

BUFFALO URBAN  
DEVELOPMENT CORPORATION

Financial Statements and  
Supplemental Information

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

BUFFALO URBAN  
DEVELOPMENT CORPORATION

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 - 2
Management's Report on Internal Control Over Financial Reporting	3
Financial Statements:	
Statements of Financial Position	4
Statements of Revenue, Expenses and Changes in Net Assets	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 13
Schedules of Receipts and Disbursements of Riverbend LLC	14
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 <u>Government Auditing Standards</u>	15 - 16

\* \* \* \* \*

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

300 ESSJAY ROAD, STE 115  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Buffalo Urban Development Corporation:

We have audited the accompanying statements of financial position of Buffalo Urban Development Corporation (BUDC) 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 BUDC'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). BUDC'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 BUDC'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 audits 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 BUDC 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, BUDC 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 a report dated February 12, 2012 on our consideration of BUDC'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 not to provide an opinion on compliance. That report is an integral part of an audit performed with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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

Buffalo Urban Development Corporation'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 Buffalo Urban Development Corporation'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, Buffalo Urban Development Corporation's internal control over financial reporting is effective based on the criteria established in Internal Control - Integrated Framework.

Toski & Co., CPAs, P.C.

Buffalo Urban Development Corporation  
February 12, 2012

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statements of Financial Position  
December 31, 2011 and 2010

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:			
Cash		\$ 184,213	538,130
Restricted cash		973,394	663,471
Total cash		<u>1,157,607</u>	<u>1,201,601</u>
Receivables:			
Current portion of mortgages and notes receivable		209,120	200,246
Grants		4,256,600	2,944,000
Interest		398	717
Other		1,283,163	1,151,600
Total receivables		<u>5,749,281</u>	<u>4,296,563</u>
Prepaid expenses		<u>66,974</u>	<u>93,939</u>
Total current assets		6,973,862	5,592,103
Land and improvements held for sale		9,395,685	8,710,617
Mortgages and notes receivable, excluding current portion		<u>55,253</u>	<u>319,084</u>
Total assets		<u>\$ 16,424,800</u>	<u>14,621,804</u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Current portion of note payable		2,298,861	-
Accounts payable and accrued expenses		1,094,187	424,051
Security deposits		-	2,500
Due to related parties		242,031	109,554
Deferred grant income		<u>1,385,476</u>	<u>2,420,592</u>
Total current liabilities		5,020,555	2,956,697
Note payable		<u>257,381</u>	<u>257,381</u>
Total liabilities		<u>5,277,936</u>	<u>3,214,078</u>
Net assets:			
Unrestricted net assets		9,798,845	9,829,272
Temporarily restricted net assets (Brownfields Fund)		<u>1,348,019</u>	<u>1,578,454</u>
Total net assets		<u>11,146,864</u>	<u>11,407,726</u>
Commitments and contingencies (notes 10 and 11)		<u>                    </u>	<u>                    </u>
Total liabilities and net assets		<u>\$ 16,424,800</u>	<u>14,621,804</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statement of Revenue, Expenses and Changes in Net Assets  
Year ended December 31, 2011  
(with comparative totals for 2010)

	<u>Unrestricted</u>	Temporarily <u>restricted</u>	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
Operating revenue:				
Grant income	\$ 2,891,896	-	2,891,896	664,408
Brownfields Fund revenue	-	646,292	646,292	711,617
Rental income	5,000	-	5,000	25,000
Interest income on mortgages and notes receivable	18,885	-	18,885	26,331
Regionally Significant Fund revenue	23,750	-	23,750	23,191
Other income	5,928	-	5,928	715
Net assets released from restrictions	<u>878,905</u>	<u>(878,905)</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>3,824,364</u>	<u>(232,613)</u>	<u>3,591,751</u>	<u>1,451,262</u>
Operating expenses:				
Development projects	3,342,652	-	3,342,652	1,256,729
Management fee - ECIDA	342,781	-	342,781	296,472
Interest and amortization of debt issuance costs	100,135	-	100,135	-
General and administrative	<u>69,520</u>	<u>-</u>	<u>69,520</u>	<u>76,226</u>
Total operating expenses	<u>3,855,088</u>	<u>-</u>	<u>3,855,088</u>	<u>1,629,427</u>
Decrease in net assets from operating activities	(30,724)	(232,613)	(263,337)	(178,165)
Non-operating activities - interest income	<u>297</u>	<u>2,178</u>	<u>2,475</u>	<u>3,552</u>
Decrease in net assets	(30,427)	(230,435)	(260,862)	(174,613)
Net assets at beginning of year	<u>9,829,272</u>	<u>1,578,454</u>	<u>11,407,726</u>	<u>11,582,339</u>
Net assets at end of year	<u>\$ 9,798,845</u>	<u>1,348,019</u>	<u>11,146,864</u>	<u>11,407,726</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statement of Revenue, Expenses and Changes in Net Assets  
Year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Operating revenue:			
Grant income	\$ 664,408	-	664,408
Brownfields Fund revenue	-	711,617	711,617
Rental income	25,000	-	25,000
Interest income on mortgages and notes receivable	26,331	-	26,331
Regionally Significant Fund revenue	23,191	-	23,191
Other income	715	-	715
Net assets released from restrictions	<u>588,181</u>	<u>(588,181)</u>	<u>-</u>
Total operating revenue	<u>1,327,826</u>	<u>123,436</u>	<u>1,451,262</u>
Operating expenses:			
Development projects	1,256,729	-	1,256,729
Management fee - ECIDA	296,472	-	296,472
General and administrative	<u>76,226</u>	<u>-</u>	<u>76,226</u>
Total operating expenses	<u>1,629,427</u>	<u>-</u>	<u>1,629,427</u>
Increase (decrease) in net assets from operating activities	(301,601)	123,436	(178,165)
Non-operating activities - interest income	<u>849</u>	<u>2,703</u>	<u>3,552</u>
Increase (decrease) in net assets	(300,752)	126,139	(174,613)
Net assets at beginning of year	<u>10,130,024</u>	<u>1,452,315</u>	<u>11,582,339</u>
Net assets at end of year	<u>\$ 9,829,272</u>	<u>1,578,454</u>	<u>11,407,726</u>

See accompanying notes to financial statements.



BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Statements of Cash Flows  
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (260,862)	(174,613)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Changes in:		
Receivables	(1,443,844)	(3,567,411)
Prepaid expenses	26,965	(6,033)
Accounts payable and accrued expenses	670,136	174,354
Security deposits	(2,500)	2,500
Due to related parties	132,477	48,496
Deferred grant income	<u>(1,035,116)</u>	<u>2,420,592</u>
Net cash used in operating activities	<u>(1,912,744)</u>	<u>(1,102,115)</u>
Cash flows from investing activities:		
Purchase of land and improvements held for sale	(685,068)	(5,087)
Collections of mortgages and notes receivable	<u>254,957</u>	<u>193,784</u>
Net cash provided by (used in) investing activities	<u>(430,111)</u>	<u>188,697</u>
Cash flows from financing activities:		
Proceeds from issuance note payable	2,556,242	-
Principal repayments of note payable	<u>(257,381)</u>	<u>-</u>
Net cash provided by financing activities	<u>2,298,861</u>	<u>-</u>
Net decrease in cash	(43,994)	(913,418)
Cash at beginning of year	<u>1,201,601</u>	<u>2,115,019</u>
Cash at end of year	<u>\$ 1,157,607</u>	<u>1,201,601</u>
Supplemental cash flow disclosure - interest paid	<u>\$ 55,309</u>	<u>-</u>

See accompanying notes to financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements  
December 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Buffalo Urban Development Corporation (BUDC), formerly Development Downtown, Inc., was incorporated in 1978 by the City of Buffalo, New York (the City) to facilitate partnership with the private sector in the development of the City, primarily through the administration of Federal Urban Development Action (UDAG) grants.

Funding was initially received from the City; however, the City has not allocated direct funding to the Corporation for several years, and future allocations are not expected. Cash flows are primarily from land sales, grant funding, and loan repayments.

In 2005, an agreement between BUDC, Erie County Industrial Development Agency (ECIDA), the City, and Erie County (the County) established the Buffalo Brownfields Redevelopment Fund (the Brownfields Fund). This fund dedicates certain related payments received in lieu of real estate tax (PILOT) for future eligible project costs. The fund is administered by ECIDA and is available to reimburse BUDC for eligible project costs incurred. The activity of the Brownfields Fund is included in these financial statements.

Riverbend LLC (Riverbend), a wholly owned subsidiary of BUDC, was created in 2008 to purchase approximately 185 acres of land along South Park Avenue in Buffalo, New York. Riverbend is also responsible for maintenance, the administration of site improvements, marketing, leasing and eventual sale of the property.

(b) Basis of Presentation

BUDC reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. BUDC had only unrestricted and temporarily restricted net assets in 2011 and 2010.

(c) Estimates

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

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(d) Mortgages and Notes Receivable and Allowance for Doubtful Loans

Mortgages and notes receivable are stated at their principal amount outstanding, less an allowance for doubtful loans. Interest on mortgages and notes receivable is accrued and included in the outstanding principal balance when management considers collection of such interest to be probable, based upon economic condition of the borrower. The allowance for doubtful loans is established through charges against current operations and is maintained at a level which management considers adequate to provide for potential loan losses based on an evaluation of past loan experience, current economic conditions and known risks in the loan portfolio.

(e) Subsequent Events

BUDC has evaluated events after December 31, 2011, and through February 12, 2012, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(f) Income Taxes

BUDC is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code (the Code); therefore, no provision for income taxes is reflected in the financial statements. BUDC has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. BUDC presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that BUDC has taken no uncertain tax positions that require adjustment in its financial statements. U.S. Forms 990 filed by BUDC are subject to examination by taxing authorities. BUDC is no longer subject to tax examination for the year ended December 31, 2007 and prior.

(2) Cash

Cash balances as of December 31, 2011 and 2010 were either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized.

(3) Mortgages and Notes Receivable

Mortgages and notes receivable consist of various loans made to assist the private sector in City development or to facilitate land sales. Loan terms vary with interest rates ranging from 0% to 4%, and generally specify periodic or lump sum principal repayments.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(3) Mortgages and Notes Receivable, Continued

Excluded from mortgages and notes receivable is a note in the amount of \$536,000 in connection with certain development property. The note is offset by a \$536,000 payable to the City for demolition costs of the original building located on the property. Terms of the note require that if the façade of the original building is used in future development of the property, the note will be forgiven. If the façade is not used, the note is due in full and the proceeds will be used to reimburse the City for the original cost of the demolition. BUDC is otherwise not responsible for the repayment of this loan.

In January 2008, an agreement was reached between BUDC, Buffalo Economic Renaissance Corporation (BERC) and West Genesee Hotel Associates (WGHA) in settlement of WGHA's outstanding \$8,000,000 note receivable. The settlement consisted of a \$305,891 payment and a \$229,418 note receivable to BUDC in full consideration for the outstanding \$8,000,000 note receivable. The \$229,418 note receivable has not been recorded in the financial statements because it is conditioned upon the debtor receiving subsequent additional financing, which management believes is unlikely.

At December 31, 2011 and 2010, notes receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Amounts due in one year	\$ 209,120	200,246
Amounts due after one year	<u>55,253</u>	<u>319,084</u>
Total mortgages and notes receivable	\$ <u>264,373</u>	<u>519,330</u>

(4) Grants Receivable

In 2010, BUDC was approved to receive a grant amounting to \$2.44 million from New York State administered by Empire State Development Corporation (ESDC) for reimbursement of costs at Buffalo Lakeside Commerce Park (BLCP) (Phase IV) for final site improvements and road construction. The grant funds will be disbursed by ESDC upon project completion.

In 2011, BUDC was approved to receive grants amounting to \$1.7 million from New York State for reimbursement of administrative and construction costs incurred at BLCP.

Grants receivable at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
ESDC - Phase IV	\$ 2,440,000	2,440,000
ESDC - Wi-Fi	-	125,000
New York State Department of State	1,708,000	-
Other	<u>108,600</u>	<u>379,000</u>
Total grants receivable	\$ <u>4,256,600</u>	<u>2,944,000</u>

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(5) Other Receivables

BUDC has agreed to assist the County and City in connection with the development of Parcel 3 (Ship Canal Commons) of the BLCP. BUDC will be reimbursed by the County and City from Federal, State and local sources earmarked by grants from the New York State Department of Transportation and New York State Department of Environmental Conservation. BUDC is providing management services and cash flow financing through the Brownfields Fund. At December 31, 2011 and 2010, the receivable from the County and City amounted to \$1,105,683 and \$871,345, respectively.

The Brownfields Fund retains a portion of PILOTs that are to be used in the development of BLCP. At December 31, 2011 and 2010, \$177,480 and \$206,865, respectively, was due to the Brownfields Fund for PILOTs.

Other receivables at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
County and City	\$ 1,105,683	871,345
PILOTs	177,480	206,865
Other	<u>-</u>	<u>73,390</u>
Total other receivables	\$ <u>1,283,163</u>	<u>1,151,600</u>

(6) Land and Improvements Held for Sale

(a) Buffalo Lakeside Commerce Park

In 2002, BUDC agreed to undertake a multi-phase Brownfield reclamation and redevelopment project at the former Hanna Furnace site and land surrounding the Union Ship Canal, on behalf of the City. This is now known as the Buffalo Lakeside Commerce Park. BUDC accepted 104 acres of tax-foreclosed property from the City, demolished derelict structures, and constructed approximately 5,000 linear feet of roads and infrastructure. Funding for this work was provided by the State of New York, the City and the County.

Subsequently, BUDC purchased an additional 130 acres of land to add to the BLCP and constructed an additional 2,000 linear feet of road and infrastructure, with additional funding from the State of New York. The land was purchased for \$965,000 in cash (including grant funds of \$890,000) and promissory notes of \$675,000.

In 2010, BUDC began construction of an additional 2,000 feet of road and infrastructure. At December 31, 2011 and 2010, land held for sale at BLCP amounted to \$3,996,668.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(6) Land and Improvements Held for Sale, Continued

(b) Riverbend, LLC

In 2008, Riverbend acquired approximately 185 acres of land from Steelfields Ltd for \$4,638,250. The City provided this funding through BEREC with the agreement that BUDC will pay for all costs incurred to plan, improve, market, sell and lease the property. In the event that income exceeds total costs, BUDC will equally split the net profit with BEREC. In addition, BEREC agreed to equally split with BUDC the net profit of two properties they own at 1176 and 1140 South Park Avenue in the City. Riverbend has not generated a net profit since acquisition and, therefore, no amounts are due to BEREC at December 31, 2011. At December 31, 2011 and 2010 the carrying value of this land amounted to \$5,399,017 and \$4,713,949, respectively.

A summary of land and improvements held for sale is as follows:

	<u>2011</u>	<u>2010</u>
Buffalo Lakeside Commerce Park	\$ 3,996,668	3,996,668
Riverbend, LLC	<u>5,399,017</u>	<u>4,713,949</u>
	<u>\$ 9,395,685</u>	<u>8,710,617</u>

(7) Note Payable

In connection with the purchase of property related to BLCP, BUDC issued a non-interest bearing note payable in an amount equal to the greater of \$525,000, \$13,125 per acre, or a percentage of the resale price of the developed property. At December 31, 2011 and 2010, the note payable liability amounted to \$257,381, which represents the remaining 19.61 acres of land at \$13,125 per acre.

(8) Note Payable - bank

On February 4, 2011, BUDC entered into a construction loan agreement with Key Bank for up to \$2,440,000, of which \$2,298,861 was funded at December 31, 2011. This loan provides cash flow financing to BUDC during the construction of Phase IV of the BLCP. BUDC is the recipient of a grant from ESDC in the amount of \$2,440,000, which is to be paid upon reaching certain milestones of completion of the entire project (note 4).

Terms of the construction loan require that all principal and interest be repaid December 31, 2012. Interest shall be at the adjusted LIBOR rate which was 4.5% per annum at December 31, 2011. BUDC pledged all proceeds from the ESDC grant agreement, cash in the Brownfields Fund and a negative pledge of the property which requires 50% of the sale proceeds be remitted to the lender.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Notes to Financial Statements, Continued

(9) Related Party Transactions

Effective June 2003, BUDC entered into an agreement with ECIDA, to provide certain personnel to perform administrative and managerial functions on behalf of BUDC. Total expenses incurred amounted to \$342,781 and \$296,472 for the years ended December 31, 2011 and 2010, respectively. Amounts owed to ECIDA under this agreement totaled \$242,031 and \$109,554 at December 31, 2011 and 2010, respectively.

(10) Commitments

Associated with the development of Parcel 3 of the BLCP as described in note 5, BUDC has agreed to pay for change orders and cost overages of up to \$50,000 from the Brownfields Fund.

(11) Contingencies

Contingencies at December 31, 2011 consist of the following:

(a) Legal Proceedings

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

(b) Environmental Remediation

BUDC has remediation responsibility under two Voluntary Clean-Up Agreements with New York State for approximately 42 acres of the BLCP. BUDC maintains insurance to mitigate the exposure of additional costs related to potential remediation, which cannot be determined. Additionally, upon future sale of the land, BUDC will require that the purchaser provide the remediation necessary to satisfy the State. Also, the purchaser will be allowed to become an additional insured on the BUDC insurance coverage. Management estimates that the maximum amount of exposure to BUDC will not be significant to the financial statements.

BUFFALO URBAN  
DEVELOPMENT CORPORATION  
Schedules of Receipts and Disbursements of Riverbend LLC  
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Receipts - rental income	\$ <u>5,000</u>	<u>25,000</u>
Disbursements:		
Monitoring and maintenance	113,308	96,253
Insurance	16,145	17,846
Utilities	8,708	8,084
Taxes and sewer assessments	177	4,013
Professional fees	<u>1,278</u>	<u>5,088</u>
Total disbursements	<u>139,616</u>	<u>131,284</u>
Deficiency of receipts over disbursements	<u>\$ (134,616)</u>	<u>(106,284)</u>



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

300 ESSJAY ROAD, STE 115  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE  
WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Buffalo Urban Development Corporation:

We have audited the financial statements of Buffalo Urban Development Corporation (BUDC), and BUDC'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 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered BUDC'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 BUDC'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 BUDC's financial statements will not be prevented, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BUDC'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 BUDC'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.

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