,145</u>	<u>831,145</u>
Total long-term receivables	<u>3,255,416</u>	<u>831,145</u>	<u>4,086,561</u>
Rental property, less accumulated depreciation	144,000	-	144,000
Equipment, less accumulated depreciation	6,884	-	6,884
Equity investment	-	5,053,239	5,053,239
Other investments at fair value	<u>564,390</u>	<u>1,424,789</u>	<u>1,989,179</u>
Total assets	<u>\$ 11,766,172</u>	<u>10,261,928</u>	<u>22,028,100</u>

(Continued)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Schedule of Net Assets by Fund
 December 31, 2009

<u>Liabilities and Net Assets</u>	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Total</u>
Current liabilities:			
Accounts payable	\$ 628,106	-	628,106
Accrued expenses	234,400	-	234,400
Deferred revenue	21,922	-	21,922
Current portion of conduit debt	43,551	-	43,551
Current portion of deferred revenues on special project grants	268,190	-	268,190
Funds held on behalf of others	<u>3,137,272</u>	-	<u>3,137,272</u>
Total current liabilities	4,333,441	-	4,333,441
Tax contingency, net	-	980,520	980,520
Conduit debt, less current portion	65,326	-	65,326
Deferred revenues on special project grants, less current portion	3,353,658	-	3,353,658
Participations	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Total liabilities	<u>7,752,425</u>	<u>1,130,520</u>	<u>8,882,945</u>
Net assets:			
Invested in capital assets	150,884	-	150,884
Unrestricted	3,862,863	-	3,862,863
Restricted net assets	<u>-</u>	<u>9,131,408</u>	<u>9,131,408</u>
Total net assets	<u>4,013,747</u>	<u>9,131,408</u>	<u>13,145,155</u>
Contingencies			
Total liabilities and net assets	<u>\$ 11,766,172</u>	<u>10,261,928</u>	<u>\$ 22,028,100</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Schedule of Revenue, Expenses and Changes in Net Assets by Fund
 Year Ended December 31, 2009

	General Fund	UDAG Fund	Total
Operating revenue:			
Administrative fees	\$ 2,442,687	-	2,442,687
Affiliate management fees	241,402	-	241,402
Rental income	61,695	252,365	314,060
Interest income	5,566	61,942	67,508
Other income	425,731	-	425,731
Total operating revenue	<u>3,177,081</u>	<u>314,307</u>	<u>3,491,388</u>
Operating expenses:			
Salaries and benefits	1,898,537	-	1,898,537
General and administrative	933,681	56,995	990,676
Administrative services assessment fee	226,240	-	226,240
Bad debt expense	150,000	194,860	344,860
Depreciation of equipment and leasehold improvements	3,597	-	3,597
Other	78,442	-	78,442
Total operating expenses	<u>3,290,497</u>	<u>251,855</u>	<u>3,542,352</u>
Decrease in net assets from operations before special projects grants	(113,416)	62,452	(50,964)
Special project grants:			
Revenue	850,889	-	850,889
Expenses	(874,668)	-	(874,668)
Net special project grants	<u>(23,779)</u>	<u>-</u>	<u>(23,779)</u>
Decrease in net assets from operations	<u>(137,195)</u>	<u>62,452</u>	<u>(74,743)</u>
Non-operating activities:			
Grant income	904,788	3,772,166	4,676,954
Earnings from equity investment	-	1,673,280	1,673,280
Provision for tax contingency	-	(61,907)	(61,907)
Unrealized investment loss	-	(466,492)	(466,492)
Interest income	44,957	-	44,957
Interest expense	(6,462)	-	(6,462)
Total non-operating activities	<u>943,283</u>	<u>4,917,047</u>	<u>5,860,330</u>
Increase in net assets	806,088	4,979,499	5,785,587
Net assets at beginning of year	<u>3,207,659</u>	<u>4,151,909</u>	<u>7,359,568</u>
Net assets at end of year	<u>\$ 4,013,747</u>	<u>9,131,408</u>	<u>13,145,155</u>

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

Board of Directors
Erie County Industrial Development Agency:

We have audited the basic financial statements of Erie County Industrial Development Agency (the Agency), and the Agency's internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), 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 Agency'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, and for the purpose of expressing an opinion on the effectiveness of the Agency'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 ECIDA's financial statements will not be prevented, detected and corrected, on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our audit 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 Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including Investment Guidelines for Public Authorities and the Agency's Investment Guidelines, noncompliance with which could 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, except for the venture capital investments as described in notes 8 and 9 of the financial statements, which are not in accordance with Investment Guidelines for Public Authorities.

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

This report is intended solely for the information and use of the Board of Directors and management of the Agency 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