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CONFIDENTIAL

The Board of Directors
Buffalo and Erie County Regional
Development Corporation

Dear Board Members:

We have completed our audit of the financial statements of the Buffalo and Erie County Regional Development Corporation (RDC) for the year ended December 31, 2009. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comments and recommendations based upon observations made during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within RDC.

Loan Policies

The City of Buffalo's Department of Audit and Control (the City) released an audit report on February 11, 2010 regarding a locally-owned business which received loans from Buffalo Economic Renaissance Corporation (BERC) and RDC. Although the City's audit report was an evaluation of BERC and its business loan program, it also referenced the Erie County Industrial Development Agency (ECIDA) and RDC. We discussed the specific loan with management and noted that the loan was written off in 2009, as approved by the Loan Write-off Committee. The loan in question was made in 2008 under an experimental loan program, the Minority Enterprise Loan and Grant Program (MELP). Management has amended its underwriting standards used in 2008 prior to consideration of the second round of MELP loan requests in early 2010. The standards were adjusted to require a lien and judgment search on any business selected for final consideration. Additionally, the Agency's legal counsel performed a review of a sample of outstanding RDC loans during 2009 and found that RDC loan policies and procedures had been followed. We recommend that management continue the periodic review of its loan policies and procedures to determine that due diligence procedures are being followed.

RDC Excess Cash

The RDC is not in compliance with Economic Development Administration (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. If the RDC cannot meet this requirement, the EDA may require that an interest-bearing account be established in which the interest earned is to be remitted to the U.S. Treasury. Additionally, the EDA has the right to recover excess funds held by RDC.

RDC management has been aware of the large cash balances and has been aggressively marketing the loan fund. For the years ended December 31, 2009 and 2008, the revolving loan fund's utilization was 76.8% and 64.7%, respectively. At December 31, 2009, the fund's utilization was below 85% by approximately \$1.76 million, which is directly caused by the U.S. Department Housing and Urban Development (HUD) portion of the fund which has approximately \$4 million in excess cash. Management has been in contact with Federal officials from EDA and HUD to resolve this issue. We recommend that management continue working with Federal officials and legal counsel to determine the proper course of action to resolve this matter.

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We take this opportunity to thank the staff of RDC for the courtesy and cooperation extended to us during the audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.



Ronald C. Toski, CPA
Managing Director