

**ERIE COUNTY INDUSTRIAL  
DEVELOPMENT AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Erie County Industrial Development Agency

We have audited the accompanying financial statements of Erie County Industrial Development Agency (ECIDA), a business-type activity, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ECIDA as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Management's Discussion and Analysis*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis preceding the financial statements be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

The supplementary information on pages 13 and 14 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017 on our consideration of ECIDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECIDA's internal control over financial reporting and compliance.

*Lumaden & McCormick, LLP*

March 13, 2017

# **ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

## **Management's Discussion and Analysis**

**December 31, 2016  
(UNAUDITED)**

Erie County Industrial Development Agency (ECIDA) is a public benefit corporation that provides tax incentives, financing programs, international trade assistance, land development and other economic development services to the City of Buffalo (the City) and Erie County, New York (the County). In accomplishing its mission, ECIDA does not receive any operational funding from Federal, State, County, or local sources. Instead, ECIDA relies primarily upon administrative fees charged to those businesses that utilize its products and services.

As a public benefit corporation, ECIDA is required to comply with accounting standards issued by the Governmental Accounting Standards Board (GASB). Under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, ECIDA is required to present management's discussion and analysis (MD&A) to assist readers in understanding ECIDA's financial performance.

In compliance with GASB Statement No. 34, we present the attached overview and analysis of the financial activities of ECIDA as of and for the years ended December 31, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with ECIDA's audited financial statements.

### **Basic Overview of the Financial Statements**

Included in this Annual Report are the following financial statements:

- 1) Balance Sheets - The balance sheets show the reader what ECIDA owns (assets and deferred outflows of resources) and what ECIDA owes (liabilities and deferred inflows of resources). The difference between ECIDA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources (net position) can be one way to measure ECIDA's financial position. Over time, increases or decreases in ECIDA's net position are an indicator of whether its financial health is improving or deteriorating.
- 2) Statements of Revenues, Expenses, and Changes in Net Position - This statement reports ECIDA's operating and nonoperating revenues by major source along with operating and nonoperating expenses. The difference between total revenues and expenses can be one way to measure ECIDA's operating results for the year.
- 3) Statements of Cash Flows - This statement reports ECIDA's cash flows from operating, capital and related financing, and investing activities.

### **Financial Highlights**

- ECIDA's total net position increased by 20% from \$23,619,000 in 2015 to \$28,319,000 in 2016.
- ECIDA experienced an increase in net position of \$4,700,000 in 2016 compared to \$2,435,000 in 2015.
- Administrative fees, a key source of revenue for ECIDA, decreased 59% from \$3,757,000 in 2015 to \$1,528,000 in 2016.
- Earnings from venture capital investments increased to \$7,252,000 in 2016 from \$1,219,000 in 2015.
- Operating expenses increased from \$2,898,000 in 2015 to \$3,505,000 in 2016.

## Condensed Comparative Financial Statements:

### 1. Balance Sheets:

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

**Table 1**  
**Balance Sheets as of December 31, 2016 and 2015**  
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Assets:				
Cash	\$ 24,372	\$ 15,846	\$ 8,526	54%
Loans receivable, net of allowance	196	226	(30)	-13%
Capital assets, net	1,665	1,751	(86)	-5%
Other assets	4,033	6,037	(2,004)	-33%
Restricted cash	4,834	4,132	702	17%
Total assets	<u>\$ 35,100</u>	<u>\$ 27,992</u>	<u>\$ 7,108</u>	<u>25%</u>
Liabilities:				
Current liabilities	\$ 2,932	\$ 294	\$ 2,638	897%
Funds held on behalf of others	3,718	3,910	(192)	-5%
Other long-term liabilities	131	169	(38)	-22%
Total liabilities	<u>6,781</u>	<u>4,373</u>	<u>2,408</u>	<u>55%</u>
Net position:				
Net investment in capital assets	1,665	1,751	(86)	-5%
Restricted	17,256	11,101	6,155	55%
Unrestricted	9,398	10,767	(1,369)	-13%
Total net position	<u>28,319</u>	<u>23,619</u>	<u>4,700</u>	<u>20%</u>
Total liabilities and net position	<u>\$ 35,100</u>	<u>\$ 27,992</u>	<u>\$ 7,108</u>	<u>25%</u>

**Cash** – ECIDA’s cash balance increased 54% or \$8,526,000 primarily due to the receipt of \$10,316,000 from the sale of a venture capital investment, net of \$1,000,000 held in escrow and included in restricted cash to be paid to the purchaser over ten years if certain conditions are met. Additionally, a decrease in administrative fees resulted in an approximately \$1,200,000 use of cash from non-investment operations.

**Loans Receivable** – Loans receivable represent various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program and conduit receivables. The \$30,000 decrease in the loans receivable balance is due to loan repayments received during 2016.

**Restricted Cash (Funds held on behalf of others)** – Restricted cash consists primarily of funds held on behalf of others including the Buffalo Brownfields Redevelopment fund, Regional Redevelopment fund, and the Regionally Significant Project funds. The \$702,000 or 17% increase from 2015 is due to the \$1,000,000 escrow as discussed above and \$203,000 received for the Seneca Street Corridor District fund, partially offset by a decrease of \$411,000 in the Regional Redevelopment Fund due to eligible projects costs.

**Other Assets** – Other assets include ECIDA’s venture capital investments, affiliate receivables, prepaid expenses, and other receivables. The decrease in other assets of \$2,004,000 is primarily caused by the sale of a venture capital investment with a book value of \$4,902,000 at the end of 2015. As part of the sale agreement, ECIDA is due \$880,000 during 2017, which is included as a receivable. The decrease was partially offset by a \$2,000,000 grant awarded in November 2016 from New York State Department of Transportation (DOT). The full amount is included in Other Assets as a grant receivable.

**Current Liabilities** – The \$2,638,000 increase in current liabilities is primarily due to a \$400,000 administrative fee received during 2016 that will be recognized as revenue in 2017 and \$2,000,000 of deferred grant revenue associated with the DOT grant that will be recognized as revenue as related expenses are incurred.

**Other Long-Term Liabilities** – Other long-term liabilities primarily consist of conduit debt and decreased due to payments on loan participation agreements made in 2016.

## 2. Change in Net Position:

The following table (Table 2) presents condensed, comparative financial information and was derived from ECIDA’s audited statements of revenues, expenses, and changes in net position.

**Table 2**  
**Change in Net Position for the Years ended December 31, 2016 and 2015**  
(Amounts in thousands)

Revenue:						
Administrative fees	\$	1,528	\$	3,757	\$ (2,229)	-59%
Investment income		7,252		1,219	6,033	495%
Affiliate management fees		362		353	9	3%
Other income		382		262	120	46%
		<hr/>				
Total revenue		9,524		5,591	3,933	70%
		<hr/>				
Expenses:						
Salaries and benefits		1,895		1,856	39	2%
General and administrative		1,468		899	569	63%
Depreciation and other		142		143	(1)	-1%
		<hr/>				
Total expenses		3,505		2,898	607	21%
		<hr/>				
Operating income before special project grants		6,019		2,693	3,326	124%
Net special project grants		(1,343)		(273)	(1,070)	392%
Interest income		24		15	9	60%
		<hr/>				
Change in net position	\$	4,700	\$	2,435	\$ 2,265	93%
		<hr/>				

### 3. Revenue Analysis:

**Administrative Fees** – Administrative fees are primarily collected from the issuance of various forms of tax abatements and tax-exempt financing. 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. Administrative fees decreased \$2,229,000 or 59% in 2016 primarily due to a decrease in the number of projects from twenty-two in 2015 to fourteen approved projects in 2016. Also, ECIDA received \$157,000 in fees from Buffalo & Erie County Industrial Land Development Corporation (ILDC) for a project closed during 2016. During 2015, four projects were closed through ILDC that generated \$1,764,000 of administrative fees passed-through to ECIDA.

**Affiliate Management Fees** – Affiliate management fees represent salaries and overhead costs charged to the following ECIDA affiliates for services that ECIDA’s employees provide to these organizations:

- Buffalo & Erie County Regional Development Corporation (RDC) - a lending corporation affiliated with ECIDA.
- Buffalo & Erie County Industrial Land Development Corporation (ILDC) - a land development corporation affiliated with ECIDA.

The following table (Table 3) illustrates the amounts charged to ECIDA’s affiliated corporations in 2016 with comparisons for 2015:

**Table 3**  
**Affiliate Management Fees for the Years ended December 31, 2016 and 2015**  
(Amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Affiliate Management Fees Charged:				
RDC	\$ 361	\$ 353	\$ 8	2%
ILDC	1	-	1	100%
	<hr/>			
Total Affiliate Management Fees	\$ 362	\$ 353	\$ 9	3%

Affiliate management fees charged to RDC increased slightly due to increases in personnel costs.

**Other Income** – Other income is comprised of rental income, international division revenues, loan interest, and miscellaneous income.

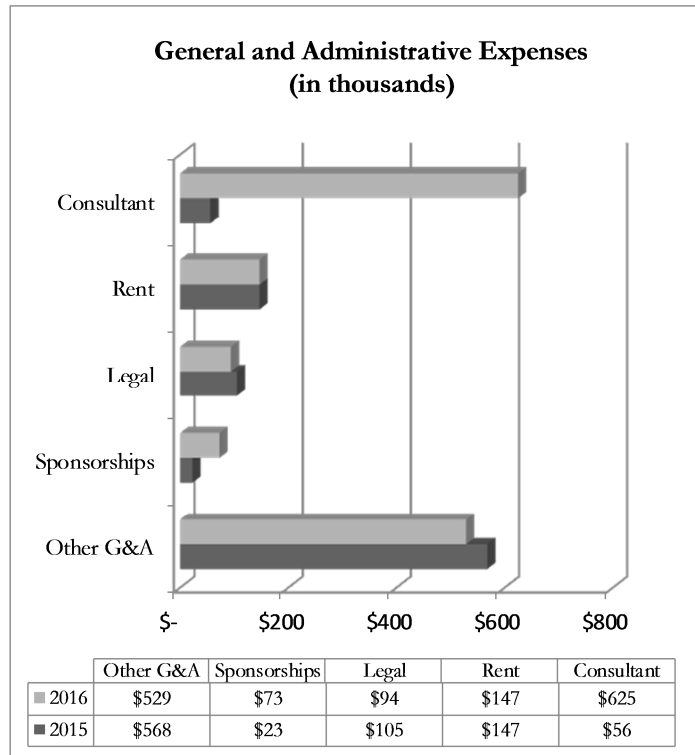
**Investment Income** – Investment income includes ECIDA’s proportionate share of net income derived from its venture capital investments. The income from 2015 is comprised of earnings from an aerospace business investment of \$1,219,000. During 2016, this investment was sold for \$12,196,000 resulting in a gain of \$7,190,000.

**Salaries and Benefits** – Salaries and benefits increases of \$39,000 in 2016 are primarily due to an increase in health insurance of \$24,000. Payroll expense remained consistent with wage increases offset by employee turnover.

#### 4. Expense Analysis:

**General and Administrative** – General and administrative expenses increased \$569,000 from \$899,000 in 2015 to \$1,468,000 in 2016. Key expense differences in 2016 include the following:

- Consultant expense increased \$569,000 due to initial planning costs associated with plans for the Net Zero Facility.
- Legal expense decreased by \$11,000 due to a general decrease in matters requiring attorney assistance.
- Sponsorship expenses increased \$50,000 due to more sponsorships of economic development initiatives and conferences.
- Other G&A expenses decreased \$39,000, but include the following more significant fluctuations:
  - Insurance expenses decreased \$31,000 due to decreased premiums.
  - Technology expenses decreased \$19,000 due to a decrease in application development costs.



**Depreciation and Other** – Depreciation and other expenses for 2016 and 2015 were \$142,000 and \$143,000, respectively.

**Net Special Project Grants** – Net Special Project Grants decreased from a \$273,000 net loss in 2015 to a net loss of \$1,343,000 in 2016. In 2016, expenses related to railroad improvements increased \$365,000 and will be reimbursed by the State once the projects are completed. During 2016, ECIDA also provided funding totaling \$1,020,000 for various activities including:

- Beverly Gray Business Exchange Center - \$150,000
- Buffalo Niagara Enterprise (two projects) - \$175,000
- Grow Erie Fund - \$500,000
- Launch NY - \$100,000



## 5. Budget Analysis:

ECIDA prepares an annual budget which was presented and approved by the Board of Directors on October 21, 2015. The following table (Table 4) presents an analysis of ECIDA's performance compared to the approved 2016 budget.

**Table 4**  
**Budget to Actual Analysis for the year ended December 31, 2016**  
(Amounts in thousands)

	<u>Actual</u>	<u>Budget</u>	<u>\$ Variance</u>	<u>% Variance</u>
Revenue:				
Administrative fees	\$ 1,528	\$ 1,800	\$ (272)	-15%
Investment income	7,252	675	6,577	974%
Affiliate management fees	362	343	19	6%
Other income	382	336	46	14%
	<hr/>			
Total revenue	9,524	3,154	6,370	202%
	<hr/>			
Expenses:				
Salaries and benefits	1,895	2,061	(166)	-8%
General and administrative	1,468	1,093	375	34%
Depreciation and other	142	140	2	1%
	<hr/>			
Total expenses	3,505	3,294	211	6%
	<hr/>			
Operating income before special project grants	6,019	(140)	6,159	-4399%
	<hr/>			
Net special project grants	(1,343)	(4,250)	2,907	-68%
Interest income	24	14	10	71%
	<hr/>			
Change in net position	\$ 4,700	\$ (4,376)	\$ 9,076	-207%

### Budget to Actual Analysis:

Overall, ECIDA exceeded its budgeted decrease in net position for 2016 by \$9,076,000. Administrative fees revenue was 15% less than the budgeted amount due to fewer tax incentive projects and tax-exempt bond issuances approved and closed than anticipated. Total expenses were \$211,000 over budget primarily due to planning costs associated with the Net Zero Facility. Investment income was higher than budget as ECIDA sold its ownership in Gemcor II, LLC. Net special project grants had a positive variance of \$2,907,000 as some of the budgeted special projects were not funded in 2016, including \$1,000,000 of venture capital activity and \$2,000,000 of high-impact project expenditures.

## **6. Economic Factors Impacting ECIDA:**

ECIDA relies extensively upon administrative fees to generate the majority of its annual revenue. As a result of current uncertain economic conditions and potential legislative/board actions, ECIDA's ability to generate the administrative fees necessary to support operations may be limited in the future.

## **7. Requests for Information:**

This financial report is designed to provide a general overview of ECIDA's finances. Questions concerning any of the financial information provided in this report should be addressed to the Controller of ECIDA at (716) 856-6525. General information relating to ECIDA can be found at its website, [www.ecidany.com](http://www.ecidany.com).

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

**Balance Sheets**

December 31,	2016	2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 24,371,944	\$ 15,846,215
Receivables		
Current portion of conduit loans (Note 2)	37,530	18,765
Current portion of loans (Note 3)	11,604	11,148
Affiliates (Note 8)	362,329	341,189
Grant (Note 4)	2,000,000	-
Other	937,217	45,620
Prepaid expenses	49,117	22,088
	<u>27,769,741</u>	<u>16,285,025</u>
<b>Noncurrent assets:</b>		
Conduit loans receivable (Note 2)	131,354	168,883
Loans receivable, net (Note 3)	15,740	27,564
Capital assets, net (Note 6)	1,664,878	1,750,987
Other assets (Note 7)	684,064	5,628,026
Restricted cash (Note 5)	4,834,085	4,131,497
	<u>7,330,121</u>	<u>11,706,957</u>
	<u>\$ 35,099,862</u>	<u>\$ 27,991,982</u>
<b>Liabilities and Net Position</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 338,974	\$ 143,038
Accrued expenses	155,263	132,487
Current portion of conduit debt (Note 2)	37,530	18,765
Unearned revenue	2,400,000	-
	<u>2,931,767</u>	<u>294,290</u>
<b>Noncurrent liabilities:</b>		
Conduit debt (Note 2)	131,354	168,883
Funds held on behalf of others (Note 5)	3,718,068	3,910,057
	<u>3,849,422</u>	<u>4,078,940</u>
<b>Net position:</b>		
Net investment in capital assets	1,664,878	1,750,987
Restricted	17,255,654	11,100,480
Unrestricted	9,398,141	10,767,285
	<u>28,318,673</u>	<u>23,618,752</u>
	<u>\$ 35,099,862</u>	<u>\$ 27,991,982</u>

See accompanying notes.

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

**Statements of Revenues, Expenses, and Changes in Net Position**

For the years ended December 31,	2016	2015
<b>Operating revenues:</b>		
Administrative fees	\$ 1,528,261	\$ 3,756,732
Investment income	7,252,089	1,218,549
Affiliate management fees	362,136	353,137
Rental income	299,019	182,216
Loan interest	6,863	13,741
Other	76,019	66,444
Total operating revenues	9,524,387	5,590,819
<b>Operating expenses:</b>		
Salaries and benefits	1,894,761	1,855,769
General and administrative	1,468,266	899,242
Depreciation	140,345	137,120
Other	1,462	5,192
Total operating expenses	3,504,834	2,897,323
Operating income before special project grants	6,019,553	2,693,496
<b>Special project grants:</b>		
Revenues	51,284	36,484
Expenses	(1,394,214)	(309,225)
	(1,342,930)	(272,741)
Operating income	4,676,623	2,420,755
<b>Nonoperating revenues:</b>		
Interest	23,298	14,709
Change in net position	4,699,921	2,435,464
Net position - beginning	23,618,752	21,183,288
<b>Net position - ending</b>	\$ 28,318,673	\$ 23,618,752

See accompanying notes.

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

**Statements of Cash Flows**

For the years ended December 31,	2016	2015
<b>Operating activities:</b>		
Cash from fees and rental income	\$ 2,227,280	\$ 3,938,948
Cash from special project grants	51,284	59,940
Cash received from equity investments	11,316,051	1,388,748
Loans and loan interest collected	36,995	36,308
Cash received from other sources	401,418	453,199
Payments to employees, suppliers, and other	(3,191,570)	(2,822,451)
Payments for special project grants	(1,394,214)	(309,225)
<b>Net operating activities</b>	<b>9,447,244</b>	<b>2,745,467</b>
<b>Capital and related financing activities:</b>		
Net purchases of capital assets	(50,236)	(68,284)
<b>Investing activities:</b>		
Change in restricted cash, net of funds held on behalf of others	(894,577)	(26,369)
Interest	23,298	14,709
<b>Net investing activities</b>	<b>(871,279)</b>	<b>(11,660)</b>
<b>Net change in cash</b>	<b>8,525,729</b>	<b>2,665,523</b>
Cash - beginning	15,846,215	13,180,692
Cash - ending	<b>\$ 24,371,944</b>	<b>\$ 15,846,215</b>
<b>Reconciliation of operating income to net cash flows from operating activities:</b>		
Operating income	\$ 4,676,623	\$ 2,420,755
Adjustments to reconcile operating income to net cash flows from operating activities:		
Gain on investments	(7,148,729)	-
Depreciation	140,345	137,120
Loss (gain) on disposal of assets	(4,000)	1,074
Changes in other assets and liabilities:		
Receivables	(901,369)	127,273
Prepaid expenses	(27,029)	4,498
Other assets	12,092,691	122,567
Accounts payable	195,936	(42,562)
Accrued expenses	22,776	(25,258)
Unearned revenue	400,000	-
<b>Net operating activities</b>	<b>\$ 9,447,244</b>	<b>\$ 2,745,467</b>

See accompanying notes.

# ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

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## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies:

#### Nature of Organization:

Erie County Industrial Development Agency (ECIDA) was created in 1970 by an act of the Legislature of the State of New York (the State) for the purpose of encouraging financially sound companies to establish themselves and prosper in Erie County (the County).

ECIDA has related party relationships with Buffalo and Erie County Industrial Land Development Corporation (ILDC) and Buffalo and Erie County Regional Development Corporation (RDC). All three entities are managed by the same personnel and RDC currently shares a common board with ECIDA. These entities share the same business objective which is the stimulation of the local economy through the funding of ventures which ultimately result in job creation, retention, and/or investment in the County.

#### Basis of Presentation:

The financial statements of ECIDA have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### Financial Reporting Entity:

In evaluating how to define ECIDA for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in ECIDA's reporting entity is based on accounting standards, which consider legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no additional entities included in ECIDA's financial statements.

#### Measurement Focus:

ECIDA reports as a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. ECIDA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred.

ECIDA's policy for defining operating activities in the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for services and payments made to purchase those goods or services. Certain other transactions are reported as nonoperating activities and include interest income.

#### 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Cash:

Cash management is governed by State laws and as established by ECIDA's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Policies permit management to use demand accounts and certificates of deposit for daily operating funds. Invested resources are limited to obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that, in the event of a bank failure, ECIDA's deposits may not be returned to it. At December 31, 2016, ECIDA's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's agent in ECIDA's name.

**Loans Receivable:**

Loans receivable are stated at the principal amount outstanding, net of an allowance for uncollectible loans. The allowance method is used to compute the provision for uncollectible loans.

Determination of the balance of the allowance for uncollectible loans is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses. Loans are written off when, in management's judgment, no legal recourse is available to collect the amount owed.

Interest on loans receivable is accrued as required by the terms of the agreement; management considers that collection is probable based on the current economic condition of the borrower. Interest accrual stops when management adjusts a loan reserve to 50% or more of the loan's outstanding balance.

**Capital Assets:**

*Operating:*

Capital assets are recorded at cost. Depreciation is provided over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds to determine which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization policy	Estimated Useful life
Buildings and improvements	\$ 1,000	5-40 years
Furniture and equipment	\$ 1,000	3-10 years

*Rental Property:*

In 1989, ECIDA 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 trans-shipment of goods by water, rail and truck. The facility is owned by ECIDA 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. Port Terminal Facility rental property assets are fully depreciated.

ECIDA also owns its former office space at 143 Genesee Street. This property is recorded at cost and leased to a third party (Note 9).

**Other Assets:**

Other assets include venture capital investments made by ECIDA in order to spur local economic growth. The Urban Development Action Grant (UDAG) and General Accounts include venture capital investments that are recorded at the lesser of cost or fair market value.

**Net Position:**

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets if their use is constrained to a particular purpose. Restrictions are imposed by Federal urban development action grants (UDAG).
- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use by ECIDA.

**Tax Incentive Transactions:**

ECIDA maintains an economic development incentive program to provide sales, property, and/or mortgage recording tax benefits for qualified construction, renovation, or expansion projects or other economic development activities within Erie County. Under this program, ECIDA may take title to or a leasehold interest in the real and/or personal property involved in the project for the term of the incentive period. ECIDA simultaneously leases the property under a lease agreement to the company undertaking the project (lessee). ECIDA receives administrative fees from the lessee for providing these tax incentives which are recognized according to the terms of the fee agreement.

ECIDA is an issuer of tax-exempt bond financing for qualified manufacturers and low-income housing projects. These bonds are obligations of the borrower. Since ECIDA has no obligation to repay the principal and interest of such bonds, they are not reflected as liabilities in the accompanying financial statements. ECIDA receives bond issuance fees from the borrower for providing this service. ECIDA also has a shared services agreement with ILDC under which administrative and staffing services are provided to ILDC in connection with its bond issuances to nonprofit organizations in exchange for the related bond issuance fees received by ILDC. Such fees totaled \$157,000 and \$1,764,000, respectively, for the years ended December 31, 2016 and 2015.

The original value of the projects by ECIDA and ILDC under these programs aggregated \$353,900,000 and \$776,200,000 in 2016 and 2015, respectively.

**Grants:**

Grants are recognized at the time awarded, with timing differences resulting from funds spent and earned. ECIDA receives special project grants from various Federal, State and County governments. ECIDA also acts as a pass-through entity for certain companies who receive funding from the State, including the Department of Transportation (DOT).

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 program and with State approval and acceptance, companies begin repaying the loan. A long-term liability and repayment plan receivable are established as the companies receiving the funding from the State are contractually obligated to repay ECIDA for its debt service requirements to the State. The payment terms of the conduit receivables are equivalent to the terms of ECIDA’s loans to the State.

**2. Conduit Receivables and Conduit Debt:**

ECIDA serves as a pass-through entity to provide local businesses with State funding. For disbursements through DOT, the local business is required to repay 40% of the amount to ECIDA, who in turn must repay DOT.

For Sonwil Distribution Center, DOT previously disbursed \$469,119 to ECIDA for use in the construction of 1,900 linear feet of rail siding at a Sonwil warehouse and distribution facility. Terms require five annual payments commencing one year from the date the completed project is accepted by DOT; no interest is payable on the loan.

At December 31, 2016, Sonwil owes ECIDA \$168,884 which will in turn be remitted to the DOT. Aggregate maturities on conduit loan receivables and debt subsequent to December 31, 2016 are:

2017	\$	37,530
2018		37,530
2019		37,530
2020		56,294
	\$	<u>168,884</u>



### 3. Loans Receivable:

Loans are made to local businesses to complement private financing at a 4% interest rate with varying repayment terms. All loans are classified as commercial loans. Loans in non-accrual status are fully reserved. The following is a summary of the loans receivable:

	<u>2016</u>	<u>2015</u>
Current status	\$ 527,344	\$ 538,712
30-90 days past due	-	-
Non-accrual	<u>150,000</u>	150,000
	<u>677,344</u>	688,712
Less current portion	<u>11,604</u>	11,148
	<u>665,740</u>	677,564
Less allowance	<u>650,000</u>	650,000
	<u>\$ 15,740</u>	<u>\$ 27,564</u>

There was no activity in the allowance for uncollectible loans during the years ended December 31, 2016 and 2015.

During 2013, ECIDA provided a \$1,000,000 forgivable loan to a manufacturing company. Half of that amount was immediately forgiven and the other \$500,000 will be forgiven in \$100,000 installments from 2019 through 2023 as long as the borrower maintains minimum employment requirements as set forth in the agreement. The portion not immediately forgiven is included in loans receivable and fully recognized in the allowance for uncollectible loans.

### 4. Grant Receivable:

In November 2016, ECIDA was awarded a \$2,000,000 grant from DOT for rehabilitation of approximately 31 miles of railroad track. No expenses were incurred through December 31, 2016, and the full amount of the grant is included as grant receivable and unearned revenue. Grant terms require ECIDA to match \$400,000 of local funds toward this project.

### 5. Funds Held on Behalf of Others:

ECIDA acts as a fiduciary for certain cash held for various development activities. ECIDA disburses these funds when given the appropriate authorization. The funds include:

	<u>2016</u>	<u>2015</u>
Erie County Regional Redevelopment Fund	\$ 1,087,093	\$ 1,497,719
Buffalo Brownfields Redevelopment Fund	2,287,283	2,307,680
Regionally Significant Project Funds:		
Buffalo Economic Renaissance Corporation	28,467	14,034
Buffalo Urban Development Corporation	106,713	85,008
Erie Niagara Regional Partnership	5,616	5,616
Seneca Street Corridor	<u>202,896</u>	-
	<u>\$ 3,718,068</u>	<u>\$ 3,910,057</u>

Restricted cash also includes \$116,017 and \$221,440 as of December 31, 2016 and 2015, respectively for the Railway Trust Fund, for activities related to two Erie County shortline railroads, and an additional \$1,000,000 of sales proceeds held in escrow (Note 7) at December 31, 2016.

## 6. Capital Assets:

	Balance January 1, 2016	Increases	Retirements/ Reclassifications	Balance December 31, 2016
Non-depreciable capital assets:				
Land	\$ 167,400	\$ -	\$ -	\$ 167,400
Depreciable capital assets:				
Land improvements	1,090,798	7,500	-	1,098,298
Buildings	2,734,937	12,552	-	2,747,489
Furniture and equipment	446,716	34,184	(23,448)	457,452
Total depreciable assets	4,272,451	54,236	(23,448)	4,303,239
Less accumulated depreciation:				
Land improvements	553,517	53,719	-	607,236
Buildings	1,810,205	36,043	-	1,846,248
Furniture and equipment	325,142	50,583	(23,448)	352,277
Total accumulated depreciation	2,688,864	140,345	(23,448)	2,805,761
Net depreciable assets	1,583,587	(86,109)	-	1,497,478
	<b>\$ 1,750,987</b>	<b>\$ (86,109)</b>	<b>\$ -</b>	<b>\$ 1,664,878</b>
	Balance January 1, 2015	Increases	Retirements/ Reclassifications	Balance December 31, 2015
Non-depreciable capital assets:				
Land	\$ 167,400	\$ -	\$ -	\$ 167,400
Depreciable capital assets:				
Land improvements	1,086,423	5,000	(625)	1,090,798
Buildings	2,734,937	-	-	2,734,937
Furniture and equipment	420,398	63,284	(36,966)	446,716
Total depreciable assets	4,241,758	68,284	(37,591)	4,272,451
Less accumulated depreciation:				
Land improvements	500,861	52,990	(334)	553,517
Buildings	1,774,999	35,206	-	1,810,205
Furniture and equipment	312,401	48,924	(36,183)	325,142
Total accumulated depreciation	2,588,261	137,120	(36,517)	2,688,864
Net depreciable assets	1,653,497	(68,836)	(1,074)	1,583,587
	<b>\$ 1,820,897</b>	<b>\$ (68,836)</b>	<b>\$ (1,074)</b>	<b>\$ 1,750,987</b>

## 7. Other Assets:

ECIDA owns 25 membership units in a limited liability corporation (the LLC). During 2016, assets of the LLC were sold, and ECIDA recognized a gain of \$7,190,348; \$880,000 of sales proceeds were outstanding and included in other receivables at December 31, 2016. In accordance with the sale agreement, \$1,000,000 of the proceeds was placed in escrow and will be paid to the purchaser over a ten-year period if certain employment goals are met. If the purchaser does not meet the employment goals for any year, the escrow account will be closed and remaining funds will return to ECIDA.

ECIDA's ownership interest in the LLC at December 31, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 4,902,343	\$ 5,072,542
Earnings	103,360	1,218,549
Distributions	(5,005,703)	(1,388,748)
	<u>\$ -</u>	<u>\$ 4,902,343</u>

ECIDA also holds equity interests in other local businesses valued at the lower of cost or fair market value amounting to \$684,064 and \$725,683 at December 31, 2016 and 2015.

## 8. Related Party Transactions:

### Affiliate Management Fees:

ECIDA allocates a portion of personnel and rental costs to its affiliates, RDC and ILDC. ECIDA earned \$362,136 and \$353,137 in affiliate management fees for the years ended December 31, 2016 and 2015. Management fees and related receivables by affiliate are as follows:

	<u>Management Fees</u>		<u>Receivables</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
RDC	\$ 361,171	\$ 352,691	\$ 361,290	\$ 313,327
ILDC	965	445	1,039	27,862
	<u>\$ 362,136</u>	<u>\$ 353,136</u>	<u>\$ 362,329</u>	<u>\$ 341,189</u>

ECIDA also provides personnel to perform administrative and accounting functions on behalf of Buffalo Urban Development Corporation, which amounted to \$40,257 and \$38,637 for the years ended December 31, 2016 and 2015.

## 9. Operating Leases:

Office rent expense for the years ended December 31, 2016 and 2015 amounted to \$147,310 and \$146,551, respectively.

Future minimum rental payments, including flat annual utility charges, are:

2017	\$ 146,337
2018	109,753
	<u>\$ 256,090</u>

ECIDA recognized \$203,535 and \$88,416 of rental income on its former office for the years ended December 31, 2016 and 2015. The net book value of the leased property is approximately \$1,256,000 at December 31, 2016.

Future annual rental income anticipated under this noncancelable lease is:

2017	\$ 199,875
2018	204,039
2019	209,869
2020	209,869
2021	209,869
Thereafter	122,423
	<u>\$ 1,155,944</u>

## 10. Pension:

ECIDA maintains a defined contribution simplified employee pension (SEP) plan covering all of its employees. Employees are eligible to participate six months after employment, with employer contributions vesting immediately. During 2016 and 2015, ECIDA made discretionary contributions of 12% of eligible employees' salaries. ECIDA's expense for contributing to the plan for the years ended December 31, 2016 and 2015 amounted to \$158,538 and \$161,290, respectively. Employees are also permitted to participate in the New York State Deferred Compensation Plan but ECIDA does not make contributions to this plan.

## **11. Risk Management:**

ECIDA purchases commercial insurance for various risks of loss due to torts, theft, damage, injuries to employees, and natural disasters in addition to insurance purchased to indemnify directors and officers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

## **12. Commitments and Contingencies:**

### **Grants:**

ECIDA receives financial assistance from federal, state, and local agencies in the form of grants and fiduciary agreements. Managing these funds generally requires compliance with the terms and conditions specified in the agreements and may be subject to audit by the grantor agencies. Disallowed claims resulting from such audits could become a liability of ECIDA. Based on prior experience, management expects any such amounts to be immaterial.

### **Litigation:**

ECIDA is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of ECIDA.

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

**Supplementary Information  
Schedule of Balance Sheets**

**December 31, 2016**

	General Account	UDAG Account	Total
<b>Assets</b>			
<b>Current assets:</b>			
Cash	\$ 8,564,309	\$ 15,807,635	\$ 24,371,944
Receivables			
Current portion of conduit loans	37,530	-	37,530
Current portion of loans	-	11,604	11,604
Affiliates	362,329	-	362,329
Grant	2,000,000	-	2,000,000
Other	57,217	880,000	937,217
Prepaid expenses	49,117	-	49,117
	<u>11,070,502</u>	<u>16,699,239</u>	<u>27,769,741</u>
<b>Noncurrent assets:</b>			
Conduit loans receivable	131,354	-	131,354
Loans receivable, net	-	15,740	15,740
Capital assets, net	1,664,878	-	1,664,878
Other assets	124,389	559,675	684,064
Restricted cash	4,834,085	-	4,834,085
	<u>6,754,706</u>	<u>575,415</u>	<u>7,330,121</u>
	<u>\$ 17,825,208</u>	<u>\$ 17,274,654</u>	<u>\$ 35,099,862</u>
<b>Liabilities and Net Position</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 319,974	\$ 19,000	\$ 338,974
Accrued expenses	155,263	-	155,263
Current portion of conduit debt	37,530	-	37,530
Unearned revenue	2,400,000	-	2,400,000
	<u>2,912,767</u>	<u>19,000</u>	<u>2,931,767</u>
<b>Noncurrent liabilities:</b>			
Conduit debt	131,354	-	131,354
Funds held on behalf of others	3,718,068	-	3,718,068
	<u>3,849,422</u>	<u>-</u>	<u>3,849,422</u>
<b>Net position:</b>			
Net investment in capital assets	1,664,878	-	1,664,878
Restricted	-	17,255,654	17,255,654
Unrestricted	9,398,141	-	9,398,141
	<u>11,063,019</u>	<u>17,255,654</u>	<u>28,318,673</u>
	<u>\$ 17,825,208</u>	<u>\$ 17,274,654</u>	<u>\$ 35,099,862</u>

**ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY**

**Supplementary Information  
Schedule of Revenues, Expenses, and Changes in Net Position**

**For the year ended December 31, 2016**

	General Account	UDAG Account	Total
<b>Operating revenues:</b>			
Administrative fees	\$ 1,528,261	\$ -	\$ 1,528,261
Investment income	5,938	7,246,151	7,252,089
Affiliate management fees	362,136	-	362,136
Rental income	299,019	-	299,019
Loan interest	-	6,863	6,863
Other	76,019	-	76,019
Total operating revenues	<u>2,271,373</u>	<u>7,253,014</u>	<u>9,524,387</u>
<b>Operating expenses:</b>			
Salaries and benefits	1,894,761	-	1,894,761
General and administrative	1,377,442	90,824	1,468,266
Depreciation	140,345	-	140,345
Other	1,462	-	1,462
Total operating expenses	<u>3,414,010</u>	<u>90,824</u>	<u>3,504,834</u>
Operating income (loss) before special project grants	<u>(1,142,637)</u>	<u>7,162,190</u>	<u>6,019,553</u>
<b>Special project grants:</b>			
Revenues	51,284	-	51,284
Expenses	(374,214)	(1,020,000)	(1,394,214)
	<u>(322,930)</u>	<u>(1,020,000)</u>	<u>(1,342,930)</u>
Operating income (loss)	<u>(1,465,567)</u>	<u>6,142,190</u>	<u>4,676,623</u>
<b>Nonoperating revenues:</b>			
Interest	10,314	12,984	23,298
Change in net position	<u>(1,455,253)</u>	<u>6,155,174</u>	<u>4,699,921</u>
Net position - beginning	<u>12,518,272</u>	<u>11,100,480</u>	<u>23,618,752</u>
<b>Net position - ending</b>	<u>\$ 11,063,019</u>	<u>\$ 17,255,654</u>	<u>\$ 28,318,673</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, in accordance with the 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, the financial statements of Erie County Industrial Development Agency (ECIDA), a business-type activity, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered ECIDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ECIDA's internal control. Accordingly, we do not express an opinion on the effectiveness of ECIDA's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ECIDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ECIDA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ECIDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lumaden & McCormick, LLP*

March 13, 2017



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(f) OF  
THE NEW YORK STATE PUBLIC AUTHORITIES LAW**

The Board of Directors  
Erie County Industrial Development Agency

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Erie County Industrial Development Agency (ECIDA), a business-type activity, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and we have issued our report thereon dated March 13, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that ECIDA failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended December 31, 2016. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding ECIDA's noncompliance with the above rules and regulations.

The purpose of this report is solely to describe the scope and results of our testing. This communication is not suitable for any other purpose.

*Lumsden & McCormick, LLP*

March 13, 2017