

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Financial Statements and
Supplemental Information

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Revenue, Expenses and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 10
Supplemental Schedules:	
Schedule 1 - Statement of Financial Position by Revolving Loan Fund	11
Schedule 2 - Statement of Revenue, Expenses and Changes in Net Assets by Revolving Loan Fund	12
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 <u>Government Auditing Standards</u>	13 - 14

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo and Erie County Regional
Development Corporation:

We have audited the accompanying statements of financial position of Buffalo and Erie County Regional Development Corporation (RDC) 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 RDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buffalo and Erie County Regional Development Corporation as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2010 on our consideration of RDC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 considered in assessing the results of our audit.

Toski, Scheepers & Co, P.C.

Williamsville, New York
March 19, 2010

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2009 and 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash	\$ 9,319,315	11,846,229
Receivables:		
Notes	2,473,078	1,082,542
Participations	265,161	383,582
Interest	10,361	10,073
Total receivables	<u>2,748,600</u>	<u>1,476,197</u>
Prepaid expenses	-	11,549
Total current assets	12,067,915	13,333,975
Notes receivable, less current installments and allowance for doubtful notes of \$631,300 and \$1,051,000 in 2009 and 2008, respectively	10,188,468	8,472,468
Participations receivable, less current installments and allowance for doubtful participations of \$75,000 and \$100,000 in 2009 and 2008, respectively	<u>611,602</u>	<u>908,939</u>
Total assets	<u>\$ 22,867,985</u>	<u>22,715,382</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	1,511,878	1,477,592
Due to affiliate	475,931	232,280
Current portion of participations payable	27,699	35,822
Total current liabilities	<u>2,015,508</u>	<u>1,745,694</u>
Participations payable, excluding current portion	<u>36,318</u>	<u>77,020</u>
Total liabilities	2,051,826	1,822,714
Temporarily restricted net assets	20,816,159	20,892,668
Commitments and contingencies (notes 7 and 8)		
Total liabilities and net assets	<u>\$ 22,867,985</u>	<u>22,715,382</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statements of Revenue, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Interest income from notes and participations receivable	\$ 600,143	585,049
Loan commitment fees	22,865	20,898
Bad debt recoveries	7,683	261,075
Total operating revenue	<u>630,691</u>	<u>867,022</u>
Operating expenses:		
General and administrative	335,413	237,125
Provision for loan losses	406,214	99,361
Total operating expenses	<u>741,627</u>	<u>336,486</u>
Increase (decrease) in net assets from operating activities	(110,936)	530,536
Non-operating activities - interest income	<u>34,427</u>	<u>160,756</u>
Increase (decrease) in net assets	(76,509)	691,292
Net assets at beginning of year	<u>20,892,668</u>	<u>20,201,376</u>
Net assets at end of year	<u>\$ 20,816,159</u>	<u>20,892,668</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statements of Cash Flows
Years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (76,509)	691,292
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Bad debt recoveries	-	(261,075)
Provision for loan losses	406,214	99,361
Capitalized loan interest	(21,868)	(84,064)
Changes in:		
Interest receivable	(288)	10,293
Accounts payable and accrued expenses	34,286	115,656
Due to affiliate	243,651	(216,702)
Prepaid expenses	11,549	(11,549)
Net cash provided by operating activities	<u>597,035</u>	<u>343,212</u>
Cash flows from investing activities:		
Repayments of notes and participations receivable	2,110,768	3,249,776
Issuance of notes and participations receivable	(5,185,892)	(3,093,865)
Proceeds from sale of notes receivable	-	560,950
Repayments of participations payable	(48,825)	(52,483)
Net cash provided by (used in) investing activities	<u>(3,123,949)</u>	<u>664,378</u>
Net increase (decrease) in cash	(2,526,914)	1,007,590
Cash at beginning of year	<u>11,846,229</u>	<u>10,838,639</u>
Cash at end of year	<u>\$ 9,319,315</u>	<u>11,846,229</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2009 and 2008

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Buffalo and Erie County Regional Development Corporation (RDC) was incorporated for the purpose of encouraging the expansion of existing companies in target areas of the County of Erie by establishing an Industrial Revolving Loan Fund from which RDC makes loans to individual companies. RDC manages a number of revolving loan funds. Each revolving loan fund is maintained under an agreement or an established loan administration plan approved by the grantor governing the management of the revolving loan fund.

RDC has a related party relationship with the Erie County Industrial Development Agency (ECIDA), Buffalo and Erie County Industrial Land Development Corporation (ILDC) and the ATC of Buffalo and Erie County, Inc. (ATC). All four entities are managed by the same personnel. RDC and ECIDA share the same board of directors as their oversight body. 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

RDC is required to report 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. RDC had only temporarily restricted net assets in 2009 and 2008.

(c) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of three revolving loan funds. These assets are deemed temporarily restricted based on the fact that they can be used only to lend to qualified businesses, as defined by criteria within the respective grants. All repayments of principal and interest are added back to the self-perpetuating fund to be used for future lending purposes.

(d) Estimates

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

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(e) Notes Receivable and Allowance for Doubtful Loans

Notes receivable are stated at their principal amount outstanding, less an allowance for doubtful loans. Loans are accounted for from inception within the individual fund from which the grant funds were received. Similarly, interest income and commitment fees on loans are recorded directly to the individual fund in which the loan is maintained. The allowance for doubtful loans is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential loan losses based on an evaluation of past loan experience, current economic conditions and known risks in the loan portfolio. 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.

(f) Participations Receivable and Allowance for Doubtful Loans

Participations receivable consists primarily of Small Business Administration (SBA) loans in which RDC participates with various local financial institutions. Participations receivable are stated at their principal amount outstanding, less an allowance for doubtful loans.

(g) Stock Purchase Option Accounting

In connection with certain loans, RDC receives stock purchase options from the borrower. The borrower is sometimes given the right to repurchase these options from the RDC at a predetermined price. RDC does not allocate a cost to these options when received, and has determined that these options have no recordable value at December 31, 2009 and 2008.

(h) Participations Payable

Participations payable represent amounts due to Buffalo Economic Renaissance Corporation (BERC) for loans in which they participated with RDC. BERC contributed a percentage of the funds for the loan, and thus, assumes a similar percentage of risk. RDC assumes full responsibility for administering and collecting on the loan, and for remitting payments to BERC.

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

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(j) Subsequent Events

RDC 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.

(k) Income Taxes

RDC 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) Cash

Cash balances as of December 31, 2009 and 2008 were either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the RDC's investment policy.

(3) Notes Receivable

Notes receivable represent loans made to local businesses to compliment private financing at interest rates between 4% and 11% 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	\$ 13,292,846	10,606,010
Less: Allowance for doubtful loans	<u>(631,300)</u>	<u>(1,051,000)</u>
	12,661,546	9,555,010
Amounts due in one year	<u>(2,473,078)</u>	<u>(1,082,542)</u>
Notes receivable, long-term	<u>\$ 10,188,468</u>	<u>8,472,468</u>

(4) Allowance for Doubtful Receivables

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

	<u>2009</u>	<u>2008</u>
Allowance for doubtful receivables:		
Balance at beginning of year, notes	\$ 1,051,000	1,205,600
Balance at beginning of year, participations	<u>100,000</u>	<u>100,000</u>
	<u>1,151,000</u>	<u>1,305,600</u>

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(4) Allowance for Doubtful Receivables, Continued

	<u>2009</u>	<u>2008</u>
Provision for loan losses:		
Increase in allowance for doubtful notes	\$ 431,214	99,361
Decrease in allowance for doubtful participations receivable	<u>(25,000)</u>	<u>-</u>
	406,214	99,361
Bad debt recoveries, notes	-	(247,545)
Current year charge-offs, notes	<u>(850,914)</u>	<u>(6,416)</u>
Balance at year end	\$ <u>706,300</u>	<u>1,151,000</u>
Balance at end of year, notes	631,300	1,051,000
Balance at end of year, participations	<u>75,000</u>	<u>100,000</u>
	\$ <u>706,300</u>	<u>1,151,000</u>

(5) Accounts Payable and Accrued Expenses

Included in accounts payable and accrued expenses is \$1,492,406 due to the U.S. Treasury for interest on cash held in the County Fund. This amount has not yet been paid due to ongoing discussions between U.S. Department of Housing and Urban Development, EDA and the RDC.

(6) Related Party Transactions

ECIDA allocates a portion of its personnel and overhead costs to RDC under a cost allocation plan. RDC was charged \$181,000 and \$144,000 for the years ended December 31, 2009 and 2008, respectively, for such costs. In addition, ECIDA allocates to RDC a portion of its rental costs which are paid to ATC. RDC was charged \$19,704 and \$27,346 for the years ended December 31, 2009 and 2008, respectively, for such costs. RDC had a net amount due to ECIDA amounting to \$475,931 and \$232,280 at December 31, 2009 and 2008, respectively, related to these costs.

During 2008, the RDC sold its loan receivable from Niagara Dispensing Technologies, Inc. (at book value) to ILDC for cash proceeds of \$560,950.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(7) Commitments

At December 31, 2009, RDC had outstanding loan commitments to several businesses totaling \$2,342,950.

(8) Contingencies

(a) Legal Proceedings

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

(b) 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.

RDC's management believes that based on ECIDA's subsequently prepared cost allocation plan for the period, the \$352,000 of costs allocated was reasonable. RDC's management believes that the effect of any ultimate adjustment will not have a material effect on RDC's financial statements. Since the audit is under appeal, and the amount, if any, to be paid has not been determined, no amount has been recorded in the accompanying financial statements.

(c) Loan Fund Utilization

The RDC is not in compliance with EDA regulations regarding the utilization of revolving loan funds. These regulations require that 85% of the revolving loan fund be loaned or committed at all times. During 2009, RDC's utilization increased from 64.7% to 76.8%. RDC management is aggressively promoting the loan fund to local businesses and expects to increase its utilization in 2010.

If the RDC cannot meet the loan fund utilization requirement, the EDA requires that the excess funds be segregated and any interest earned on the funds is to be remitted to the U.S. Treasury quarterly. RDC can access the segregated funds only with EDA's approval. Additionally, the EDA may impose sanctions such as suspension or termination.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statement of Financial Position by Revolving Loan Fund
December 31, 2009

<u>Assets</u>	<u>EDA fund</u>	<u>City fund</u>	<u>County fund</u>	<u>Total</u>
Cash	\$ 3,439,456	483,864	5,395,995	9,319,315
Receivables:				
Notes	10,943,775	2,212,382	136,689	13,292,846
Allowance for doubtful notes	(631,300)	-	-	(631,300)
Participations	951,763	-	-	951,763
Allowance for doubtful participations	(75,000)	-	-	(75,000)
Interest	10,125	189	47	10,361
Total assets	<u>\$ 14,638,819</u>	<u>2,696,435</u>	<u>5,532,731</u>	<u>22,867,985</u>
 <u>Liabilities and Net Assets</u> 				
Liabilities:				
Accounts payable and accrued expenses	19,472	-	1,492,406	1,511,878
Due to (from) other funds	511	95	(606)	-
Due to affiliate	426,116	18,670	31,145	475,931
Participations payable	64,017	-	-	64,017
Total liabilities	510,116	18,765	1,522,945	2,051,826
Temporarily restricted net assets	<u>14,128,703</u>	<u>2,677,670</u>	<u>4,009,786</u>	<u>20,816,159</u>
Total liabilities and net assets	<u>\$ 14,638,819</u>	<u>2,696,435</u>	<u>5,532,731</u>	<u>22,867,985</u>

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statement of Revenue, Expenses and Changes in Net Assets by Revolving Loan Fund
Year Ended December 31, 2009

	<u>EDA</u> <u>fund</u>	<u>City</u> <u>fund</u>	<u>County</u> <u>fund</u>	<u>Total</u>
Operating revenue:				
Interest income from notes and participations receivable	\$ 503,221	85,775	11,147	600,143
Loan commitment fees	22,040	825	-	22,865
Bad debt recoveries	5,412	2,271	-	7,683
Total operating revenue	<u>530,673</u>	<u>88,871</u>	<u>11,147</u>	<u>630,691</u>
Operating expenses:				
General and administrative	265,343	28,082	41,988	335,413
Provision for loan losses (recoveries)	414,747	11,459	(19,992)	406,214
Total operating expenses	<u>680,090</u>	<u>39,541</u>	<u>21,996</u>	<u>741,627</u>
Increase (decrease) in net assets from operating activities	(149,417)	49,330	(10,849)	(110,936)
Non-operating activities - interest income	<u>30,728</u>	<u>3,699</u>	<u>-</u>	<u>34,427</u>
Increase (decrease) in net assets	(118,689)	53,029	(10,849)	(76,509)
Net assets at beginning of year	<u>14,247,392</u>	<u>2,624,641</u>	<u>4,020,635</u>	<u>20,892,668</u>
Net assets at end of year	<u>\$ 14,128,703</u>	<u>2,677,670</u>	<u>4,009,786</u>	<u>20,816,159</u>

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

The Board of Directors
Buffalo and Erie County Regional
Development Corporation:

We have audited the basic financial statements of Buffalo and Erie County Regional Development Corporation (RDC) 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 RDC'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 RDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RDC'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 RDC's financial statements will not be prevented, detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RDC'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 RDC'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 the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Scheepers & Co., P.C.

Williamsville, New York
March 19, 2010