

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Financial Statements and
Supplemental Information

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

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TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Buffalo and Erie County Regional Development Corporation (RDC) as of December 31, 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 RDC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Buffalo and Erie County Regional Development Corporation as of December 31, 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.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2011 on our consideration of RDC'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, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Toski, Schaefer & Co., P.C.

Williamsville, New York
March 9, 2011

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statements of Financial Position
December 31, 2010 and 2009

	<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:			
Cash		\$ 9,875,967	9,319,315
Receivables:			
Notes		2,639,537	2,473,078
Participations		136,849	265,161
Interest		<u>5,222</u>	<u>10,361</u>
Total receivables		<u>2,781,608</u>	<u>2,748,600</u>
Total current assets		12,657,575	12,067,915
Notes receivable, less current installments and allowance for doubtful notes of \$624,000 in 2010 and \$631,300 in 2009		9,574,841	10,188,468
Participations receivable, less current installments and allowance for doubtful participations of \$75,000 in 2010 and 2009		<u>480,470</u>	<u>611,602</u>
Total assets		<u>\$ 22,712,886</u>	<u>22,867,985</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable and accrued expenses		1,509,903	1,511,878
Due to affiliate		245,760	475,931
Current portion of participations payable		<u>12,801</u>	<u>27,699</u>
Total current liabilities		1,768,464	2,015,508
Participations payable, excluding current portion		<u>-</u>	<u>36,318</u>
Total liabilities		1,768,464	2,051,826
Temporarily restricted net assets		20,944,422	20,816,159
Commitments and contingencies (notes 7 and 8)		<u> </u>	<u> </u>
Total liabilities and net assets		<u>\$ 22,712,886</u>	<u>22,867,985</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue:		
Interest income from notes and participations receivable	\$ 607,702	600,143
Loan commitment fees	12,350	22,865
Bad debt recoveries	<u>7,404</u>	<u>7,683</u>
Total operating revenue	<u>627,456</u>	<u>630,691</u>
Operating expenses:		
General and administrative	301,825	335,413
Provision for loan losses	<u>202,224</u>	<u>406,214</u>
Total operating expenses	<u>504,049</u>	<u>741,627</u>
Increase (decrease) in net assets from operating activities	123,407	(110,936)
Non-operating activities - interest income	<u>4,856</u>	<u>34,427</u>
Increase (decrease) in net assets	128,263	(76,509)
Net assets at beginning of year	<u>20,816,159</u>	<u>20,892,668</u>
Net assets at end of year	<u>\$ 20,944,422</u>	<u>20,816,159</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
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 net assets	\$ 128,263	(76,509)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for loan losses	202,224	406,214
Capitalized loan interest	(21,451)	(21,868)
Changes in:		
Interest receivable	5,139	(288)
Prepaid expenses	-	11,549
Accounts payable and accrued expenses	(1,975)	34,286
Due to affiliate	(230,171)	243,651
Net cash provided by operating activities	<u>82,029</u>	<u>597,035</u>
Cash flows from investing activities:		
Repayments of notes and participations receivable	3,264,959	2,110,768
Issuance of notes and participations receivable	(2,739,120)	(5,185,892)
Repayments of participations payable	(51,216)	(48,825)
Net cash provided by (used in) investing activities	<u>474,623</u>	<u>(3,123,949)</u>
Net increase (decrease) in cash	556,652	(2,526,914)
Cash at beginning of year	<u>9,319,315</u>	<u>11,846,229</u>
Cash at end of year	<u>\$ 9,875,967</u>	<u>9,319,315</u>

See accompanying notes to financial statements.

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

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

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

(b) Basis of Presentation

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

(c) Temporarily Restricted Net Assets

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

(d) Estimates

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

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

(1) Summary of Significant Accounting Policies, Continued

(e) Notes Receivable and Allowance for Doubtful Loans

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

(f) Participations Receivable and Allowance for Doubtful Loans

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

(g) Stock Option Accounting

In connection with certain loans, RDC receives stock purchase options from the borrower. The borrower is sometimes given the right to repurchase these options from the RDC at a predetermined price. RDC also receives rights to convert certain loans to equity of the borrower. RDC 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.

(h) Participations Payable

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

(j) Subsequent Events

RDC 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.

(k) Income Taxes

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

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

(2) Cash

Cash balances as of December 31, 2010 and 2009 were either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the RDC's investment policy.

(3) Notes Receivable

Notes receivable represent loans made to local businesses to compliment private financing at interest rates between 4% and 8.25% 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	\$ 12,838,378	13,292,846
Less allowance for doubtful loans	<u>(624,000)</u>	<u>(631,300)</u>
	12,214,378	12,661,546
Amounts due in one year	<u>(2,639,537)</u>	<u>(2,473,078)</u>
Notes receivable, less current installments	\$ <u>9,574,841</u>	<u>10,188,468</u>

(4) Allowance for Doubtful Receivables

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

	<u>2010</u>	<u>2009</u>
Allowance for doubtful receivables:		
Balance at beginning of year, notes	\$ 631,300	1,051,000
Balance at beginning of year, participations	<u>75,000</u>	<u>100,000</u>
	<u>706,300</u>	<u>1,151,000</u>
Provision for loan losses:		
Increase in allowance for doubtful notes	202,224	431,214
Decrease in allowance for doubtful participations receivable	<u>-</u>	<u>(25,000)</u>
	<u>202,224</u>	<u>406,214</u>
Current year charge-offs, notes	<u>(209,524)</u>	<u>(850,914)</u>
Balance at end of year	\$ <u>699,000</u>	<u>706,300</u>
Balance at end of year, notes	624,000	631,300
Balance at end of year, participations	<u>75,000</u>	<u>75,000</u>
	\$ <u>699,000</u>	<u>706,300</u>

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION

Notes to Financial Statements, Continued

(5) Accounts Payable and Accrued Expenses

Included in accounts payable and accrued expenses is \$1,503,274 and \$1,492,406 due to the U.S. Treasury for interest on cash held in the County Fund at December 31, 2010 and 2009, respectively. This amount has not yet been paid due to ongoing discussions between the U.S. Department of Housing and Urban Development, U.S. Department of Commerce Economic Development Administration (EDA) and the RDC.

(6) Related Party Transactions

ECIDA allocates a portion of its personnel and overhead costs to RDC under a cost allocation plan. RDC was charged \$219,166 and \$181,000 for the years ended December 31, 2010 and 2009, respectively, for such costs. In addition, ECIDA allocates to RDC a portion of its rental costs which are paid to ATC. RDC was charged \$13,546 and \$19,704 for the years ended December 31, 2010 and 2009, respectively, for such costs. RDC had a net amount due to ECIDA amounting to \$245,760 and \$475,931 at December 31, 2010 and 2009, respectively, related to these costs.

(7) Commitments

At December 31, 2010, RDC had outstanding loan commitments to several businesses totaling \$1,160,000.

(8) Contingencies

Contingencies at December 31, 2010 consist of the following:

(a) Legal Proceedings

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

(b) Loan Fund Utilization

The RDC is not in compliance with EDA regulations regarding the utilization of revolving loan funds. These regulations require that 85% of the revolving loan fund be loaned or committed at all times. During 2010, RDC's utilization decreased from 76.8% to 67.9%. RDC management is aggressively promoting the loan fund to local businesses and expects to increase its utilization in 2011.

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

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statement of Financial Position by Revolving Loan Fund
December 31, 2010

<u>Assets</u>	<u>EDA fund</u>	<u>City fund</u>	<u>County fund</u>	<u>Total</u>
Cash	\$ 3,765,664	687,508	5,422,795	9,875,967
Receivables:				
Notes	10,694,804	2,068,028	75,546	12,838,378
Allowance for doubtful notes	(624,000)	-	-	(624,000)
Participations	692,319	-	-	692,319
Allowance for doubtful participations	(75,000)	-	-	(75,000)
Interest	5,164	58	-	5,222
Total assets	<u>\$ 14,458,951</u>	<u>2,755,594</u>	<u>5,498,341</u>	<u>22,712,886</u>
<u>Liabilities and Net Assets</u>				
Liabilities:				
Accounts payable and accrued expenses	6,629	-	1,503,274	1,509,903
Due to (from) other funds	406	175	(581)	-
Due to (from) affiliate	247,050	9,745	(11,035)	245,760
Participations payable	12,801	-	-	12,801
Total liabilities	266,886	9,920	1,491,658	1,768,464
Temporarily restricted net assets	<u>14,192,065</u>	<u>2,745,674</u>	<u>4,006,683</u>	<u>20,944,422</u>
Total liabilities and net assets	<u>\$ 14,458,951</u>	<u>2,755,594</u>	<u>5,498,341</u>	<u>22,712,886</u>

BUFFALO AND ERIE COUNTY REGIONAL
DEVELOPMENT CORPORATION
Statement of Revenue, Expenses and Changes in Net Assets by Revolving Loan Fund
Year ended December 31, 2010

	<u>EDA</u> <u>fund</u>	<u>City</u> <u>fund</u>	<u>County</u> <u>fund</u>	<u>Total</u>
Operating revenue:				
Interest income from notes and participations receivable	\$ 511,191	91,768	4,743	607,702
Loan commitment fees	9,850	2,500	-	12,350
Bad debt recoveries	7,404	-	-	7,404
Total operating revenue	<u>528,445</u>	<u>94,268</u>	<u>4,743</u>	<u>627,456</u>
Operating expenses:				
General and administrative	266,736	27,243	7,846	301,825
Provision for loan losses	202,224	-	-	202,224
Total operating expenses	<u>468,960</u>	<u>27,243</u>	<u>7,846</u>	<u>504,049</u>
Increase (decrease) in net assets from operating activities	59,485	67,025	(3,103)	123,407
Non-operating activities - interest income	3,877	979	-	4,856
Increase (decrease) in net assets	63,362	68,004	(3,103)	128,263
Net assets at beginning of year	<u>14,128,703</u>	<u>2,677,670</u>	<u>4,009,786</u>	<u>20,816,159</u>
Net assets at end of year	<u>\$ 14,192,065</u>	<u>2,745,674</u>	<u>4,006,683</u>	<u>20,944,422</u>

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555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
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14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE
WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Buffalo and Erie County Regional Development Corporation (RDC) 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 RDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RDC's internal control over financial reporting.

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

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

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