

ATC OF BUFFALO AND ERIE COUNTY, INC.

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

ATC OF BUFFALO AND ERIE COUNTY, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the ATC of Buffalo and Erie County, Inc. (ATC) as of December 31, 2010 and 2009, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of ATC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATC as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2011 on our consideration of ATC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 9, 2011

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Financial Position
 December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and equivalents	\$ 418,625	364,302
Real estate held for sale	<u>4,737,811</u>	<u>-</u>
Current assets	<u>5,156,436</u>	<u>364,302</u>
Property and equipment	2,359,029	13,252,086
Less accumulated depreciation and amortization	<u>(805,342)</u>	<u>(4,992,418)</u>
Net property and equipment	1,553,687	8,259,668
Deferred debt issue costs	<u>-</u>	<u>7,417</u>
Total assets	<u>\$ 6,710,123</u>	<u>8,631,387</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	114,971	15,665
Accrued expenses	8,134	7,243
Deferred revenue	11,343	11,343
Due to affiliate	249,666	189,011
Demand note payable	645,717	645,717
Current installments of mortgages payable	<u>3,942,840</u>	<u>3,687,755</u>
Total current liabilities	4,972,671	4,556,734
Security deposits payable	55,243	55,243
Mortgages payable, less current installments	<u>-</u>	<u>470,611</u>
Total liabilities	5,027,914	5,082,588
Unrestricted net assets	<u>1,682,209</u>	<u>3,548,799</u>
Total liabilities and net assets	<u>\$ 6,710,123</u>	<u>8,631,387</u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Revenue, Expenses and Changes in Net Assets
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue - rental income, net of arbitration settlement of \$43,592 in 2010	\$ <u>1,044,357</u>	<u>1,234,714</u>
Operating expenses:		
Maintenance:		
Utilities	158,310	150,504
Repairs and maintenance	26,778	27,328
Snowplowing and landscaping	23,630	26,079
Cleaning costs	21,548	27,114
Trash removal	3,161	3,039
Miscellaneous	<u>865</u>	<u>72</u>
Total maintenance	<u>234,292</u>	<u>234,136</u>
Administrative:		
Management fee - ECIDA	62,103	39,000
Audit	2,800	2,800
Legal	30,625	16,459
Arbitration settlement	192,127	-
Miscellaneous	<u>278</u>	<u>271</u>
Total administrative	<u>287,933</u>	<u>58,530</u>
Taxes and insurance:		
Sewer assessments	9,675	10,003
Insurance	<u>16,212</u>	<u>16,880</u>
Total taxes and insurance	<u>25,887</u>	<u>26,883</u>
Total operating expenses	<u>548,112</u>	<u>319,549</u>
Increase in net assets from operating activities	<u>496,245</u>	<u>915,165</u>
Non-operating activities:		
Interest income	238	72
Other income	187	-
Interest expense	(224,834)	(231,285)
Depreciation and amortization	(377,347)	(383,500)
Loss on impairment	<u>(1,761,079)</u>	<u>-</u>
Net non-operating activities	<u>(2,362,835)</u>	<u>(614,713)</u>
Increase (decrease) in unrestricted net assets	(1,866,590)	300,452
Unrestricted net assets at beginning of year	<u>3,548,799</u>	<u>3,248,347</u>
Unrestricted net assets at end of year	<u>\$ 1,682,209</u>	<u>3,548,799</u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.
 Statements of Cash Flows
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ (1,866,590)	300,452
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	377,347	383,500
Loss on impairment	1,761,079	-
Changes in:		
Accounts payable	99,306	58
Accrued expenses	891	(836)
Deferred revenue	-	11,343
Due to affiliate	60,655	59,156
Security deposits payable	-	(100,000)
Net cash provided by operating activities	<u>432,688</u>	<u>653,673</u>
Cash flows from investing activities - additions to property and equipment	<u>(162,839)</u>	<u>(140,612)</u>
Cash flows from financing activities:		
Repayment of demand note payable to affiliate	-	(129,006)
Repayment of mortgages payable	<u>(215,526)</u>	<u>(202,918)</u>
Net cash used in financing activities	<u>(215,526)</u>	<u>(331,924)</u>
Net increase in cash and equivalents	54,323	181,137
Cash and equivalents at beginning of year	<u>364,302</u>	<u>183,165</u>
Cash and equivalents at end of year	<u>\$ 418,625</u>	<u>364,302</u>
Supplemental disclosures of cash flow information - cash paid during the year for interest	<u>\$ 224,834</u>	<u>231,285</u>
Non-cash investing activities:		
Property financed through accounts payable	<u>\$ 47,615</u>	<u>1,924</u>
Property retired and fully depreciated	<u>\$ 44,996</u>	<u>2,768</u>

See accompanying notes to financial statements.

ATC OF BUFFALO AND ERIE COUNTY, INC.

Notes to Financial Statements

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

ATC of Buffalo and Erie County, Inc. (ATC) was created for the purpose of developing, through a public-private alliance of business, education and government, a responsive training facility in the Buffalo area to meet the human resource development needs of area businesses. In 2003, ATC discontinued the training center and leased the majority of its space to the Enterprise Charter School (the School), a not-for-profit organization with a school charter issued by the Buffalo Board of Education. On February 16, 2011, the School purchased the property from ATC (note 10).

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

(b) Basis of Presentation

ATC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. ATC had only unrestricted net assets in 2010 and 2009.

(c) Estimates

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

(d) Cash and Equivalents

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

(e) Property and Equipment

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

(f) Real Estate Held for Sale

Real estate held for sale is stated at \$4,737,811, the value established in connection with the sale transaction with Enterprise Charter School which occurred on February 16, 2011 (note 10).

ATC OF BUFFALO AND ERIE COUNTY, INC.
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Long-Lived Assets

ATC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In determining whether there is an impairment of long-lived assets, ATC compares the sum of the expected future net cash flows (undiscounted and without interest charges) to the carrying amount of the assets or the fair market value of the long-lived assets. At December 31, 2010, loss on impairment of \$1,761,079 has been recorded in 2010 related to the sale of real property to the School (note 10).

(h) Rental Income

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

(i) Subsequent Events

ATC has evaluated events after December 31, 2010, and through March 9, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(j) Income Taxes

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

(2) Collateralization

As of December 31, 2010 and 2009, cash and equivalents consisted of \$418,625 and \$364,302, respectively, in checking and savings accounts. The checking and money market funds are stated at fair value, which equal their cost, and were fully insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2010 and 2009 in accordance with the ATC's investment policy.

(3) Property and Equipment

Property and equipment at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Land	\$ 23,400	200,000
Buildings	1,159,260	9,010,752
Furniture and fixtures	150,010	186,882
Equipment	190,399	222,769
Leasehold improvements	<u>835,960</u>	<u>3,631,683</u>
Total property and equipment	2,359,029	13,252,086
Less accumulated depreciation and amortization	<u>(805,342)</u>	<u>(4,992,418)</u>
Net property and equipment	\$ <u>1,553,687</u>	<u>8,259,668</u>

ATC OF BUFFALO AND ERIE COUNTY, INC.
Notes to Financial Statements, Continued

(4) Mortgages Payable

At December 31, 2010 and 2009, ATC was indebted under the following mortgages:

	<u>2010</u>	<u>2009</u>
Mortgage payable to M&T Real Estate Trust, which was refinanced in 2008, with interest fixed at 4.5%, payable in monthly installments of \$23,602 including interest with an amortization period of 20 years, secured by real estate and guaranteed by ECIDA.	\$ 3,472,230	3,594,036
Mortgage payable to Buffalo Economic Renaissance Corporation, interest fixed at 8%, payable in monthly installments of \$11,290 including interest, subject to acceleration of principal on the occurrence of certain events, due January 1, 2015, secured by real estate.	<u>470,610</u>	<u>564,330</u>
Total mortgages payable	3,942,840	4,158,366
Less current installments	(3,942,840)	(3,687,755)
Mortgages payable, less current installments	\$ <u> -</u>	<u>470,611</u>

The above mortgage balances were paid by ATC upon the sale of property to the Enterprise Charter School on February 16, 2011 (note 10).

(5) Demand Note Payable

The demand note payable is a secured loan that partially funded the purchase of the ATC facility complex in April 2001. The note, which amounted to \$645,717 at December 31, 2010 and 2009, bears interest at LIBOR plus 2% (2.262% at December 31, 2010) and is payable to Manufacturers and Traders Trust Company. The note was paid in full by ATC upon the sale of property to the School on February 16, 2011 (note 10).

(6) Related Party Transactions

ECIDA allocates a portion of its personnel and overhead costs to ATC under a cost allocation plan. ATC was charged \$62,103 and \$39,000 for the years ended December 31, 2010 and 2009, respectively, for such costs. In addition, ATC provides space, utilities and parking to ECIDA. Rental income from ECIDA amounted to \$135,456 and \$197,030 for the years ended December 31, 2010 and 2009, respectively. ATC owed \$249,666 and \$189,011 at December 31, 2010 and 2009 respectively, for costs allocated by ECIDA.

ATC OF BUFFALO AND ERIE COUNTY, INC.
Notes to Financial Statements, Continued

(7) Leases

ATC acts as a lessor in several operating leases for office and educational space. The terms of the lease agreement with the School, among others, provide for an option to purchase the property at a price based on the outstanding mortgage debt of ATC at the date of sale, plus unamortized leasehold improvement costs, closing costs and \$500,000. The School exercised this option and completed the purchase on February 16, 2011 (note 10).

Minimum future rentals receivable under noncancellable operating leases amount to \$133,889 as of December 31, 2010. This amount represents lease payments from January 1, 2011 through February 16, 2011, the date of which the School purchased the property (note 10).

(8) Arbitration Settlement

ATC and the School disagreed on certain terms of the lease and agreed to arbitration. In April 2010, the arbitration decided in favor of the School and ATC paid the School \$242,489. The payment was recorded as follows:

Reduction in rental income for four months of 2010	\$ 43,592
Interest expense	6,770
Arbitration damages expense	<u>192,127</u>
Total arbitration damages	\$ <u>242,489</u>

(9) Economic Dependence

The ATC's lease with the School accounted for 69% of rental income in 2010 and 2009.

(10) Subsequent Events

The School exercised its option to purchase the property and the sale was completed on February 16, 2011. ATC received \$4,737,811 for the property and retains the office space that ECIDA occupies. The book value of the assets sold to the School amounted to \$6,498,890 at December 31, 2010. The difference of \$1,761,079 between the book value and the sales price has been recorded as a loss on impairment for the year ended December 31, 2010.

Additionally, ATC is expected to transfer all remaining assets to ECIDA as of February 16, 2011. Once the transfer to ECIDA is completed, ATC will cease operations.

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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
ATC of Buffalo and Erie County, Inc.:

We have audited the financial statements of ATC of Buffalo and Erie County, Inc. (ATC) as of and for the year ended December 31, 2010, and have issued our report thereon dated March 9, 2011. 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 ATC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ATC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ATC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of ATC's financial statements will not be prevented, detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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 ATC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including compliance with Investment Guidelines for Public Authorities and ATC's Investment Policy, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of Directors and management of ATC and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 9, 2011