

ERIE COUNTY INDUSTRIAL
DEVELOPMENT AGENCY

Management's Discussion and Analysis
and Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

The 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, 2010 and 2009, 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, 2010, 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, 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. Also in our opinion, the Agency maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on Internal Control - Integrated Framework issued by COSO.

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2011 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, 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. 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 33 to 35 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 9, 2011



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, 2010, 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, 2010, Erie County Industrial Development Agency's internal control over financial reporting is effective based on the criteria established in Internal Control - Integrated Framework.

Toski, Schaefer & Co., P.C.

Erie County Industrial Development Agency
March 9, 2011

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis

December 31, 2010

The Erie County Industrial Development Agency (ECIDA) is a public-benefit corporation that provides tax incentives, financing programs, export assistance, land development and other economic development services to the City of Buffalo and Erie County, New York. 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 businesses 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 (GASB). Under GASB No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, 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, 2010 and 2009. 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 on behalf of Erie County to assist local not-for-profit organizations to finance development projects at a lower cost. The restructuring was also a strategic decision to simplify the ECIDA's corporate structure and reduce 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 2% from \$13.1 million in 2009 to \$13.4 million in 2010.
- The ECIDA experienced an "Increase in Net Assets" (net profit) of \$330,064 in 2010 compared to a net profit of \$5,785,587 in 2009.
- Administrative fees, a key source of revenue for the ECIDA, decreased from \$2.4 million in 2009 to \$2.0 million in 2010.
- Operating expenses decreased from \$3.5 million in 2009 to \$3.0 million in 2010.

Condensed Comparative Financial Statements:

1. Net Assets:

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

Table 1
Net Assets as of December 31, 2010 and 2009
(Amounts in thousands)

	<u>2010</u>	<u>Restated</u> <u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Net capital assets	\$ 149	151	(2)	(1%)
Special project grants receivable	923	3,588	(2,665)	(74%)
Notes receivable, net of allowance	799	1,009	(210)	(21%)
Equity investments	5,485	5,053	432	9%
Other investment	1,137	1,989	(852)	(43%)
Other assets	<u>10,885</u>	<u>10,201</u>	<u>684</u>	7%
Total assets	\$ <u>19,378</u>	<u>21,991</u>	<u>(2,613)</u>	(12%)
Liabilities:				
Current liabilities	4,350	4,333	17	0%
Long-term liabilities	<u>1,590</u>	<u>4,550</u>	<u>(2,960)</u>	(65%)
Total liabilities	<u>5,940</u>	<u>8,883</u>	<u>(2,943)</u>	(33%)
Net Assets:				
Invested in capital assets	149	151	(2)	(1%)
Restricted	9,444	9,094	350	4%
Unrestricted	<u>3,845</u>	<u>3,863</u>	<u>(18)</u>	0%
Total net assets	<u>13,438</u>	<u>13,108</u>	<u>330</u>	3%
Total liabilities and net assets	\$ <u>19,378</u>	<u>21,991</u>	<u>(2,613)</u>	(12%)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

Special Project Grants Receivable - Special project grants receivable represent brownfield or infrastructure grants awarded to the ECIDA by New York State, Erie County and other sources, which have not been fully drawn down. The decrease in special grants receivable of \$2.7 million, or 74%, is primarily due to \$2.5 million in grant draws received for the Spaulding Fiber site remediation project in the City of Tonawanda.

Notes Receivable - Notes receivable represents various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program. The \$210,000 decrease in the notes receivable balance is due to \$108,000 in loan repayments received during 2010 and an increase in the loan loss reserve of \$102,000.

Equity Investment - Equity investment represents the ECIDA's venture investment in a business that provides airframe assembly automation equipment to the aerospace industry. The ECIDA utilizes the equity method of accounting for this investment which results in the Equity investment balance being increased by ECIDA's share of the company's net earnings less any distributions the ECIDA receives.

Other Investments - Other investments reflect the ECIDA's venture capital investments in various technology businesses in Erie County. The \$852,000 decrease in the other investments balance is due to a \$902,000 increase in a reserve for unrealized venture investment losses, partially offset by a new \$50,000 venture capital investment in 2010.

Other Assets - The increase in other assets of \$684,000, or 7% is primarily due to an increase in cash and equivalents of \$446,000 and conduit receivables of \$322,000.

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 \$3.0 million decrease in long-term liabilities is primarily due to the recognition of \$2.7 million in grant revenue related to the Spaulding Fiber site remediation project and the classification of the remaining deferred revenue balance as a current liability in 2010.

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 net assets.

Table 2
Change in Net Assets for the Years ended December 31, 2010 and 2009
(Amounts in thousands)

	<u>2010</u>	<u>Restated</u> <u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Administrative fees	\$ 1,963	2,443	(480)	(20%)
Affiliate management fees	338	241	97	40%
Other income	<u>674</u>	<u>809</u>	<u>(135)</u>	(17%)
Total revenue	<u>2,975</u>	<u>3,493</u>	<u>(518)</u>	(15%)
Expenses:				
Salaries and benefits	1,989	1,899	90	5%
General and administrative	875	991	(116)	(12%)
Administrative services assessment fee	-	226	(226)	(100%)
Bad debt expense	102	345	(243)	(70%)
Depreciation and other	<u>55</u>	<u>82</u>	<u>(27)</u>	(33%)
Total expenses	<u>3,021</u>	<u>3,543</u>	<u>(522)</u>	(15%)
Decrease in net assets from operations before grants	(46)	(50)	4	8%
Grant income	-	4,677	(4,677)	(100%)
Earnings from equity investment	461	1,673	(1,212)	(72%)
Refund of taxes (provision for tax contingency)	870	(62)	932	(1,503%)
Unrealized investment loss	(903)	(466)	(437)	94%
Net special project grants	(62)	(24)	(38)	158%
Interest income, net	<u>10</u>	<u>38</u>	<u>(28)</u>	(74%)
Increase in net assets	<u>\$ 330</u>	<u>5,786</u>	<u>(5,456)</u>	(94%)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

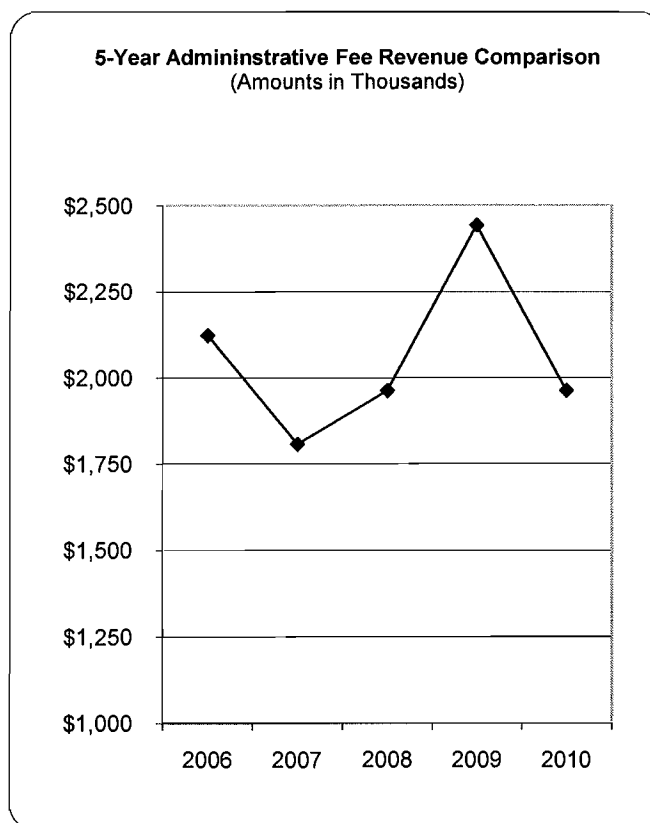
Management's Discussion and Analysis, Continued

3. Revenue Analysis:

Administrative Fees:

Administrative fees are primarily collected from the issuance of various forms of tax abatements and tax-exempt financing. 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 the local economic climate.

As anticipated, Administrative fees decreased by \$480,000 or 20% in 2010. This decrease 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 following ECIDA affiliates for services that the ECIDA's employees provide to these organizations:

- Buffalo & Erie County Regional Development Corporation ("RDC") - a lending corporation.
- Buffalo Urban Development Corporation ("BUDC") - a City development Corporation.
- ATC of Buffalo & Erie County ("ATC") - a real estate holding corporation.
- Buffalo & Erie County Industrial Land Development Corporation ("ILDC") - a lending corporation.

The following table (Table 3) illustrates the amounts charged to the ECIDA's affiliated corporations in 2010 with comparisons for 2009:

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

Table 3
Affiliate Management Fees for the Years ended December 31, 2010 and 2009
(Amounts in thousands)

	<u>2010</u>	<u>2009</u>	<u>\$ Change</u>	<u>% Change</u>
Affiliate Management Fees Charged:				
Buffalo & Erie County Regional Development Corporation (RDC)	\$ 233	201	32	16%
Buffalo Urban Development Corporation (BUDC)	38	1	37	3,700%
ATC of Buffalo & Erie County (ATC)	62	39	23	59%
Buffalo & Erie County Industrial Land Development Corp. (ILDC)	<u>5</u>	<u>-</u>	<u>5</u>	100%
Total Affiliate Management Fees	\$ <u>338</u>	<u>241</u>	<u>97</u>	40%

Affiliate management fees charged to RDC increased due to an overall increase in the number of loans funded from 21 loans in 2009 to 27 in 2010. In addition, additional costs were incurred due to the Federal Economic Development Administration's implementation of a new electronic loan reporting system in 2010. Affiliate management fees charged to BUDC were temporarily suspended in 2009 due to BUDC's financial position and the ECIDA's desire to support development in the City of Buffalo. Affiliate management fees charged to ATC increased significantly in 2010 due to additional staff time spent related to the sale of the property to the Enterprise Charter School and due to a dispute with the school that was settled via arbitration.

Other Income - Other income decreased by \$135,000 or 17% due to Steuben Food's purchase of their manufacturing facility in mid 2009. In 2009, the ECIDA recognized \$252,000 in rental income from its ownership of this property. Offsetting this amount was other income recognized due to a reduction of \$68,000 in the liability for the New York State Administrative Services Assessment Fee (arising from the cancellation of the \$226,000 fee payable in 2010 less the imposition of a new fee of \$158,000 due in 2011).

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 in 2009.

Earnings from Equity Investment - Earnings from equity investment represents the ECIDA's proportionate share of net income derived from its venture capital investment in a business that provides airframe assembly automation equipment to the aerospace industry.

Refund of Taxes (Provision for Tax Contingency) - The refund of taxes represents a refund of Federal and State income taxes resulting from the Corporate Restructuring discussed above.

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

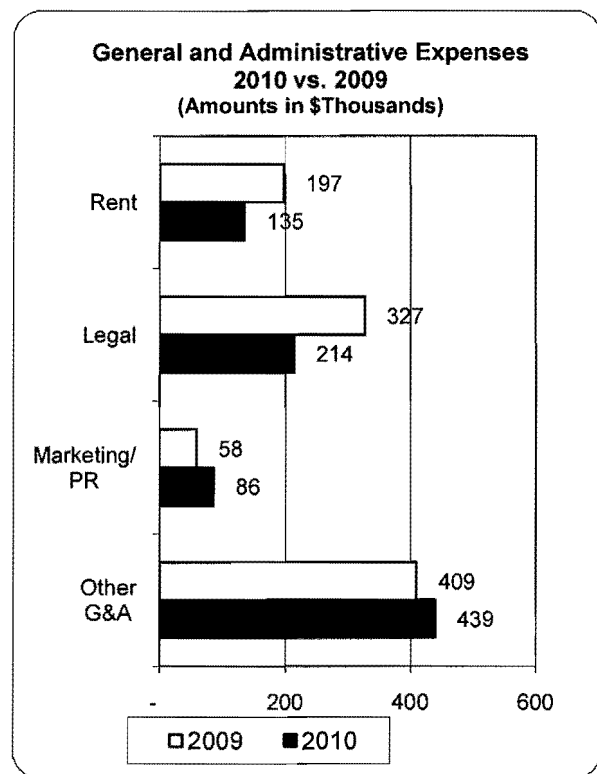
4. Expense Analysis:

Salaries and Benefits - Payroll costs increased by approximately \$90,000 or 5% in 2010. This increase is primarily attributable to the impact of hiring a new Compliance Officer and International Programs Officer in March 2010.

General and Administrative:

In 2010, General and Administrative expenses decreased by 12% from \$991 thousand to \$875 thousand. Key expense differences in 2010 include the following:

- Rent decreased by \$62,000 or 31% due to the repayment of certain leasehold improvement costs in July 2009 that were included as rent under the rental agreement between the ECIDA and ATC.
- Legal expenses decreased by \$113,000 in 2010 due to certain one-time legal costs that were incurred primarily in 2009 as a result of hiring a new law firm. Costs incurred in 2009 resulted from a complete review and revision of all ECIDA legal policies and procedures and the Corporate Restructuring.
- Marketing/public relations increased by \$28,000 or 48% due to a new IDA awareness campaign and increased use of a professional marketing firm to assist the ECIDA with developing marketing material and drafting press releases.



Administrative Services Assessment Fee - The Administrative services assessment fee represents a tax imposed by New York State on industrial development agencies. This fee was originally payable in 2010, however, it was subsequently cancelled and replaced by a tax due in 2011. Since the 2011 tax was lower than the 2010 tax, no further expense was necessary in 2010 and instead the \$68,000 difference was included in "Other Income" as discussed above.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis, Continued

Bad Debt Expense & Unrealized Investment Loss - Bad debt expense and unrealized investment loss represent the impact of additional reserves set up to reflect losses expected from various notes receivable and venture capital investments. The underlying assets are reviewed annually and adjustments to the reserves are made accordingly.

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 Directors on October 19, 2009. The following table (Table 4) presents an analysis of the ECIDA's performance compared to the approved 2010 budget.

Table 4
Budget to Actual Analysis for the year ended December 31, 2010
(Amounts in thousands)

	<u>Actual</u>	<u>Budget</u>	<u>\$ Change</u>	<u>% Change</u>
Revenue:				
Administrative fees	\$ 1,963	1,539	424	28%
Affiliate management fees	338	356	(18)	(5%)
Other income	<u>674</u>	<u>437</u>	<u>237</u>	54%
Total revenue	<u>2,975</u>	<u>2,332</u>	<u>643</u>	28%
Expenses:				
Salaries and benefits	1,989	2,263	(274)	(12%)
General and administrative	875	731	144	20%
Bad debt expense	102	-	102	100%
Depreciation and other	<u>55</u>	<u>54</u>	<u>1</u>	2%
Total expenses	<u>3,021</u>	<u>3,048</u>	<u>(27)</u>	(1%)
Decrease in net assets from operations before special project grants	(46)	(716)	670	(94%)
Earnings from equity investment	461	709	(248)	(35%)
Refund of taxes	870	-	870	100%
Unrealized investment loss	(903)	-	(903)	(100%)
Net special project grants	(62)	-	(62)	(100%)
Interest income, net	<u>10</u>	<u>7</u>	<u>3</u>	43%
Increase in net assets	\$ <u>330</u>	<u>-</u>	<u>330</u>	100%

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

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

Budget to Actual Analysis:

Overall, the ECIDA exceeded its budgeted "increase in net assets" (net income) for 2010 by approximately \$330,000. Administrative fees exceeded budget partly due to fees collected as a result of the ILDC's issuance of a number of tax-exempt bonds during 2010. Other income increased due to \$108,000 in interest income that resulted from the Corporate Restructuring discussed above plus the impact of the net \$68,000 reduction in the Administrative Services Fee discussed in "Other Income" on page 9. Salaries and benefits were 12% lower than budget due to the ECIDA not filling two budgeted positions (a Marketing / Public Relations Officer and a Development Project Manager) and hiring two other positions later in the year than budgeted. General and Administrative Expenses exceeded budget by 20% due to higher than budgeted legal expenses. Earnings from equity investment were lower than budgeted due to the financial performance of the underlying venture capital investment. Bad debt expense and the other non-operating items had not been included in the 2010 budget.

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 uncertain economic conditions and legislative actions that have limited the ECIDA's ability to issue tax-exempt financing, the ECIDA may experience a reduction in such fees due to local businesses cancelling or postponing their capital investment projects.

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, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>Restated 2009</u>
Current assets:		
Cash and equivalents	\$ 2,191,852	2,431,459
Restricted cash	<u>7,215,948</u>	<u>6,530,570</u>
Total cash and equivalents	<u>9,407,800</u>	<u>8,962,029</u>
Receivables:		
Interest	19,969	6,398
Distributions	78,337	79,370
Special project grants	922,987	567,714
Conduit	207,568	106,855
Notes	174,331	178,312
Affiliates	610,372	721,704
Other	<u>44,172</u>	<u>54,375</u>
Total receivables	<u>2,057,736</u>	<u>1,714,728</u>
Prepaid expenses	<u>60,673</u>	<u>34,064</u>
Total current assets	<u>11,526,209</u>	<u>10,710,821</u>
Long-term receivables:		
Special project grants receivable, less current portion	-	3,020,431
Conduit receivables, less current portion	456,590	234,985
Notes, less current portion, net of allowance of \$465,301 in 2010 and \$363,351 in 2009	<u>624,955</u>	<u>831,145</u>
Total long-term receivables	<u>1,081,545</u>	<u>4,086,561</u>
Rental property, less accumulated depreciation	144,000	144,000
Equipment, less accumulated depreciation	5,303	6,884
Equity investment	5,484,664	5,053,239
Other investments at fair value	<u>1,136,578</u>	<u>1,989,179</u>
Total assets	<u>\$ 19,378,299</u>	<u>21,990,684</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>2010</u>	<u>Restated 2009</u>
Current liabilities:		
Accounts payable	\$ 528,978	628,106
Accrued expenses	203,707	234,400
Deferred revenue	-	21,922
Current portion of conduit debt	160,126	43,551
Current portion of deferred revenues on special project grants	743,276	268,190
Funds held on behalf of others	<u>2,713,822</u>	<u>3,137,272</u>
Total current liabilities	4,349,909	4,333,441
Tax contingency, net	1,108,787	980,520
Conduit debt, less current portion	331,800	65,326
Deferred revenues on special project grants, less current portion	-	3,353,658
Participations	<u>150,000</u>	<u>150,000</u>
Total liabilities	<u>5,940,496</u>	<u>8,882,945</u>
Net assets:		
Invested in capital assets	149,303	150,884
Restricted	9,444,263	9,093,992
Unrestricted	<u>3,844,237</u>	<u>3,862,863</u>
Total net assets	<u>13,437,803</u>	<u>13,107,739</u>
Contingencies (note 19)	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 19,378,299</u>	<u>21,990,684</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, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
Operating revenue:		
Administrative fees	\$ 1,962,693	2,442,687
Affiliate management fees	338,301	241,402
Rental income	54,583	314,060
Interest income	107,803	67,508
Other income	<u>510,891</u>	<u>425,731</u>
Total operating revenue	<u>2,974,271</u>	<u>3,491,388</u>
Operating expenses:		
Salaries and benefits	1,988,679	1,898,537
General and administrative	875,113	990,676
Administrative services assessment fee	-	226,240
Bad debt expense	101,950	344,860
Depreciation of equipment and leasehold improvements	1,581	3,597
Other	<u>54,188</u>	<u>78,442</u>
Total operating expenses	<u>3,021,511</u>	<u>3,542,352</u>
Decrease in net assets from operations before special projects grants	<u>(47,240)</u>	<u>(50,964)</u>
Special project grants:		
Revenue	3,347,938	850,889
Expenses	<u>(3,409,497)</u>	<u>(874,668)</u>
Net special project grants	<u>(61,559)</u>	<u>(23,779)</u>
Decrease in net assets from operations	<u>(108,799)</u>	<u>(74,743)</u>
Non-operating activities:		
Grant income	-	4,676,954
Earnings from equity investment	460,712	1,673,280
Refund of taxes (provision for tax contingency)	870,269	(61,907)
Unrealized investment loss	(902,601)	(466,492)
Interest income	10,483	44,957
Interest expense	<u>-</u>	<u>(6,462)</u>
Total non-operating activities	<u>438,863</u>	<u>5,860,330</u>
Increase in net assets	<u>330,064</u>	<u>5,785,587</u>
Net assets at beginning of year, as previously stated	13,107,739	7,359,568
Restatement of net assets	<u>-</u>	<u>(37,416)</u>
Net assets at beginning of year, as restated	<u>13,107,739</u>	<u>7,322,152</u>
Net assets at end of year	<u>\$ 13,437,803</u>	<u>13,107,739</u>

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Statements of Cash Flows
 Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>Restated 2009</u>
Cash flows from operating activities:		
Special project grants received	\$ 5,455,598	954,689
Special project grants disbursed	(5,752,493)	(673,237)
Fees received	2,412,326	2,435,580
Rental income received	54,583	314,060
Interest income received from loans	94,232	63,110
Payments to employees and vendors	(3,074,410)	(4,104,730)
Other income received	521,094	513,827
Net cash used in operating activities	<u>(289,070)</u>	<u>(496,701)</u>
Cash flows from investing activities:		
Distributions received	30,320	1,101,526
Taxes refunded	998,536	980,520
Taxes paid	-	(61,907)
Receipts from (purchase of) other investments	(50,000)	1,563
Issuance of conduit receivables	(474,000)	-
Receipts from conduit receivables	151,682	142,322
Repayments received on notes receivable	108,221	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 (decrease) in funds held on the behalf of others	(423,450)	1,370,960
Interest income	10,483	44,957
Net cash provided by investing activities	<u>351,792</u>	<u>4,537,913</u>
Cash flows from financing activities:		
Issuance of new conduit debt	474,000	-
Repayment of long-term debt and participations	(90,951)	(372,316)
Interest expense	-	(6,462)
Net cash provided by (used in) financing activities	<u>383,049</u>	<u>(378,778)</u>
Net increase in cash and equivalents	445,771	3,662,434
Cash and equivalents at beginning of year	<u>8,962,029</u>	<u>5,299,595</u>
Cash and equivalents at end of year	<u>\$ 9,407,800</u>	<u>8,962,029</u>

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Cash Flows, Continued

	<u>2010</u>	<u>Restated 2009</u>
Cash flows from operating activities:		
Decrease in net assets from operations	\$ (108,799)	(74,743)
Adjustments to reconcile decrease in net assets from operations to net cash used in operating activities:		
Depreciation of equipment and leasehold improvements	1,581	3,597
Provision for loan losses	101,950	344,860
Changes in:		
Receivables	2,215,624	(61,011)
Prepaid expenses	(26,609)	66,367
Accounts payable	(99,128)	(849,166)
Accrued expenses	(30,693)	(128,036)
Deferred revenue	<u>(2,342,996)</u>	<u>201,431</u>
Net cash used in operating activities	<u>\$ (289,070)</u>	<u>(496,701)</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>-</u>	<u>(152,508)</u>
Total non-cash items	-	4,201,264
Cash	<u>-</u>	<u>475,690</u>
Total grant to the Agency	<u>\$ -</u>	<u>4,676,954</u>

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements

December 31, 2010 and 2009

(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.

(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.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(c) Financial Reporting Entity, Continued

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.

(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.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(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 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 also receives rights to convert certain loans to equity of the borrower. 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, 2010 and 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 \$20 million and \$303 million in 2010 and 2009, 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 \$123 million and \$278 million in 2010 and 2009, 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 (DEC). 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, 2010, the Agency's financial institution bank account balances amounted to \$10,189,181. 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>9,783,789</u>	<u>405,392</u>	<u>-</u>

Cash and equivalents at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Checking accounts	\$ 50,243	599,915
Petty cash	100	100
Money market accounts	8,707,457	5,962,014
Certificate of Deposit - 0.10% due on March 31, 2010, 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 January 31, 2011, restricted to secure ATC's second mortgage	<u>650,000</u>	<u>-</u>
Total cash and equivalents	\$ <u>9,407,800</u>	<u>8,962,029</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(2) Cash and Equivalents, Continued

Restricted cash at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
Funds held on behalf of others:		
Erie Niagara Regional Partnership	\$ 26,607	-
Regionally Significant Project Fund - Buffalo Economic Renaissance Corporation (BERC)	32,856	17,387
Regionally Significant Project Fund - Buffalo Urban Development Corporation (BUDC)	23,282	26,091
Buffalo Brownfields Redevelopment Fund - Buffalo Urban Development Corporation (BUDC)	663,471	1,452,737
Regional Redevelopment Fund - Erie County	<u>1,967,606</u>	<u>1,641,057</u>
	2,713,822	3,137,272
Other:		
Railway Trust Fund	91,789	126,501
Certificate of deposit - to secure ATC's second mortgage	650,000	650,000
UDAG Fund	<u>3,760,337</u>	<u>2,616,797</u>
Total restricted cash	\$ <u>7,215,948</u>	<u>6,530,570</u>

(3) Special Project Grants Receivable

The following is a list of special project grants receivable at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
DOT - Bethlehem Steel	\$ -	545,958
DOT - Buffalo Southern	-	24,581
EDA - JumpStart	445,000	-
Erie County/NYS/National Grid - Spaulding Fibre	231,782	2,699,832
ESDC - Buffalo Wi-Fi	106,192	149,299
ESDC - Trade Missions	<u>140,013</u>	<u>168,475</u>
Total special project grants	922,987	3,588,145
Less current portion	<u>(922,987)</u>	<u>(567,714)</u>
Special project grants receivable, less current portion	\$ <u>-</u>	<u>3,020,431</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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
DOT - Bethlehem Steel	\$ -	503,380
DOT - Buffalo Southern	-	24,315
EDA - JumpStart New York Project	445,000	-
DOT - CrossPoint Business Park	115,991	115,991
Erie County/NYS/National Grid - Spaulding Fibre	182,285	2,906,254
ESDC - Buffalo Wi-Fi	-	63,446
ESDC - Trade Missions	<u>-</u>	<u>8,462</u>
Total deferred revenues on special project grants	743,276	3,621,848
Less current portion	<u>(743,276)</u>	<u>(268,190)</u>
Deferred revenues on special projects, less current portion	\$ <u> -</u>	<u>3,353,658</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 New York State Department of Transportation (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.
- EDA - JumpStart New York Project - Funding represents a grant from U.S. Department of Commerce, Economic Development Administration (EDA) to partially fund projects to transform entrepreneurship in Upstate New York into a significant engine for regional economic growth adapting the successful Northeast Ohio JumpStart Inc. model.
- 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

- 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.
- 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
General Mills	\$ 426,600	-
Harlequin Sales Corporation	12,385	39,095
Sonwil Distribution Center	53,006	67,157
Speed Transportation	65,326	108,877
TSV, Inc. (Servotronics)	<u>106,841</u>	<u>126,711</u>
Total conduit receivables	664,158	341,840
Less current portion	<u>(207,568)</u>	<u>(106,855)</u>
Conduit receivables, less current portion	\$ <u>456,590</u>	<u>234,985</u>

(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, 2010 and 2009, notes receivable were comprised of the following:

	<u>2010</u>	<u>2009</u>
Notes receivable	\$ 1,264,587	1,372,808
Less allowance for doubtful loans	<u>(465,301)</u>	<u>(363,351)</u>
	799,286	1,009,457
Amounts due in one year	<u>(174,331)</u>	<u>(178,312)</u>
Notes receivable, long-term	\$ <u>624,955</u>	<u>831,145</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(7) Allowance for Doubtful Loans

Changes in the allowance for doubtful loans for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 363,351	-
Amount granted from ILDC	-	63,900
Provision for loan losses	101,950	344,860
Write-off of uncollectible loans	<u>-</u>	<u>(45,409)</u>
Balance at end of year	\$ <u>465,301</u>	<u>363,351</u>

(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, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 5,053,239	4,542,332
Equity in earnings from Gemcor	460,712	1,673,280
Less distributions	<u>(29,287)</u>	<u>(1,162,373)</u>
Balance at end of year	\$ <u>5,484,664</u>	<u>5,053,239</u>

(9) Other Investments

Other investments consist of venture capital investments in local, privately-owned companies and amounted to \$1,136,578 and \$1,989,179 at December 31, 2010 and December 31, 2009, respectively. The Agency reports these investments at lower of cost or fair value. Certain venture capital investments could be substantially more than reported. However, currently there is no readily determined fair value to report these investments at greater than cost. 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:

	<u>2010</u>	<u>2009</u>
Other investments at beginning of year	\$ 1,989,179	-
Grant of other investments at fair value from ILDC	-	2,457,234
Return of capital	-	(1,563)
Purchase of investments	50,000	-
Unrealized loss on investments	<u>(902,601)</u>	<u>(466,492)</u>
Other investments at end of year	\$ <u>1,136,578</u>	<u>1,989,179</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Notes to Financial Statements, Continued

(10) Rental Property

A summary of rental property at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</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>

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 \$47,696 and \$61,695 for the years ended December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the buildings and improvements were fully depreciated.

Total rental income amounted to \$54,583 and \$314,060 for the years ended December 31, 2010 and 2009, respectively. In 2009, \$252,365 was received from a tenant who exercised the option to purchase property at no cost and exercised this option in June 2009.

(11) Equipment

A summary of equipment at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 35,494	52,518
Leasehold improvements	<u>2,550</u>	<u>2,550</u>
Total equipment	38,044	55,068
Less accumulated depreciation	<u>(32,741)</u>	<u>(48,184)</u>
Net equipment	\$ <u>5,303</u>	<u>6,884</u>

Depreciation expense relating to equipment and leasehold improvements amounted to \$1,581 and \$3,597 for the years ended December 31, 2010 and 2009, respectively. Depreciation is computed using the straight-line method based on estimated useful lives ranging from three to ten years. In 2010, the Agency disposed of fully depreciated obsolete equipment of \$17,024.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(12) Conduit Debt

Conduit debt at December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
General Mills Project Funding - loan payable to DOT	\$ 426,600	-
Speed Transportation Project Funding - loan payable to DOT	<u>65,326</u>	<u>108,877</u>
Total conduit debt	491,926	108,877
Less current portion	<u>(160,126)</u>	<u>(43,551)</u>
Conduit debt, less current portion	\$ <u>331,880</u>	<u>65,326</u>

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

- General Mills Project Funding - In previous years, DOT disbursed \$1,185,000 to the Agency for use in the reconstruction of 1,100 linear feet of rail siding at the General Mills Cereal Facility. The Agency must repay the State 40%. Terms are 0% interest with five annual payments commencing one year from the date the completed project is accepted by DOT. The loan is payable as follows: year 1 - 10%; years 2 - 4 - 20%; year 5 - 30%.
- 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%.

Principal maturities of conduit debt at December 31, 2010 are as follows:

2011	\$ 160,126
2012	94,800
2013	94,800
2014	<u>142,200</u>
Total	\$ <u>491,926</u>

Each of the above conduit debts is offset by a related receivable as described in note 5.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(13) Funds Held on Behalf of Others

Funds held on behalf of others at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Erie Niagara Regional Partnership - Funds held on behalf of a non-profit entity organized to promote business development in the Erie Niagara region.	\$ 26,607	-
Regionally Significant Project Fund - Funds held on behalf of the BUDC and BEREC for the purpose of funding eligible projects within the County:		
BEREC	32,856	17,387
BUDC	23,282	26,091
Buffalo Brownfields Redevelopment Fund - Funds held on behalf of BUDC for the purpose of remediation and redevelopment of brownfields in the City.	663,471	1,452,737
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>1,967,606</u>	<u>1,641,057</u>
Total funds held on behalf of others	\$ <u>2,713,822</u>	<u>3,137,272</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 filed for approximately \$3,056,470 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 and 2009) expire. The following schedules details the tax contingency at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 980,520	-
Refunds received	998,536	980,520
Refunds recognized as revenue	<u>(870,269)</u>	<u>-</u>
Balance at end of year	\$ <u>1,108,787</u>	<u>980,520</u>

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. Related to this transaction, an adjustment was made as of January 1, 2009, in the amount of \$37,416, to properly record related party receivables associated with taxes paid due to the Gemcor investment.

(16) Related Party Transactions

Related party transactions for the years ended December 31, 2010 and 2009 consist of the following:

- (a) 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 Fund	UDAG Fund	Total
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	(236,710)	(59,009)	(295,719)
	\$ <u>904,788</u>	<u>3,772,166</u>	<u>4,676,954</u>

- (b) The Agency has a shared services agreement with ILDC for which it provides administrative and staffing services to ILDC related to the issuance of bond obligations for compensation in the amount of administrative charges received by the ILDC relative to bond obligations. In 2010, the ILDC transferred \$859,204 in administrative fees for the Agency in 2010, included in administrative fee income.
- (c) The Agency has an operating lease for its offices with ATC. Rental expense paid to ATC amounted to \$135,456 and \$197,030 for the years ended December 31, 2010 and 2009, respectively. ATC sold a portion of the real property on February 16, 2011. ATC plans to cease operations effective February 16, 2011 and transfer all remaining assets and liabilities to the Agency. Minimum rental payments required under the lease through February 16, 2011 amount to \$17,738.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(16) Related Party Transactions, Continued

(d) The Agency allocates a portion of its payroll, personnel and overhead costs under a cost allocation plan for the years ended December 31, 2010 and 2009 to the following related parties:

	<u>2010</u>	<u>2009</u>
Buffalo and Erie County Regional Development Corporation	\$ 219,166	181,000
Buffalo and Erie County Industrial Land Development Corporation	5,391	-
Buffalo Urban Development Corporation	38,095	1,699
ATC of Buffalo and Erie County, Inc.	<u>62,103</u>	<u>39,000</u>
	<u>\$ 324,755</u>	<u>221,699</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 \$266,696 and \$255,966 for the years ended December 31, 2010 and 2009, respectively and is included in other income.

The Agency also allocates to Buffalo and Erie County Regional Development Corporation a portion of its rental costs paid to the ATC under a cost allocation plan. Allocated rental costs amounted to \$13,546 and \$19,703 for the years ended December 31, 2010 and 2009, respectively.

(e) Accounts receivable from affiliates amounted to \$610,372 and \$721,704 at December 31, 2010 and 2009, respectively.

(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 2010 and 2009, 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, 2010 and 2009 amounted to \$98,994 and \$92,529, respectively.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Notes to Financial Statements, Continued

(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 billed the Agency for 2010 an administrative assessment fee of \$158,254. The 2009 assessment fee of \$226,240 accrued by the Agency in 2009 was rescinded by NYS in 2010. The difference of \$67,986 is included in other income and the \$158,254 is included in accounts payable at December 31, 2010.

(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 and the outstanding balance of the mortgage at December 31, 2010 amounted to \$3,472,230. In connection with the purchase of BTC Block 20, the ATC also entered into a demand note payable to Manufacturers and Traders Trust Company. The outstanding balance of the demand note at December 31, 2010 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. ATC paid the outstanding balance of the mortgage and demand note upon the sale of real property on February 16, 2011.

(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.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Schedule of Net Assets by Fund
 December 31, 2010

<u>Assets</u>	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Total</u>
Current assets:			
Cash and equivalents	\$ 2,191,852	-	2,191,852
Restricted cash	<u>3,455,611</u>	<u>3,760,337</u>	<u>7,215,948</u>
Total cash and equivalents	<u>5,647,463</u>	<u>3,760,337</u>	<u>9,407,800</u>
Receivables:			
Interest	-	19,969	19,969
Distributions	-	78,337	78,337
Special project grants	922,987	-	922,987
Conduit	207,568	-	207,568
Notes	-	174,331	174,331
Affiliates	572,103	38,269	610,372
Other	<u>44,172</u>	<u>-</u>	<u>44,172</u>
Total receivables	<u>1,746,830</u>	<u>310,906</u>	<u>2,057,736</u>
Prepaid expenses	<u>60,673</u>	<u>-</u>	<u>60,673</u>
Total current assets	<u>7,454,966</u>	<u>4,071,243</u>	<u>11,526,209</u>
Long-term receivables:			
Conduit receivables, less current portion	456,590	-	456,590
Notes, less current portion, net of allowance of \$ \$465,301	<u>-</u>	<u>624,955</u>	<u>624,955</u>
Total long-term receivables	<u>456,590</u>	<u>624,955</u>	<u>1,081,545</u>
Rental property, less accumulated depreciation	144,000	-	144,000
Equipment, less accumulated depreciation	5,303	-	5,303
Equity investment	-	5,484,664	5,484,664
Other investments at fair value	<u>564,390</u>	<u>572,188</u>	<u>1,136,578</u>
Total assets	<u>\$ 8,625,249</u>	<u>10,753,050</u>	<u>19,378,299</u>

(Continued)

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Net Assets by Fund, Continued

<u>Liabilities and Net Assets</u>	<u>General Fund</u>	<u>UDAG Fund</u>	<u>Total</u>
Current liabilities:			
Accounts payable	\$ 478,978	50,000	528,978
Accrued expenses	203,707	-	203,707
Current portion of conduit debt	160,126	-	160,126
Current portion of deferred revenues on special project grants	743,276	-	743,276
Funds held on behalf of others	<u>2,713,822</u>	<u>-</u>	<u>2,713,822</u>
Total current liabilities	4,299,909	50,000	4,349,909
Tax contingency, net	-	1,108,787	1,108,787
Conduit debt, less current portion	331,800	-	331,800
Participations	<u>-</u>	<u>150,000</u>	<u>150,000</u>
Total liabilities	<u>4,631,709</u>	<u>1,308,787</u>	<u>5,940,496</u>
Net assets:			
Invested in capital assets	149,303	-	149,303
Restricted	-	9,444,263	9,444,263
Unrestricted	<u>3,844,237</u>	<u>-</u>	<u>3,844,237</u>
Total net assets	<u>3,993,540</u>	<u>9,444,263</u>	<u>13,437,803</u>
Total liabilities and net assets	<u>\$ 8,625,249</u>	<u>10,753,050</u>	<u>19,378,299</u>

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
 Schedule of Revenue, Expenses and Changes in Net Assets by Fund
 Year Ended December 31, 2010

	General Fund	UDAG Fund	Total
Operating revenue:			
Administrative fees	\$ 1,962,693	-	1,962,693
Affiliate management fees	338,301	-	338,301
Rental income	54,583	-	54,583
Interest income	-	107,803	107,803
Other income	510,891	-	510,891
Total operating revenue	<u>2,866,468</u>	<u>107,803</u>	<u>2,974,271</u>
Operating expenses:			
Salaries and benefits	1,988,679	-	1,988,679
General and administrative	798,318	76,795	875,113
Bad debt expense	-	101,950	101,950
Depreciation of equipment and leasehold improvements	1,581	-	1,581
Other	54,188	-	54,188
Total operating expenses	<u>2,842,766</u>	<u>178,745</u>	<u>3,021,511</u>
Increase (decrease) in net assets from operations before special projects grants	<u>23,702</u>	<u>(70,942)</u>	<u>(47,240)</u>
Special project grants:			
Revenue	3,347,938	-	3,347,938
Expenses	<u>(3,402,330)</u>	<u>(7,167)</u>	<u>(3,409,497)</u>
Net special project grants	<u>(54,392)</u>	<u>(7,167)</u>	<u>(61,559)</u>
Decrease in net assets from operations	<u>(30,690)</u>	<u>(78,109)</u>	<u>(108,799)</u>
Non-operating activities:			
Earnings from equity investment	-	460,712	460,712
Refund of taxes	-	870,269	870,269
Unrealized investment loss	-	(902,601)	(902,601)
Interest income	10,483	-	10,483
Total non-operating activities	<u>10,483</u>	<u>428,380</u>	<u>438,863</u>
Increase (decrease) in net assets	(20,207)	350,271	330,064
Net assets at beginning of year	<u>4,013,747</u>	<u>9,093,992</u>	<u>13,107,739</u>
Net assets at end of year	<u>\$ 3,993,540</u>	<u>9,444,263</u>	<u>13,437,803</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
Erie County Industrial Development Agency:

We have audited the 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, 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 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, detected and corrected, on a timely basis.

Our audit would not necessarily 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 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.

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 9, 2011