ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Management's Discussion and Analysis and Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010, 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, 2011, 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 of the financial statements 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, 2011 and 2010, 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, 2011, based on Internal Control - Integrated Framework issued by COSO.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2012 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, and not to provide an opinion 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 be presented to supplement the basic 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 the financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 33 through 35 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information 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. The 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
February 12, 2012

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, 2011, 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, 2011, Erie County Industrial Development Agency's internal control over financial reporting is effective based on the criteria established in Internal Control - Integrated Framework.

Toski & Co., CPAs, P.C.

Erie County Industrial Development Agency
February 12, 2012

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Management's Discussion and Analysis
December 31, 2011

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 Statement 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, 2011 and 2010. 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.

Financial Highlights

- The ECIDA's total net assets increased by approximately 28% from $13.4 million in 2010 to $17.1 million in 2011.
- The ECIDA experienced an "Increase in Net Assets" (net profit) of $1,966,786 in 2011 compared to a net profit of $330,064 in 2010.
- Administrative fees, a key source of revenue for the ECIDA, decreased from $2.0 million in 2010 to $1.6 million in 2011.
- Operating expenses decreased from $3.0 million in 2010 to $2.9 million in 2011.

Condensed Comparative Financial Statements

1. Net Assets:

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

Table 1
Net Assets as of December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010	$ Change	% Change
Assets:				
Net capital assets	$ 1,798	149	1,649	1,107%
Special project grants receivable	1,405	923	482	52%
Notes receivable, net of allowance	537	799	(262)	(33%)
Equity investment	6,075	5,485	590	11%
Other investments	1,137	1,137	-	-
Other assets	10,649	10,885	(236)	(2%)
Total assets	$ 21,601	19,378	2,223	11%

	2011	2010	$ Change	% Change
Liabilities:				
Current liabilities	$ 3,823	4,350	(527)	(12%)
Long-term liabilities	637	1,590	(953)	(60%)
Total liabilities	4,460	5,940	(1,480)	(25%)
Net Assets:				
Invested in capital assets	1,798	149	1,649	1,107%
Restricted	11,375	9,444	1,931	20%
Unrestricted	3,968	3,845	123	3%
Total net assets	17,141	13,438	3,703	28%
Total liabilities and net assets	$ 21,601	19,378	2,223	11%

Net Capital Assets - On February 16, 2011, ATC of Buffalo and Erie County, Inc. (ATC), an affiliated organization of the ECIDA, sold a 96,271 square foot multi-tenant facility to the Enterprise Charter School as part of a lease option granted the school on June 1, 2003. Following the sale, the ATC was dissolved and the remaining assets (including a 12,803 square foot office facility occupied by the ECIDA) were transferred to the ECIDA. The increase in net capital assets of $1.6 million is due to this transfer.

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 increase in special grants receivable of $482,000, or 52%, is primarily due to a new $725,000 New York State Department of Transportation grant for rail tie replacements on a short-line railroad managed by the ECIDA on behalf of Erie County less grant draws received primarily from the Spaulding Fiber and Jumpstart project grants.

Notes Receivable - Notes receivable represents various loans to businesses under a Federal Urban Development Action Grant (UDAG) loan program. The $262,000 decrease in the notes receivable balance is due to $150,000 in loan repayments received during 2011 and an increase in the loan loss reserve of $112,500.

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 Assets - The decrease in other assets of $236,000, or 2% is primarily due to a decrease in cash and equivalents of $198,000 and affiliate receivables of $150,000.

Current Liabilities - The $527,000 decrease in current liabilities is due to a $188,000 decrease in accounts payable and $200,000 decrease in deferred revenue on special project grants.

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 $953,000 decrease in long-term liabilities is primarily due to the recognition of $1.4 million in tax refunds as revenue in 2011 less $369,000 in tax refunds received.

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
Changes in Net Assets for the Years ended December 31, 2011 and 2010
(Amounts in thousands)

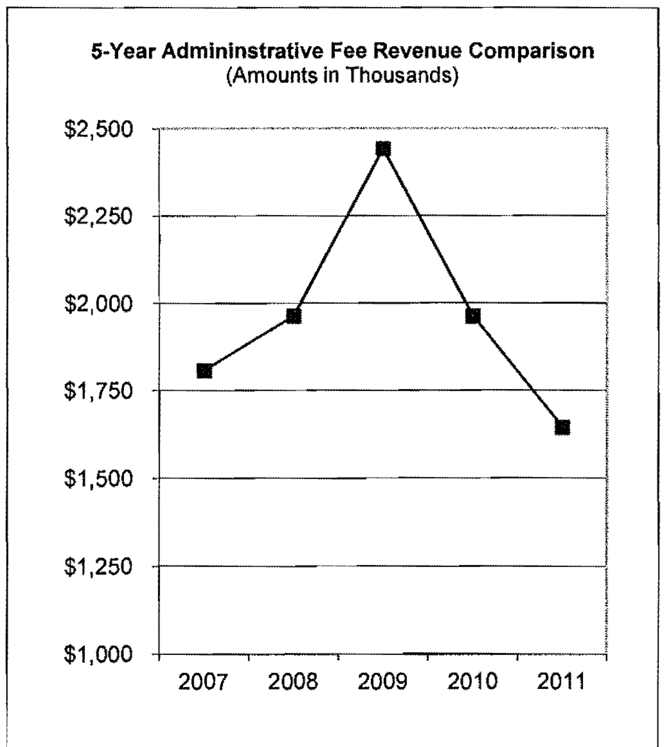
	2011	2010	$ Change	% Change
Revenue:				
Administrative fees	$ 1,644	1,963	(319)	(16%)
Affiliate management fees	336	338	(2)	(1%)
Other income	644	674	(30)	(4%)
Total revenue	2,624	2,975	(351)	(12%)
Expenses:				
Salaries and benefits	1,979	1,989	(10)	(1%)
General and administrative	703	875	(172)	(20%)
Bad debt expense	113	102	11	11%
Depreciation and other	148	56	92	164%
Total expenses	2,943	3,022	(79)	(3%)

	2011	2010	$ Change	% Change
Decrease in net assets from operations before grants	$ (319)	(47)	(272)	(579%)
Earnings from equity investment	832	461	371	80%
Refund of taxes	1,416	870	546	63%
Unrealized investment loss	-	(903)	903	100%
Net special project grants	31	(61)	92	151%
Interest income, net	7	10	(3)	(30%)
Increase in net assets	$ 1,967	330	1,637	496%

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 $319,000 or 16% in 2011. This decrease was primarily due to the reduction in the number of tax-exempt projects. In 2010, seven tax-exempt projects were closed, including: Buffalo Niagara Medical Campus, Canisius College, Galvstar and Medaille College. In 2011, only one tax-exempt bond project was closed.



Affiliate Management Fees:

Affiliate management fees represent salaries and overhead costs charged to the following ECIDA affiliates or co-located corporations for services that the ECIDA's employees provide to these organizations:

- Buffalo & Erie County Regional Development Corporation (RDC) - a lending corporation affiliated with the ECIDA.

- Buffalo Urban Development Corporation (BUDC) - a City of Buffalo development corporation co-located with the ECIDA.
- ATC of Buffalo & Erie County (ATC) - a real estate holding corporation affiliated with the ECIDA.
- Buffalo & Erie County Industrial Land Development Corporation (ILDC) - a lending corporation affiliated with the ECIDA.

The following table (Table 3) illustrates the amounts charged to the ECIDA's affiliated corporations in 2011 with comparisons for 2010:

Table 3
Affiliate Management Fees for the Years ended December 31, 2011 and 2010
(Amounts in thousands)

	2011	2010	$ Change	% Change
Affiliate Management Fees Charged:				
Buffalo & Erie County Regional Development Corporation	$ 295	233	62	27%
Buffalo Urban Development Corporation	37	38	(1)	(3%)
ATC of Buffalo & Erie County	-	62	(62)	(100%)
Buffalo & Erie County Industrial Land Development Corp.	4	5	(1)	(20%)
Total Affiliate Management Fees	$ 336	338	(2)	(1%)

Affiliate management fees charged to RDC increased due to additional staff time spent on the administration and reporting requirements for the loans of the entity. Affiliate management fees charged to ATC were suspended due to the sale and transfer of the assets and subsequent dissolution of the entity as discussed previously.

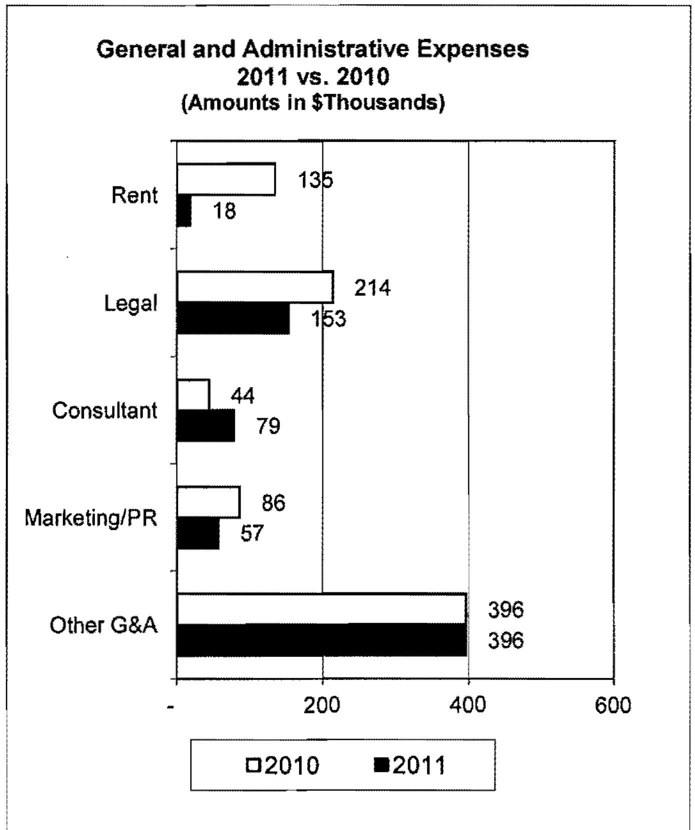
Earnings from Equity Investment - Earnings from equity investment represents the ECIDA's proportionate share of net income derived from its venture capital investment in a business that provides airframe assembly automation equipment to the aerospace industry.

Refund of Taxes (Provision for Tax Contingency) - The refund of taxes represents a refund of Federal and State income taxes resulting from the 2009 restructuring of ILDC and its for-profit subsidiary Buffalo Niagara Regional Development Corporation.

4. Expense Analysis:

General and Administrative:

In 2011, general and administrative expenses decreased by 20% from $875 thousand to $703 thousand. Key expense differences in 2011 include the following:



- Rent decreased by $117,000 or 87% due to the February 2011 transfer by ATC of the ECIDA-leased facility to the ECIDA as part of the dissolution of ATC. Rent was therefore paid by the ECIDA for 12 months in 2010 but only for 1½ months in 2011.

- Legal expenses decreased by $61,000 in 2011 due to various corporate restructuring costs that were incurred in 2010 to create a simplified corporate structure and which resulted in the refund of taxes discussed in section 3 above.

- Consultant expenses increased by $35,000 or 80% primarily due to the utilization of a recruiting firm to assist with hiring two new employees in 2011.

- Marketing/public relation expenses decreased by $29,000 or 34% due to one-time costs that occurred in 2010 that were related to the new IDA awareness campaign. These costs were not incurred in 2011.

Salaries and Benefits - Payroll costs decreased by approximately $10,000 or 1% in 2011 as staffing levels were generally consistent with 2010.

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.

Depreciation Expense - Depreciation expense increased $95,000 in 2011. The increase in the expense is due to dissolution of ATC and subsequent transfer of $1.7 million in assets as discussed above. Therefore, ECIDA incurred 10.5 months of depreciation expense in 2011 for the transferred assets.

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 18, 2010. The following table (Table 4) presents an analysis of the ECIDA's performance compared to the approved 2011 budget.

Table 4
Budget to Actual Analysis for the year ended December 31, 2011
(Amounts in thousands)

	Actual	Budget	$ Change	% Change
Revenue:				
Administrative fees	$ 1,644	1,578	66	4%
Affiliate management fees	336	275	61	22%
Other income	644	503	141	28%
Total revenue	2,624	2,356	268	11%
Expenses:				
Salaries and benefits	1,979	2,016	(37)	(2%)
General and administrative	703	649	54	8%
Bad debt expense	113	50	63	126%
Depreciation and other	148	84	64	76%
Total expenses	2,943	2,799	144	5%
Decrease in net assets from operations before special project grants	(319)	(443)	124	28%
Earnings from equity investment	832	564	268	48%
Refund of taxes	1,416	1,503	(87)	(6%)
Unrealized investment loss	-	(250)	250	(100%)
Net special project grants	31	(400)	431	(108%)
Interest income, net	7	6	1	17%
Increase in net assets	$ 1,967	980	987	101%

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

Budget to Actual Analysis:

Overall, the ECIDA exceeded its budgeted "increase in net assets" (net income) for 2011 by approximately $987,000. Administrative fees revenue was consistent with budget with only a 4% variance. Affiliate management fees exceeded budget by 22% due to fees charged to RDC as discussed in section 3 above. Other income exceeded budget by $141,000 due to the cancellation of a tax imposed by New York State on industrial development agencies which resulted in a $158,000 liability being reversed and included in "other income". General and administrative expenses exceeded budget by $54,000 due to additional costs incurred to operate the office facility transferred from the ATC as discussed above, plus costs of engaging a recruiting firm to hire two new staff. Bad debt expense was higher than budget due to the write-off of two loans in 2011. Depreciation expense is 76% higher than budget due to the transfer of the ATC assets as discussed previously. Earnings from equity investment were higher than budget due to the financial performance of the underlying venture capital investment. No reserves for venture investment losses were considered necessary in 2011 which led to the positive budget variance of $250,000. Net special project grants had a favorable $431,000 budget variance as a result of a delay in project grant expenditures as well as the recovery of previously incurred grant expenditures.

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 current uncertain economic conditions and potential legislative/board actions, the 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 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, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and equivalents	$ 2,057,024	2,191,852
Restricted cash	7,152,656	7,215,948
Total cash and equivalents	9,209,680	9,407,800
Receivables:		
Special project grants	1,405,245	922,987
Conduit	130,922	207,568
Notes	129,267	174,331
Affiliates	460,050	610,372
Other	293,921	142,478
Total receivables	2,419,405	2,057,736
Prepaid expenses	40,922	60,673
Total current assets	11,670,007	11,526,209
Long-term receivables:		
Conduit receivables, less current portion	513,316	456,590
Notes, less current portion and net of allowance of $170,000 in 2011 and $465,301 in 2010	408,044	624,955
Total long-term receivables	921,360	1,081,545
Property and equipment, net	1,797,973	149,303
Equity investment	6,074,764	5,484,664
Other investments at fair value	1,136,578	1,136,578
Total assets	$ 21,600,682	19,378,299

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Net Assets, Continued

Liabilities and Net Assets	2011	2010
Current liabilities:		
Accounts payable	$ 341,027	528,978
Accrued expenses	229,885	203,707
Current portion of conduit debt	94,800	160,126
Deferred revenue on special project grants	543,131	743,276
Funds held on behalf of others	2,613,892	2,713,822
Total current liabilities	3,822,735	4,349,909
Tax contingency, net	61,907	1,108,787
Conduit debt, less current portion	424,648	331,800
Participations	150,000	150,000
Total liabilities	4,459,290	5,940,496
Net assets:		
Invested in capital assets	1,797,973	149,303
Restricted	11,375,246	9,444,263
Unrestricted	3,968,173	3,844,237
Total net assets	17,141,392	13,437,803
Contingencies (note 17)		
Total liabilities and net assets	$ 21,600,682	19,378,299

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Statements of Revenue, Expenses and Changes in Net Assets
Years ended December 31, 2011 and 2010

	2011	2010
Operating revenue:		
Administrative fees	$ 1,643,908	1,962,693
Affiliate management fees	336,388	338,301
Rental income	50,540	54,583
Interest income	21,302	107,803
Other income	571,601	510,891
Total operating revenue	2,623,739	2,974,271
Operating expenses:		
Salaries and benefits	1,978,945	1,988,679
General and administrative	702,893	875,113
Bad debt expense	112,500	101,950
Depreciation of buildings, equipment and leasehold improvements	96,587	1,581
Other	52,158	54,188
Total operating expenses	2,943,083	3,021,511
Decrease in net assets from operations before special projects grants	(319,344)	(47,240)
Special project grants:		
Revenue	1,766,721	3,347,938
Expenses	(1,735,967)	(3,409,497)
Net special project grants	30,754	(61,559)
Decrease in net assets from operations	(288,590)	(108,799)
Non-operating activities:		
Earnings from equity investment	831,607	460,712
Refund of taxes	1,416,359	870,269
Unrealized investment loss	-	(902,601)
Interest income	7,410	10,483
Total non-operating activities	2,255,376	438,863
Increase in net assets	1,966,786	330,064
Net assets at beginning of year	13,437,803	13,107,739
Transfer of net assets (note 14)	1,736,803	-
Net assets at end of year	$ 17,141,392	13,437,803

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Statements of Cash Flows

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Special project grants received	$ 1,243,801	5,455,598
Special project grants disbursed	(1,895,450)	(5,752,493)
Fees received	1,876,114	2,412,326
Rental income received	4,537	54,583
Interest income received from loans	41,271	94,232
Payments to employees and vendors	(2,892,951)	(3,074,410)
Other income received	368,062	521,094
Net cash used in operating activities	(1,254,616)	(289,070)
Cash flows from investing activities:		
Distributions received	319,844	30,320
Taxes refunded	369,479	998,536
Purchase of other investments	-	(50,000)
Issuance of conduit receivables	-	(474,000)
Receipts from conduit receivables	207,568	151,682
Repayments received on notes receivable	149,475	108,221
Additions to property and equipment	(193,953)	-
Transfer received from ATC, excluding non-cash items	456,729	-
Decrease in funds held on behalf of others	(99,930)	(423,450)
Interest income	7,410	10,483
Net cash provided by investing activities	1,216,622	351,792
Cash flows from financing activities:		
Issuance of new conduit debt	-	474,000
Repayment of long-term debt and participations	(160,126)	(90,951)
Net cash provided by (used in) financing activities	(160,126)	383,049
Net increase (decrease) in cash and equivalents	(198,120)	445,771
Cash and equivalents at beginning of year	9,407,800	8,962,029
Cash and equivalents at end of year	$ 9,209,680	9,407,800

(Continued)

See accompanying notes to financial statements.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Statements of Cash Flows, Continued

	2011	2010
Cash flows from operating activities:		
Decrease in net assets from operations	$ (288,590)	(108,799)
Adjustments to reconcile decrease in net assets from operations to net cash used in operating activities:		
Depreciation of buildings, equipment and leasehold improvements	96,587	1,581
Provision for loan losses	112,500	101,950
Changes in:		
Receivables	(856,675)	2,215,624
Prepaid expenses	19,751	(26,609)
Accounts payable	(195,043)	(99,128)
Accrued expenses	16,337	(30,693)
Deferred revenue	(159,483)	(2,342,996)
Net cash used in operating activities	$ (1,254,616)	(289,070)
Reconciliation of non-cash items transferred to the Agency (note 14):		
Property and equipment, net	1,551,304	-
Receivables	207	-
Accounts payable	(7,092)	-
Accrued expenses	(9,841)	-
Payables to affiliates	(254,504)	-
Total non-cash items	1,280,074	-
Cash	456,729	-
Net assets transferred to the Agency	$ 1,736,803	-

See accompanying notes to financial statements.

(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.

(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.

(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, 2011 and 2010.

(k) Industrial Development Revenue Bonds and Notes 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 $7 million and $20 million in 2011 and 2010, 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 $866 million and $123 million in 2011 and 2010, respectively.

(1) Summary of Significant Accounting Policies, Continued

(m) Capitalization and Depreciation

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 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.

(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, 2011, the Agency's financial institution bank account balances amounted to $9,999,829. 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:

A	B	C
$ 500,000	9,499,829	-

Cash and equivalents at December 31, 2011 and 2010 consists of the following:

	2011	2010
Checking accounts	$ 2,075,539	50,243
Petty cash	100	100
Money market accounts	7,134,041	8,707,457
Certificate of deposit - 0.10% due on January 31, 2011, restricted to secure ATC's second mortgage	-	650,000
Total cash and equivalents	$ 9,209,680	9,407,800

Restricted cash at December 31, 2011 and 2010 consists of the following:

	2011	2010
Funds held on behalf of others:		
Erie Niagara Regional Partnership	$ 18,616	26,607
Regionally Significant Project Fund - Buffalo Economic Renaissance Corporation (BERC)	48,674	32,856
Regionally Significant Project Fund - Buffalo Urban Development Corporation (BUDC)	25,428	23,282
Buffalo Brownfields Redevelopment Fund - Buffalo Urban Development Corporation (BUDC)	242,486	663,471
Regional Redevelopment Fund - Erie County	2,278,688	1,967,606
	2,613,892	2,713,822

(2) Cash and Equivalents, Continued

		2011	2010
Other:			
Railway Trust Fund	$	135,262	91,789
Certificate of deposit - to secure ATC's second mortgage		-	650,000
UDAG Fund		4,403,502	3,760,337
Total restricted cash	$	7,152,656	7,215,948

(3) Special Project Grants Receivable

The following is a list of special project grants receivable at December 31, 2011 and 2010:

		2011	2010
DOT - Sonwil	$	214,337	-
DOT - Buffalo Southern		715,654	-
EDA - JumpStart New York Project		335,241	445,000
Erie County/NYS/National Grid - Spaulding Fibre		-	231,782
ESDC - Buffalo Wi-Fi		-	106,192
ESDC - Trade Missions		140,013	140,013
Total special project grants receivable	$	1,405,245	922,987

(4) Deferred Revenues on Special Project Grants

The following is a list of deferred revenues on special project grants at December 31, 2011 and 2010:

		2011	2010
DOT - Sonwil	$	190,881	-
DOT - Buffalo Southern		5,096	-
EDA - JumpStart New York Project		347,154	445,000
DOT - CrossPoint Business Park		-	115,991
Erie County/NYS/National Grid - Spaulding Fibre		-	182,285
Total deferred revenues on special project grants	$	543,131	743,276

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.

(4) Deferred Revenues on Special Project Grants, Continued

The following is a summary of the significant special project grants entered into by the Agency:

- DOT - Sonwil - Funding represents a grant awarded by DOT to construct a rail siding to provide access to the new Sonwil warehouse and distribution facility.
- DOT - Buffalo Southern - Funding represents a grant awarded by DOT to rehabilitate the track and track structure of the Buffalo Southern Railroad mail line.
- 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/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.

(5) Conduit Receivables

The following is a list of conduit receivables at December 31, 2011 and 2010:

	2011	2010
General Mills	$ 331,800	426,600
Harlequin Sales Corporation	-	12,385
Sonwil Distribution Center	226,072	53,006
Speed Transportation	-	65,326
TSV, Inc. (Servotronics)	86,366	106,841
Total conduit receivables	644,238	664,158
Less current portion	(130,922)	(207,568)
Conduit receivables, long-term	$ 513,316	456,590

(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, 2011 and 2010, notes receivable were comprised of the following:

	2011	2010
Notes receivable	$ 707,311	1,264,587
Less allowance for doubtful loans	(170,000)	(465,301)
	537,311	799,286
Less current portion	(129,267)	(174,331)
Notes receivable, long-term	$ 408,044	624,955

The current, past due and nonaccrual notes receivable are as follows at December 31, 2011:

Category	Current	30 - 90 days past due	Nonaccrual	Total
Commercial	$ 387,311	-	320,000	707,311

(7) Allowance for Doubtful Loans

Changes in the allowance for doubtful loans for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Balance at beginning of year	$ 465,301	363,351
Provision for loan losses	112,500	101,950
Write-off of uncollectible loans	(407,801)	-
Balance at end of year	$ 170,000	465,301

(8) Equity Investment

The Agency owns 25 membership units, which represents one-third ownership, in Gemcor, initially purchased for $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, 2011 and 2010 is summarized as follows:

	2011	2010
Balance at beginning of year	$ 5,484,664	5,053,239
Equity in earnings from Gemcor	831,607	460,712
Less distributions	(241,507)	(29,287)
Balance at end of year	$ 6,074,764	5,484,664

(9) Other Investments

Other investments consist of venture capital investments in local, privately-owned companies and amounted to $1,136,578 at December 31, 2011 and 2010. 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. The following reconciles the beginning to ending balance of other investments:

	2011	2010
Other investments at beginning of year	$ 1,136,578	1,989,179
Purchase of investments	-	50,000
Unrealized loss on investments	-	(902,601)
Other investments at end of year	$ 1,136,578	1,136,578

(10) Property and Equipment

Pursuant to the transfer of net assets from ATC (note 14), land amounting to $23,400, buildings amounting to $1,168,619, equipment amounting to $341,185, leasehold improvements amounting to $835,960 and associated accumulated depreciation amounting to $817,860 were transferred to the Agency in 2011. A summary of property and equipment at December 31, 2011 and 2010 is as follows:

	2011	2010
Property and equipment:		
Land	$ 167,400	144,000
Buildings	2,721,407	1,383,424
Equipment	400,965	35,494
Leasehold improvements	838,510	2,550
	4,128,282	1,565,468
Less accumulated depreciation	(2,330,309)	(1,416,165)
	$ 1,797,973	149,303

Depreciation on buildings is computed using the straight-line method based on estimated useful lives ranging from 30 to 40 years. Depreciation on equipment and leasehold improvements is computed using the straight-line method based on estimated useful lives ranging from 3 to 10 years. Depreciation expense was $96,587 and $1,581 for the years ended December 31, 2011 and 2010, respectively.

(10) Property and Equipment, Continued

A summary of rental property, included in property and equipment, at December 31, 2011 and 2010 is as follows:

	2011	2010
Land	$ 144,000	144,000
Buildings and improvements	1,383,424	1,383,424
Total rental property	1,527,424	1,527,424
Less accumulated depreciation	(1,383,424)	(1,383,424)
Net rental property	$ 144,000	144,000

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 $46,003 and $47,696 for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the buildings and improvements were fully depreciated.

Total rental income amounted to $50,540 and $54,583 for the years ended December 31, 2011 and 2010, respectively.

(11) Conduit Debt

Conduit debt at December 31, 2011 and 2010 consists of the following:

	2011	2010
Sonwil Distribution Center Project Funding - loan payable to DOT	$ 187,648	-
General Mills Project Funding - loan payable to DOT	331,800	426,600
Speed Transportation Project Funding - loan payable to DOT	-	65,326
Total conduit debt	519,448	491,926
Less current portion	(94,800)	(160,126)
Conduit debt, less current portion	$ 424,648	331,880

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

- Sonwil Distribution Center Project Funding - In 2011, DOT disbursed $445,663 to the Agency for use in the construction of 1,900 linear feet of rail siding at a Sonwil warehouse and distribution facility. The Agency must repay NYS 40% of the amount. The 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%.

(11) Conduit Debt, Continued

- 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 NYS 40% of the amount. 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, 2011 are as follows:

2012	$ 94,800
2013	113,565
2014	179,730
2015	37,530
2016	37,530
Thereafter	56,293
Total	$ 519,448

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

(12) Funds Held on Behalf of Others

Funds held on behalf of others at December 31, 2011 and 2010 consist of the following:

	2011	2010
Erie Niagara Regional Partnership - Funds held on behalf of a non-profit entity organized to promote business development in the Erie Niagara region.	$ 18,616	26,607
Regionally Significant Project Fund - Funds held on behalf of the BUDC and BERC for the purpose of funding eligible projects within the County:		
BERC	48,674	32,856
BUDC	25,428	23,282
Buffalo Brownfields Redevelopment Fund - Funds held on behalf of BUDC for the purpose of remediation and redevelopment of brownfields in the City.	242,486	663,471

(12) Funds Held on Behalf of Others, Continued

	2011	2010
Regional Redevelopment Fund - Funds held on behalf of the County for the purpose of developing infrastructure for the North Youngman Commerce Center in the Town of Tonawanda.	$ 2,278,688	1,967,606
Total funds held on behalf of others	$ 2,613,892	2,713,822

(13) 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, the Agency will not recognize the tax refunds as income until the statute of limitations on the tax years involved (2006 through 2009) expires. The following schedules detail the tax contingency at December 31, 2011 and 2010:

	2011	2010
Balance at beginning of year	$ 1,108,787	980,520
Refunds received	369,479	998,536
Refunds recognized as revenue	(1,416,359)	(870,269)
Balance at end of year	$ 61,907	1,108,787

(14) Related Party Transactions

Related party transactions as of and for the years ended December 31, 2011 and 2010 consist of the following:

(a) Effective February 16, 2011, the Board of Directors of ATC and the Agency approved the transfer of ATC's assets and liabilities to the Agency. The assets and liabilities transferred are summarized as follows:

Cash	$ 456,729
Property and equipment, net	1,551,304
Receivables	207
Accounts payable	(7,092)
Accrued expenses	(9,841)
Payables to affiliates	(254,504)
Total transferred	$ 1,736,803

(14) Related Party Transactions, Continued

(b) The Agency has a shared services agreement with ILDC under which administrative and staffing services are provided to ILDC in connection with bond issuances in exchange for the administrative charges received by the ILDC related to these bond obligations. The ILDC transferred $71,250 and $859,204 in administrative fees to the Agency in 2011 and 2010, respectively, included in administrative fee income.

(c) The Agency had an operating lease for its offices with ATC. Rental expense paid to ATC amounted to $17,738 and $135,456 for the years ended December 31, 2011 and 2010, respectively. On February 16, 2011, ATC sold a portion of the real property and transferred all remaining assets and liabilities to the Agency.

(d) The Agency allocates a portion of its payroll, personnel and overhead costs under a cost allocation plan for the years ended December 31, 2011 and 2010 to the following related parties:

	2011	2010
Buffalo and Erie County Regional Development Corporation	$ 280,428	219,166
Buffalo and Erie County Industrial Land Development Corporation	3,797	5,391
Buffalo Urban Development Corporation	37,319	38,095
ATC of Buffalo and Erie County, Inc.	-	62,103
Total	$ 321,544	324,755

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 $255,540 and $266,696 for the years ended December 31, 2011 and 2010, 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 $14,844 and $13,546 for the years ended December 31, 2011 and 2010, respectively.

(e) Accounts receivable from affiliates amounted to $460,050 and $610,372 at December 31, 2011 and 2010, respectively.

(15) Pension Plan

The Agency maintains a defined contribution simplified employee pension (SEP) plan covering all of its employees. Employees are eligible to participate upon employment, with employer contributions vesting immediately. In 2011 and 2010, the Agency made discretionary contributions of 7% of eligible employees' salary. The Agency's expense for contributing to and administering these plans for the years ended December 31, 2011 and 2010 amounted to $104,045 and $98,994, respectively. The Agency also participates in the New York State Deferred Compensation Plan. The Agency does not make any contributions under this plan.

(16) 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. The 2010 assessment fee was rescinded by NYS in 2011 and is included in other income for the year ended December 31, 2011.

(17) 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 on its financial position or changes in net assets.

(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) 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.

Schedule 1

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY
Schedule of Net Assets by Fund
December 31, 2011

Assets	General Fund	UDAG Fund	Total
Current assets:			
Cash and equivalents	$ 2,057,024	-	2,057,024
Restricted cash	2,749,154	4,403,502	7,152,656
Total cash and equivalents	4,806,178	4,403,502	9,209,680
Receivables:			
Special project grants	1,405,245	-	1,405,245
Conduit	130,922	-	130,922
Notes	-	129,267	129,267
Affiliates	460,050	-	460,050
Other	293,921	-	293,921
Total receivables	2,290,138	129,267	2,419,405
Prepaid expenses	40,922	-	40,922
Total current assets	7,137,238	4,532,769	11,670,007
Long-term receivables:			
Conduit receivables, less current portion	513,316	-	513,316
Notes, less current portion and net of allowance of $170,000	-	408,044	408,044
Total long-term receivables	513,316	408,044	921,360
Property and equipment, net	1,797,973	-	1,797,973
Equity investment	-	6,074,764	6,074,764
Other investments at fair value	564,390	572,188	1,136,578
Total assets	$ 10,012,917	11,587,765	21,600,682

(Continued)

Schedule 1, Cont.

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Net Assets by Fund, Continued

Liabilities and Net Assets	General Fund	UDAG Fund	Total
Current liabilities:			
Accounts payable	$ 340,415	612	341,027
Accrued expenses	229,885	-	229,885
Current portion of conduit debt	94,800	-	94,800
Deferred revenue on special project grants	543,131	-	543,131
Funds held on behalf of others	2,613,892	-	2,613,892
Total current liabilities	3,822,123	612	3,822,735
Tax contingency, net	-	61,907	61,907
Conduit debt, less current portion	424,648	-	424,648
Participations	-	150,000	150,000
Total liabilities	4,246,771	212,519	4,459,290
Net assets:			
Invested in capital assets	1,797,973	-	1,797,973
Restricted	-	11,375,246	11,375,246
Unrestricted	3,968,173	-	3,968,173
Total net assets	5,766,146	11,375,246	17,141,392
Total liabilities and net assets	$ 10,012,917	11,587,765	21,600,682

Schedule 2

ERIE COUNTY INDUSTRIAL DEVELOPMENT AGENCY

Schedule of Revenue, Expenses and Changes in Net Assets by Fund

Year Ended December 31, 2011

	General Fund	UDAG Fund	Total
Operating revenue:			
Administrative fees	$ 1,643,908	-	1,643,908
Affiliate management fees	336,388	-	336,388
Rental income	50,540	-	50,540
Interest income	-	21,302	21,302
Other income	571,601	-	571,601
Total operating revenue	2,602,437	21,302	2,623,739
Operating expenses:			
Salaries and benefits	1,978,945	-	1,978,945
General and administrative	631,332	71,561	702,893
Bad debt expense	-	112,500	112,500
Depreciation of equipment and leasehold improvements	96,587	-	96,587
Other	52,158	-	52,158
Total operating expenses	2,759,022	184,061	2,943,083
Decrease in net assets from operations before special projects grants	(156,585)	(162,759)	(319,344)
Special project grants:			
Revenue	1,766,721	-	1,766,721
Expenses	(1,581,743)	(154,224)	(1,735,967)
Net special project grants	184,978	(154,224)	30,754
Increase (decrease) in net assets from operations	28,393	(316,983)	(288,590)
Non-operating activities:			
Earnings from equity investment	-	831,607	831,607
Refund of taxes	-	1,416,359	1,416,359
Interest income	7,410	-	7,410
Total non-operating activities	7,410	2,247,966	2,255,376
Increase in net assets	35,803	1,930,983	1,966,786
Net assets at beginning of year	3,993,540	9,444,263	13,437,803
Transfer of net assets	1,736,803	-	1,736,803
Net assets at end of year	$ 5,766,146	11,375,246	17,141,392

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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, 2011, and have issued our report thereon dated February 12, 2012. We conducted our audit of the financial statements 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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, or detected and corrected, on a timely basis.

Our audits 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.

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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 & Co., CPAs, P.C.

Williamsville, New York
February 12, 2012