

## Buffalo Urban Development Corporation

95 Perry Street

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### **Audit & Finance Committee Meeting Thursday, March 9, 2023 – 12:00 p.m. 95 Perry Street 4<sup>th</sup> Floor Vista Room**

#### *Agenda*

1. Minutes of November 10, 2022 and January 12, 2023 Meetings *(Approval) (Enclosure)*
2. Draft 2022 683 Northland Master Tenant, LLC Audited Financial Statements *(Info.)(Encl.)*
3. Draft 2022 683 Northland, LLC Audited Financial Statements *(Info.)(Encl.)*
4. Draft 2022 BUDC Audited Financial Statements *(Recommend Approval By Board) (Enclosure)*
5. Draft 2022 BBRF Audited Financial Statements *(Information) (Enclosure)*
6. 2022 BBRF Reimbursement Request *(Recommend Approval By Board) (Handout)*
7. Investment & Deposit Policy *(Recommend Re-Adoption By Board) (Enclosure)*
8. 2022 BUDC Investment Report *(Recommend Approval By Board) (Enclosure)*
9. 2022 Management's Assessment of Internal Controls *(Information) (Enclosure)*
10. 2022 Audit & Finance Committee Self-Evaluation *(Approval) (Enclosure)*
11. Audit & Finance Committee Charter Review *(Information) (Enclosure)*
12. Audit & Finance Committee Training *(Information) (Enclosure)*
13. 2022 Property Report Review *(Information) (Enclosure)*
14. General Funding Source Updates *(Information)*
15. Adjournment *(Approval)*

**Minutes of the Meeting  
of the  
Audit & Finance Committee  
of  
Buffalo Urban Development Corporation**

**95 Perry Street  
Buffalo, New York  
November 10, 2022  
12:00 p.m.**

**Call to Order:**

Committee Members Present:

Catherine Amdur  
David J. Nasca  
Dennis M. Penman (Committee Chair)

Committee Members Absent:

Trina Burruss  
Janique S. Curry

Officers Present:

Brandye Merriweather, President  
Rebecca Gandour, Executive Vice President  
Kevin J. Zanner, Secretary

Others Present: Antonio Parker, BUDC Project Manager.

Roll Call – The meeting was called to order at 12:05 p.m. A quorum of the Committee was present.

- 1.0 Approval of Minutes of the September 21, 2022 Meeting** – The minutes of the September 21, 2022 meeting of the Audit & Finance Committee were presented. Ms. Amdur made a motion to approve the meeting minutes. The motion was seconded by Mr. Nasca and unanimously carried (3-0-0).
- 2.0 2023 Cammarata Consulting, LLC Agreement** – Ms. Gandour presented her November 10, 2022 memorandum regarding a proposed consulting agreement with Cammarata Consulting, LLC. The consultant's hourly rate is \$100.00, which is unchanged from the prior year. The total value of services is not expected to exceed \$15,000. Mr. Nasca made a motion to approve BUDC entering into a consulting agreement with Cammarata Consulting, LLC at an hourly rate of \$100.00 per hour, with total payments not to exceed \$15,000 and to authorize the President or Executive Vice President to execute the consulting agreement and take such actions as may be necessary to implement this action. The motion was seconded by Ms. Amdur and unanimously carried (3-0-0).
- 3.0 2023 Bisonwing Planning and Development, LLC Agreement** – Ms. Gandour presented her November 10, 2022 memorandum regarding a proposed consulting agreement with Bisonwing Planning and Development, LLC. The consultant's hourly rate is \$100.00, which is unchanged from the prior year. The total value of services is not expected to exceed \$15,000. In response to a question from Ms. Amdur, Ms. Gandour outlined the services to be provided by the consultant with respect to the Restore NY and National Grid grants. Mr. Nasca then made a motion to approve BUDC entering into a consulting agreement with Bisonwing Planning and Development, LLC at an hourly rate of \$100.00 per hour, with total payments not to exceed \$15,000 and to authorize the

President or Executive Vice President to execute the consulting agreement and take such actions as may be necessary to implement this action. The motion was seconded by Ms. Amdur and unanimously carried (3-0-0).

- 4.0 683 Northland Construction Loan and LOC Update** – Ms. Gandour reported on discussions with KeyBank regarding extending the construction loan and line of credit. The terms are expected to include a six-month extension of the construction loan through June 30, 2023 and a twelve-month extension of the line of credit through December 31, 2023. Interest-only payments will be made during the extension periods. The Committee discussed the proposed loan terms and provided staff with feedback for further negotiations with the lender.
- 5.0 Miscellaneous Funding Source Updates** – Funding updates were presented by Ms. Merriweather and Ms. Gandour regarding American Rescue Plan funding, the Project for Public Spaces grant, the Great Lakes Commission grant, the Inner Harbor and Waterfront Public Realm Study and the Build Back Better grant.
- 6.0 Executive Session** – Mr. Nasca made a motion for the Committee to enter into executive session to discuss the lawsuit against Watts Architecture arising out of the design of the 683 Northland HVAC system. The motion was seconded by Ms. Amdur and unanimously carried (3-0-0). Following the the executive session discussion, a motion was made by Ms. Amdur to exit executive session, which was seconded by Mr. Nasca and unanimously carried (3-0-0).
- 7.0 Adjournment** – There being no further business to come before the Committee, upon motion made by Ms. Amdur, seconded by Mr. Nasca and unanimously carried, the November 10, 2022 meeting of the Audit & Finance Committee was adjourned at 1:10 p.m.

Respectfully submitted,

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Kevin J. Zanner  
Secretary

**Minutes of the Meeting  
of the  
Audit & Finance Committee  
of  
Buffalo Urban Development Corporation**

**95 Perry Street  
Buffalo, New York  
January 12, 2023  
12:00 p.m.**

**Call to Order:**

**Committee Members Present:**

Catherine Amdur  
Janique S. Curry  
David J. Nasca  
Dennis M. Penman (Committee Chair)

**Committee Members Absent:**

Trina Burruss

**Officers Present:**

Brandy Merriweather, President  
Rebecca Gandour, Executive Vice President  
Mollie M. Profic, Treasurer  
Kevin J. Zanner, Secretary  
Atiqa Abidi, Assistant Treasurer

**Others Present:** Kathryn Barrett, Freed Maxick CPAs; Barbara Danner, Freed Maxick CPAs; Alexis M. Florczak, Hurwitz Fine P.C.; Soma Hawramee, ECIDA Compliance Officer; and Antonio Parker, BUDC Project Manager.

**Roll Call** – The meeting was called to order at 12:10 p.m. A quorum of the Committee was present. Ms. Curry joined the meeting during the presentation of agenda item 3.0.

**1.0 Approval of Minutes of the November 10, 2022 Meeting** – Presentation of this item was deferred to the next meeting of the Committee.

**2.0 714 Northland LLC Amendment to M&T Loan Documents for LIBOR-SOFR Transition** – Ms. Merriweather presented her January 12, 2023 memorandum regarding proposed amendments to the M&T loan agreement with 714 Northland LLC. The proposed amendment will effectuate the transition from the LIBOR interest-rate benchmark, which is being phased out, to a SOFR-based interest rate benchmark. Mr. Nasca made a motion to: (i) approve the amendment to the existing agreement for the 714 Northland Loan in order to transition the existing LIBOR-based interest rate to a SOFR-based interest rate; and (ii) authorize the President or Executive Vice President to execute and deliver such amendments and other documents and to take such actions on behalf of 714 Northland LLC as may be reasonably necessary or appropriate to implement this action. The motion was seconded by Ms. Amdur and unanimously carried (3-0-0).

- 3.0** **2022 Audit Plan Discussion** – Ms. Profic introduced Kathryn Barrett and Barbara Danner from Freed Maxick to present the 2022 Audit Plan. Ms. Barrett and Ms. Danner provided an overview of the audit timeline and objectives for the BUDC Board, the Audit & Finance Committee, and officers. Developments affecting business and financial reporting were discussed, including GASB Statement No. 87 which is applicable to operating leases and ASC Statement No. 842. Ms. Barrett and Ms. Danner also presented a review of the audit risk areas.
- 4.0** **2022 Audit Engagement Letters** – Ms. Profic provided an overview of the 2022 audit engagement letters provided by Freed Maxick.
- 5.0** **Funding Updates** – Ms. Gandour and Ms. Merriweather presented the following funding updates:
- Brownfield Cleanup Program**: Ms. Gandour reported that New York State Department of Taxation & Finance informed BUDC staff that the 2020 BCP tax credits refund will be processed and paid. The refund amount is approximately \$944,000, which will be used to pay down the KeyBank loan.
- Build Back Better**: Ms. Gandour reported that the first allocation of EDA funding to BUDC is being processed. The request for proposals for architectural and engineering services has been released, with responses due January 17<sup>th</sup>.
- Inner Harbor and Waterfront Public Realm Study**: Ms. Merriweather reported that BUDC staff is working with the Office of Strategic Planning regarding the City's share of funding for the Inner Harbor and Waterfront Public Realm study. The City's share would provide \$55,000 in funding immediately, as the ESD funding for the project is reimbursement-based.
- Ralph C. Wilson, Jr. Foundation Centennial Park Funding**: Ms. Gandour updated the Committee regarding a re-allocation of grant funding from Wilson Foundation Grant Agreement #7. She also reported that subgrant agreement between BUDC and the City to transfer grant funding from the MLB Youth Development Foundation will be presented to the Downtown Committee and Board this month.
- American Rescue Plan Funds**: BUDC is awaiting an update from the Office of Strategic Planning regarding American Rescue Plan funding.
- Project for Public Spaces Placemaking Grant**: Ms. Merriweather reported that funds are anticipated to be transferred to BUDC soon. Changes to the scope of the project were made, which reduced the project budget to \$62,000. It is anticipated that the Buffalo and Erie County Public Library will contribute the balance of funding for the project. The lighting system for the library underpass is on backorder, and it is estimated that installation will be complete by the end of May 2023.
- 6.0** **Adjournment** – There being no further business to come before the Committee, the January 12, 2023 meeting of the Audit & Finance Committee was adjourned at 12:50 p.m.

Respectfully submitted,

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Kevin J. Zanner  
Secretary

REPORT TO THE MANAGING MEMBER

**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

DECEMBER 31, 2022

DRAFT  
Tentative and Preliminary  
For Discussion and Internal  
Purposes Only-Subject to Revision

(DATE)

To the Managing Member of  
683 Northland Master Tenant, LLC  
(A Limited Liability Company)  
95 Perry Street, Suite 404  
Buffalo, New York 14203

Attention Managing Member:

We are pleased to present this report related to our audit of the financial statements of 683 Northland Master Tenant, LLC (the Company) as of and for the year ended December 31, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for 683 Northland Master Tenant, LLC's financial reporting process.

This report is intended solely for the information and use of the Managing Member and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to 683 Northland Master Tenant, LLC.

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated January 6, 2023. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication dated January 6, 2023 regarding the planned scope and timing of our audit and identified significant risks.
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. The following is a description of significant accounting policies that were either initially selected or implemented during the year:</p> <p>In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company adopted this standard effective January 1, 2022 using the transition method. Upon the adoption of Topic 842, as a lessee the Master Lease Agreement remained classified as an operating lease and as a lessor, the subleases remained classified as operating leases. A related lease liability was calculated in connection with the Master Lease Agreement and a corresponding right to use asset was recorded. Lease payments under the Master Lease Agreement and subleases were reclassified</p>

Area	Comments
	as lease revenue and lease expenses from rent revenue and rent expense on the statements of operations.
<b>Accounting Policies and Practices (Continued)</b>	<p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b> Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. There were no significant accounting estimates.</p>
<b>Basis of Accounting</b>	The financial statements were prepared on the assumption that the Company will continue as a going concern.
<b>Audit Adjustments</b>	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Shared Responsibilities: AICPA Independence</b>	The AICPA regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For Freed Maxick, CPAs to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and Freed Maxick, CPAs each play an important role.

**Our Responsibilities**

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. Freed Maxick, CPAs is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

**The Company's Responsibilities**

- Timely inform Freed Maxick CPAs, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers, or person in financial reporting oversight roles.
  - New beneficial owners of the Company's equity securities that have significant influence.
  - Change in corporate structure impacting affiliates such as add-on acquisitions or exits.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the Company and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with Freed Maxick, CPAs.
- Not entering into relationship resulting in Freed Maxick, CPAs, Freed Maxick, CPAs covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Company.

**Significant  
Communications  
Management and Our Firm**

**Written  
Between**

Copies of significant written communications between our firm and the management of the Company, including the representation letter provided to us by management, are attached as Exhibit A.

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 For Discussion Only - Subject to Revision  
 Purposes Only - Subject to Revision

## Exhibit A - Significant Written Communications Between Management and Our Firm

Engagement Letter – previously furnished

Representation Letter – see attached

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Tentative and Preliminary  
For Discussion and Internal  
Purposes Only-Subject to Revision

AUDITED  
FINANCIAL STATEMENTS

**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

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DECEMBER 31, 2022

DRAFT  
Tentative and Preliminary  
For Discussion and Internal  
Purposes Only-Subject to Revision

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**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

**BALANCE SHEETS  
December 31,**

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<b>Current assets:</b>		
Cash - operating	\$ 486,590	\$ 107,787
Tenant receivables	42,206	74,685
Prepaid insurance	115,882	106,662
Total current assets	<u>644,678</u>	<u>289,134</u>
<b>Reserves:</b>		
Operating reserve	336,428	335,857
Asset management fee reserve	20,147	30,111
Total reserves	<u>356,575</u>	<u>365,968</u>
Prepaid lease - sublessee	483,394	426,309
Prepaid leasing commission	188,616	217,938
Tenant security deposits	84,894	84,854
Equipment, net	19,869	6,535
Prepaid rent - Master Lease Agreement		25,528,601
Right of use asset - Master Lease Agreement	28,430,126	-
<b>Total assets</b>	<u>\$ 30,208,152</u>	<u>\$ 26,919,339</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 130,895	\$ 144,550
Due to related parties	254,935	254,935
Total current liabilities	<u>385,830</u>	<u>399,485</u>
Operating deficit loan	132,359	132,359
Tenant security deposits	84,850	84,854
Deferred operating lease liability - Master Lease Agreement	7,736,986	-
Deferred rent liability - Master Lease Agreement	-	5,309,411
Deferred operating lease liability - sublessee	5,637,433	-
Deferred rent liability - sublessee	-	6,150,839
Distribution payable - priority return	238,320	263,941
<b>Total liabilities</b>	<u>14,215,778</u>	<u>12,340,889</u>
<b>Members' equity</b>	<u>15,992,374</u>	<u>14,578,450</u>
<b>Total liabilities and members' equity</b>	<u>\$ 30,208,152</u>	<u>\$ 26,919,339</u>

See accompanying notes.

**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF OPERATIONS  
For the Years Ended December 31,**

	<u>2022</u>	<u>2021</u>
<b>Revenues:</b>		
Lease revenue	\$ 1,466,335	\$ -
Rental revenue	-	1,468,498
Additional lease revenue	753,037	-
Additional rental revenue	-	648,676
Other income	1,372	261
Total revenues	<u>2,220,744</u>	<u>2,117,435</u>
<b>Expenses:</b>		
Lease expense	1,879,742	-
Repairs and maintenance	193,758	120,242
Utilities expense	188,227	150,924
Payroll	143,808	149,471
Insurance expense	122,769	120,629
Property management fee	70,526	67,515
Professional fees	67,058	85,899
Real estate taxes	20,398	19,626
Asset management fee	10,000	10,000
Miscellaneous expense	316	7,920
Rental expense	-	1,879,742
Total expenses	<u>2,696,591</u>	<u>2,611,968</u>
<b>Loss from operations</b>	<b>(475,847)</b>	<b>(494,533)</b>
<b>Other expenses:</b>		
Depreciation expense	<u>(5,056)</u>	<u>(2,429)</u>
<b>Net loss</b>	<b>\$ <u>(480,903)</u></b>	<b>\$ <u>(496,962)</u></b>

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See accompanying notes.



683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY  
For the Years Ended December 31,

	INVESTOR MEMBER	MANAGING MEMBER	TOTAL
<b>Members' equity - January 1, 2021</b>	<b>\$ 9,489,316</b>	<b>\$ 169,407</b>	<b>\$ 9,658,723</b>
Members' capital contributions	5,680,517	-	5,680,517
Distributions	(263,828)	-	(263,828)
Net loss	(491,992)	(4,970)	(496,962)
<b>Members' equity - December 31, 2021</b>	<b>14,414,013</b>	<b>164,437</b>	<b>14,578,450</b>
Members' capital contributions	2,091,098	-	2,091,098
Distributions	(196,271)	-	(196,271)
Net loss	(476,094)	(4,809)	(480,903)
<b>Members' equity - December 31, 2022</b>	<b>\$ 15,832,746</b>	<b>\$ 159,628</b>	<b>\$ 15,992,374</b>
<b>Percentage interest</b>	<b>99.00%</b>	<b>1.00%</b>	<b>100%</b>

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For Discussion and Internal  
Purposes Only-Subject to Revision

See accompanying notes.

**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF CASH FLOWS  
For the Years Ended December 31,**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (480,903)	\$ (496,962)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,056	2,429
Decrease (increase) in assets:		
Tenant receivables	32,479	(44,152)
Prepaid insurance	(9,220)	(16,307)
Accrued rental income	(57,085)	(119,344)
Prepaid leasing commission	29,322	(105,715)
Prepaid rent - Master Lease Agreement	-	1,393,059
Right of use asset - Master Lease Agreement	1,395,256	-
Increase (decrease) in liabilities:		
Security deposit liability	(4)	9,104
Accounts payable	(13,645)	25,216
Due to related parties	-	(126,346)
Operating deficit loan	-	82,428
Deferred operating lease liability - sublessee	(513,406)	-
Deferred rent liability - sublessee	-	(553,074)
<b>Net cash provided by operating activities</b>	<b>387,840</b>	<b>50,336</b>
<b>Cash flows from investing activities:</b>		
Equipment purchases	(18,390)	-
<b>Net cash used by investing activities</b>	<b>(18,390)</b>	<b>-</b>
<b>Cash flows from financing activities:</b>		
Members' contributions	2,091,098	5,680,517
Distributions	(221,892)	(148,096)
Payments of prepaid rent under the Master Lease Agreement	(1,869,206)	(5,532,421)
<b>Net cash used by financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and restricted cash</b>	<b>369,450</b>	<b>50,336</b>
<b>Cash and restricted cash - beginning of year</b>	<b>558,609</b>	<b>508,273</b>
<b>Cash and restricted cash - end of year</b>	<b>\$ 928,059</b>	<b>\$ 558,609</b>
<b>Non-cash financing transactions:</b>		
Non-cash distribution recorded as distribution payable	\$ 238,320	\$ 263,941

See accompanying notes.

**683 NORTHLAND MASTER TENANT, LLC  
(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF CASH FLOWS (CONTINUED)  
For the Years Ended December 31,**

The following table provides a reconciliation of cash and restricted cash to the amounts reported within the balance sheets:

	<u>2022</u>	<u>2021</u>
Cash - operating	\$ 486,590	\$ 107,787
Tenant security deposits	84,894	84,854
Operating reserve	336,428	335,857
Asset management fee reserve	20,147	30,111
	<u>\$ 928,059</u>	<u>\$ 558,609</u>

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Tentative and Preliminary  
For Discussion and Internal  
Purposes Only-Subject to Revision

See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. ORGANIZATION**

683 Northland Master Tenant, LLC (the Company) is a limited liability company formed pursuant to the laws of the State of New York on September 7, 2017. 683 Northland LLC, a related entity, was formed to facilitate the ownership, rehabilitation and operation of a commercial and industrial facility located at 683 Northland Avenue, City of Buffalo, known as the Niagara Machine & Tool Works Factory (the Property). 683 Northland LLC serves as lessor to the Company. The relationship between lessor and lessee is governed by a Master Lease Agreement dated December 28, 2017. The major activities of the Company are governed by the Master Tenant Amended and Restated Operating Agreement.

The Property is located in a historic district on the National Register of Historic Places and will receive an allocation of federal and state historic rehabilitation tax credits under Section 47 of the Internal Revenue Code of 1986, as amended, and New York credit for Rehabilitation of Historic Properties under Section 606(00) of New York State tax law. The Property was developed in two phases; Phase 1 received an allocation of rehabilitation tax credits during the year ended December 31, 2018; Phase 2 received allocations for the years ending December 31, 2020 and 2019. No further credits are anticipated.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting:** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Cash:** The statement of cash flows considers amounts available to current operations to be cash and includes amounts restricted for repayment of tenant security deposits and reserves.

**Concentration of Credit Risk:** The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

During the year ended December 31, 2022, three tenants represented 90% (90% - 2021) of rental revenue and 71% (98% - 2021) of accounts receivable.

**Tenant Receivables:** Tenant receivables consists of receivables from tenants for lease payments (previously classified as rent for 2021) and other charges, if applicable, recorded according to the terms of their sublease agreements. Tenant receivables do not bear interest. The Company holds tenant security deposits as collateral for tenant receivables. On a periodic basis, the Company evaluates its tenant receivables and establishes an allowance for doubtful accounts. There was no allowance for doubtful accounts for the years ended December 31, 2022 and 2021.

**Prepaid Leasing Commissions:** Prepaid leasing commissions consists of commission paid out in connection with obtaining long term subleases. The Company recognizes commission expenses incurred over the life of the applicable lease as required under ASC 842. Prepaid leasing commissions amounted to \$188,616 as of the year ended December 31, 2022 (\$217,938 – 2021).

**Lease Income:** The Company recognizes revenue on the date lease payments becomes due in accordance with the subleases. Lease payments received in advance are deferred until earned. All leases between parties are operating leases. Lease income was previously classified as rental income for the year ending December 31, 2021.

**Equipment:** Equipment is carried at cost. Renewals and betterments that materially extend the life of the assets are capitalized. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided for using the straight-line method.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Leases:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASC Topic 842, Leases. ASC Topic 842 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. Under ASC Topic 842 lessor accounting will remain similar to lessor accounting under previous GAAP, while aligning with the FASB's new revenue recognition guidance. In December 2018, the FASB issued ASU 2018-20, which clarifies lessor treatment of sales taxes and other similar taxes collected from lessees, lessor costs paid directly by lessees and recognition of variable payments for contracts with lease and non-lease components. The Company adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Company has applied Topic 842 to reporting periods beginning on January 1, 2022.

The Company elected the "practical expedients" under the transition guidance within Topic 842, which does not require contracts to be separated between lease components and non-lease components. The non-lease components represent additional services such as utilities which are variable in nature.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

As a lessor, the Company has leasing operations which consist of leasing commercial spaces under operating lease agreements that have a remaining term of 6 months to 8 years and 9 months. Lessees do not have any option to purchase the leased assets. All subleases are classified as operating and lease revenue is recognized straight line over the life of the corresponding sublease.

As a lessee under the Master Lease Agreement (the Agreement) (Note 6) the lease remained classified as an operating lease. However, as a lessee under Topic 842 the Company recorded a right to use asset and liability amounting to \$8,060,094. The right to use asset also includes unamortized prepaid rent payments. Lease revenue is recognized straight line over the life of the Agreement.

The adoption of the new lease standard did not materially impact members' equity or cash flows and did not result in a cumulative-effect adjustment to the opening balance of members' equity.

**Income Taxes:** No provision or benefit has been made for income taxes in the accompanying financial statements since taxable income or loss of the Company is passed through to the respective members for reporting passes through to, and is reportable by, the members individually.

**Use of Estimates:** In preparing financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

**Subsequent Events:** These financial statements have not been updated for subsequent events occurring after XXXXX, 2023, which is the date these financial statements were available to be issued.

### NOTE 3. TENANT SECURITY DEPOSITS

Tenant security deposits are maintained in a separate bank account from operating funds. They are tracked by name of the tenant internally by the Company and are segregated on the accompanying balance sheets.

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 4. RESERVES

**Asset Management Fee Reserve:** The Company was required to establish a reserve to fund the payment of asset management fees in the amount of \$60,000 upon receipt of the third capital contribution from the investor member. As of December 31, 2022, the reserve amounted to \$20,147 (\$30,111 – 2021). The remaining required funding of the asset management fee reserve has been reduced by the investor member.

**Operating Reserve:** The Company was required to establish an operating reserve to fund any operating deficits as approved by the investor member. An initial contribution of \$335,000 was to be deposited into the operating reserve upon receipt of the third capital contribution from the investor member which occurred during the year ended December 31, 2019. Funds are required to be held in a segregated, interest-bearing account with a federally insured financial institution. As of December 31, 2022, the reserve amounted to \$336,428 (\$335,857 – 2021).

**Replacement Reserve:** The Company is required to establish a replacement reserve to fund any replacement costs as approved by the investor member. The reserve is to be funded annually in the amount of \$48,000 (subject to a 3% increase per year) from net cash flow in accordance with the allocation of profits and losses (Note 8). Funds are required to be held in a segregated, interest-bearing account with a federally insured financial institution. As of December 31, 2022 and 2021, there was no net cash flow available to fund the replacement reserve.

### NOTE 5. CAPITAL CONTRIBUTIONS

The Company consists of two members; 683 WTC, LLC and NTCIC HTA Community Fund II, LLC (NTCIC). 683 WTC, LLC is the managing member and a 1% owner. NTCIC is the investor member and has a 99% membership interest.

The managing member is required to contribute capital of \$198,360 according to the terms of the amended and restated operating agreement. As of December 31, 2022 and 2021, the managing member has made all required contributions.

The investor member is required to contribute capital of \$19,637,612 based upon the completion of requirements by the Company as defined in the amended and restated operating agreement. During the year ended December 31, 2022, an upward adjustor amounting to \$773,461 was added to the capital contributions of the investor member. Total adjusted capital contributions amount to \$20,411,073. As of December 31, 2022, the investor member has made all required contributions amounting to \$20,411,073 (\$18,319,975 – 2021). There are no remaining required capital contributions as of December 31, 2022 (\$2,091,098 – 2021).

### NOTE 6. TRANSACTIONS WITH AFFILIATES

**Master Lease Agreement:** The Company has a Master Lease Agreement (the Agreement) with the lessor, a related entity, to pay rental expense commencing on August 26, 2018, the day prior to the first date on which Phase I of the building was placed in service for purposes of the historical tax credits through 2038. The lease is classified as an operating lease and accordingly, the underlying building and other assets are recorded as a right to use asset and corresponding lease liability on the Company's balance sheets. The Company utilized an interest rate of 2.05% to calculate the lease liability.

Under the Agreement, the Company is to make minimum lease payments. In addition to minimum rents, the lease requires payments for utilities, insurance, maintenance costs, real estate taxes, and all other operating expenses. Minimum lease payments due under the Agreement consists of base lease payments and prepaid rent. As of December 31, 2022, the Company paid \$27,397,807 in prepaid rent (\$25,528,601 – 2021). All prepaid rent payments under the Agreement have been made as of December 31, 2022. Prepaid rent is combined with the right to use asset under ASC 842.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6. TRANSACTIONS WITH AFFILIATES (CONTINUED)

For the years ended December 31, 2022 and 2021, the Company recognized \$1,879,742 in lease expense (previously rent expense). The lease agreement includes scheduled rent increases over the term of the lease, which in accordance with U.S. GAAP will be recognized on a straight-line base over the term of the lease.

Future minimum rental payments to be paid under the Master Lease Agreement are contractually due as follows:

2023	\$	492,423
2024		528,046
2025		558,098
2026		565,617
2027		580,645
Thereafter		<u>6,309,728</u>
	\$	<u>9,034,557</u>

**Due to Related Parties:** The Company owes certain operating expenses paid by related parties directly to a third party on behalf of the Company. These amounts are recorded as due to related parties on the accompanying balance sheets.

NOTE 7. COMMERCIAL LEASE REVENUE

Under ASC 842, the revenue derived from subleases are now classified as lease income. Amounts were previously classified as rental income on the statements of operations. The following are several subleases the Company has entered into:

**Northland Workforce Training Center:** The Company entered into a sublease agreement with the Economic Development Group, Inc. d/b/a Northland Workforce Training Center, (NWTC), commencing on September 1, 2018, and extending through August 31, 2036. The agreement calls for payment of prepaid lease payments and additional lease payments. Lease income from the sublease agreement is being recognized on a straight-line basis, in accordance with U.S. GAAP over the term of the lease. Prepaid lease payments in the amount of \$7,678,971 was due and paid during the year ended December 31, 2018; \$553,074 of lease income related to the prepaid lease payments was recognized during the years ended December 31, 2022 and 2021. The Company is required to estimate additional lease income on a monthly basis and provide NWTC with a statement of actual additional lease income incurred within 90 days of year end. During the year ended December 31, 2022, \$303,135 in additional lease income was recognized (\$292,708 – 2021).

Additionally, the Company entered into a second sublease agreement during 2019 for an additional space related to the Northland Workforce Training Center commencing October 1, 2019 and extending through July 31, 2026. The agreement calls for prepayment of lease expense in the amount of \$288,000. The entire prepaid lease balance was paid during the year ending December 31, 2020. For the year ended December 31, 2022, the Company recognized \$41,143 in lease income based on the second sublease agreement (\$41,142 – 2021).

**Buffalo Manufacturing Works:** The Company entered into a sublease agreement with Edison Welding Institute Inc. d/b/a Buffalo Manufacturing Works, commencing on July 1, 2019, and extending through June 30, 2034. For the years ended December 31, 2022 and 2021, the Company recognized \$475,400 in lease income based on this agreement.

**Manna Culinary Group:** The Company entered into a sublease agreement with Manna Culinary Group, Inc. commencing on September 30, 2019, and extending through October 31, 2024. Under the sublease agreement, base lease payments begin March 1, 2020. For the year ended December 31, 2022, the Company recognized \$12,995 in lease income based on this agreement (\$21,715 – 2021).

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 7. COMMERCIAL LEASE REVENUE (CONTINUED)**

**Sparkcharge:** The Company entered into a sublease agreement with Sparkcharge, Inc. commencing on March 1, 2020, and extending through May 31, 2023. For the year ended December 31, 2022, the Company recognized \$37,400 in lease income based on this agreement (\$37,200 – 2021).

**Retech:** The Company entered into a sublease agreement with Retech Systems LLC. commencing on July 1, 2020 and extending through December 31, 2030. For the year ended December 31, 2022, the Company recognized \$286,224 in lease income based on this agreement (\$284,946 – 2021).

**Rodriguez Construction:** The Company entered into a sublease agreement with Rodriguez Construction Group Inc. commencing on December 1, 2020 and extending through November 30, 2025. For the years ended December 31, 2022 and 2021, the Company recognized \$37,742 in lease income based on this agreement.

**Garwood Medical:** The Company entered into a sublease agreement with Garwood Medical Devices, LLC commencing on December 1, 2020, and extending through November 30, 2025. For the years ended December 31, 2022 and 2021, the Company recognized \$39,600 in lease income based on this agreement.

**Bank on Buffalo:** The Company entered into a sublease agreement with CNY Financial Corporation d/b/a Bank on Buffalo commencing on April 1, 2021, with rent payments commencing on October 1, 2021 and extending through September 30, 2031. For the year ended December 31, 2022, the Company recognized \$23,900 in lease income based on this agreement (\$18,820 – 2021).

The following is a schedule of minimum future lease revenue on noncancelable leases with an initial term greater than one year:

2023	\$ 1,446,994
2024	1,429,328
2025	1,412,054
2026	1,330,871
2027	1,300,014
Thereafter	<u>6,947,019</u>
Total	<u>\$ 13,866,280</u>

**NOTE 8. ALLOCATION OF PROFITS AND LOSSES**

In accordance with the amended and restated operating agreement, operating profits and losses and credits, other than those arising from a capital transaction, will be allocated in the ratio 1% to the managing member and 99% to the investor member. Profits and losses arising from a capital transaction will be allocated to the members in various amounts as described in the amended and restated operating agreement depending on if the amounts are profits or losses and if the members' capital account balances are negative or positive.

All net cash flow available for distribution shall be paid annually as follows:

- (i) To the investor member in the amount of any unpaid adjusters;
- (ii) To the investor member in the amount of any outstanding special tax distribution;
- (iii) The investor member in the amount of any outstanding priority return for the fiscal year plus any outstanding priority return for any prior fiscal year;
- (iv) To fund the replacement reserve;



NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 8. ALLOCATION OF PROFITS AND LOSSES (CONTINUED)**

- (v) To the repayment of any subordinated loans (and accrued interest thereon) and any operating deficit loans; and
- (vi) The balance to the members in accordance with their percentage interests.

Profits arising from a capital transaction will be distributed in the following order: first to each member, an amount equal to their negative capital account basis based on their proportionate share of the anticipated distribution; second, any remaining profits are distributed in accordance with the members' capital accounts.

Losses arising from a capital transaction will be allocated in the following order: first to each member, an amount equal to their positive capital account basis based on their proportionate share of the anticipated distribution; second, any remaining losses are distributed in accordance with the members' capital accounts.

For distributions other than cash flow and distributions prior to dissolution or termination of the Company, assets and proceeds will be distributed in the following order:

- (i) To the payment of all matured debts and liabilities of the Company and all expenses of the Company incident to any Capital Transaction, excluding (i) debts and liabilities of the Company to members or any affiliates, and (ii) all unpaid fees owing to any developer entity;
- (ii) To the setting up of any reserves which the liquidator (or the managing member if the distribution is not pursuant to the liquidation of the Company) deems reasonably necessary for contingent, unmatured or unforeseen liabilities or obligations of the Company;
- (iii) To the payment to the investor member of any unpaid credit recovery loans and interest thereon;
- (iv) To the investor member in the amount of any outstanding priority return;
- (v) To the payment of any unpaid special tax distribution plus an amount equal, on an after-tax basis, to the local, state and federal taxes projected (at the applicable tax rate) to be imposed on the members of the investor member as a result of the capital transaction;
- (vi) To the repayment of any unpaid debts and liabilities (including unpaid fees) owed to the members or any affiliates by the Company for Company obligations; and
- (vii) The balance to the members in accordance with their percentage interests.

The amended and restated operating agreement requires the distribution of cash based upon the net cash flow calculation. Distributable cash flow is calculated annually as defined by the amended and restated operating agreement. Based upon the calculation, there is no net cash flow available to be distributed for the years ending December 31, 2022 and 2021. However, according to the amended and restated operating agreement, any priority return not distributed shall accrue and remain payable until net cash flow becomes available. Under the amended and restated operating agreement, the priority return is based upon 1.5% of the portion of capital contributions attributable to federal historic tax credits and is pro-rated for any periods less than a full year. As of December 31, 2022, \$238,320 was accrued as payable to the investor member for the priority return (\$263,941 – 2021). During the year ended December 31, 2022, the investor member was paid \$221,892 for the 2021 accrued priority return (\$148,096 – 2021).

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9. OPERATING DEFICIT GUARANTY**

In accordance with the amended and restated operating agreement, the managing member will provide funds to the Company so as to allow them to cover accrued accounts payable on a 60-day current basis. Any funds advanced shall be provided in the form of an operating deficit loan. An operating deficit loan shall be treated as a subordinated loan and shall bear no interest. As of December 31, 2022 and 2021, \$132,359 was loaned to the Company from the managing member.

**NOTE 10. PROPERTY MANAGEMENT**

The Company entered into a property management agreement with Mancuso Management Inc. (Mancuso) in December 2017. Under the agreement, Mancuso is to provide leasing and property management services. Under the agreement, the monthly management fee is calculated at 5% of rents billed or \$2,700, whichever is higher. A new agreement was entered into with Mancuso effective January 1, 2021 through December 31, 2021 with an option to extend up to five additional one-year terms. As of December 31, 2022 the option to extend through December 31, 2023 was exercised. For the year ended December 31, 2022, \$70,520 of property management fees were incurred and paid (\$67,515 – 2021).

**NOTE 11. RECONCILIATION OF TAXABLE LOSS**

The reconciliation of financial statement net loss to the taxable loss of the Company for the years ended December 31, are as follows:

	<u>2022</u>	<u>2021</u>
Financial statement net loss	\$ (480,903)	\$ (496,962)
Add (subtract) nondeductible items per tax return		
Book to Tax depreciation	4,800	2,429
Section 467 income	685,567	658,590
Section 467 expense	<u>(875,957)</u>	<u>(440,807)</u>
Taxable loss	<u>\$ (666,493)</u>	<u>\$ (276,750)</u>

The Company files income tax returns in the U.S. Federal jurisdiction and New York State.

**NOTE 12. PAYMENT IN LIEU OF TAXES (PILOT)**

The Company entered into a 7-year agreement (the Agreement), through December 31, 2026, with the Erie County Industrial Development Agency (ECIDA), on behalf of the City of Buffalo (the City), the City of Buffalo School District (the School District), and County of Erie (the County), whereby the Company pays an annual PILOT payment to the City, the County and the School District. The Company was exempt from taxes until the tax fiscal year beginning in 2019. Beginning in 2019, the Company shall pay a payment in lieu of taxes composed of a land component, an existing improvements component, and a variable component. The variable component will be impacted by application of an annual payment factor. The payment factor will be 10% for the first two years of the Agreement, 20% for the next two years of the Agreement, and 30% for the final three years of the Agreement. The Company paid taxes amounting to \$20,398 for the year ended December 31, 2022 (\$19,626 - 2021).

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 13. EQUIPMENT

Equipment consisted of the following at December 31:

	<u>Estimated Useful Life</u>	<u>2022</u>	<u>2021</u>
Furniture and equipment	5 years	\$ 31,654	\$ 13,264
Less: accumulated depreciation		<u>(11,785)</u>	<u>(6,729)</u>
		<u>\$ 19,869</u>	<u>\$ 6,535</u>

Depreciation expense for the year ended December 31, 2022 related to equipment amounted to \$5,056 (\$2,429 – 2021).

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REPORT TO THE MANAGING MEMBER

**683 NORTHLAND LLC  
(A LIMITED LIABILITY COMPANY)**

DECEMBER 31, 2022

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Tentative and Preliminary  
For Discussion and Internal  
Purposes Only-Subject to Revision

(DATE)

To the Managing Member  
683 Northland LLC  
(A Limited Liability Company)  
95 Perry Street, Suite 400  
Buffalo, NY 14203

Attention Managing Member:

We are pleased to present this report related to our audit of the financial statements of 683 Northland LLC (the Company) as of and for the year ended December 31, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for 683 Northland LLC's financial reporting process.

This report is intended solely for the information and use of the Managing Member and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to 683 Northland LLC.

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# Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated January 6, 2023. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication dated January 6, 2023 regarding the planned scope and timing of our audit and identified significant risks.
<b>Accounting Policies and Practices</b>	<p><b>Preferability of Accounting Policies and Practices</b> Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Company. The following is a description of significant accounting policies that were either initially selected or implemented during the year:</p> <p>In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company adopted this standard on January 1, 2022 effective January 1, 2021 using the transition method. Upon the adoption of Topic 842, as a lessor the Master Lease Agreement remained classified as an operating lease. There were no changes on the balance sheets and statements of operations.</p>

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Area	Comments
<b>Accounting Policies and Practices (Continued)</b>	<p><b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b> Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the accounting estimates reflected in the Company's financial statements:</p> <ul style="list-style-type: none"> <li>• Estimated useful life of fixed assets</li> <li>• Impairment of building</li> </ul>
<b>Basis of Accounting</b>	The financial statements were prepared on the assumption that the Company will continue as a going concern.
<b>Audit Adjustments</b>	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by 683 Northland LLC are shown in the attached Summary of Recorded Audit Adjustments.
<b>Uncorrected Misstatements</b>	We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed or the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Shared Responsibilities: AICPA Independence</b>	The AICPA regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For Freed Maxick, CPAs to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and Freed Maxick, CPAs each play an important role.



**Our Responsibilities**

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. Freed Maxick, CPAs is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

**The Company's Responsibilities**

- Timely inform Freed Maxick CPAs, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers, or person in financial reporting oversight roles.
  - New beneficial owners of the Company's equity securities that have significant influence.
  - Change in corporate structure impacting affiliates such as add-on acquisitions or exits.
- Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to the Company and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with Freed Maxick, CPAs.
- Not entering into relationship resulting in Freed Maxick, CPAs, Freed Maxick, CPAs covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Company.

**Significant Communications Management and Our Firm**

**Written Between**

Copies of significant written communications between our firm and the management of the Company, including the representation letter provided to us by management, are attached as Exhibit A.

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For Discussion and  
Purposes Only - Subject to Change

683 Northland LLC  
 Year End: December 31, 2022  
 Summary of Recorded Audit Adjustments

Number	Date	Name	Debit	Credit
1	12/31/2022	Accumulated Depreciation - FF&E	52,466	
1	12/31/2022	Furnitures, Fixtures & Equipment		34,415
1	12/31/2022	Loss in Disposal		18,051

To properly record disposals of equipment during the year ending December 31, 2022.

2	12/31/2022	Depreciation Expense	322,879	
2	12/31/2022	Accumulated Depreciation		322,879

To properly adjust depreciation expense to actuals of December 31, 2022.

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## Exhibit A - Significant Written Communications Between Management and Our Firm

Engagement Letter – previously furnished

Representation Letter – see attached

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AUDITED  
FINANCIAL STATEMENTS

**683 NORTHLAND LLC**  
**(A LIMITED LIABILITY COMPANY)**

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DECEMBER 31, 2022

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For Discussion and Internal  
Purposes Only-Subject to Revision

**683 NORTHLAND LLC  
(A LIMITED LIABILITY COMPANY)**

**BALANCE SHEETS  
December 31,**

<b>ASSETS</b>	<u>2022</u>	<u>2021</u>
<b>Current assets:</b>		
Operating cash	\$ 66,665	\$ 123,353
Total current assets	<u>66,665</u>	<u>123,353</u>
Restricted cash	247,486	390,991
Due from related party	132,359	135,559
Land, property and equipment, net	<u>96,340,348</u>	<u>100,455,842</u>
<b>Total assets</b>	<u>\$ 96,786,858</u>	<u>\$ 101,105,745</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	6,219	\$ 57,463
Accrued interest	9,168	23,812
Current portion of long term debt	1,001,167	10,180,810
Line of credit	<u>677,158</u>	<u>677,158</u>
Total current liabilities	<u>1,694,212</u>	<u>10,939,243</u>
Deferred lease liability - Master Lease Agreement	20,693,140	20,219,190
Long term debt	<u>13,730,000</u>	<u>13,730,000</u>
<b>Total liabilities</b>	<u>36,117,352</u>	<u>44,888,433</u>
<b>Members' equity</b>	<u>60,669,506</u>	<u>56,217,312</u>
<b>Total liabilities and members' equity</b>	<u>\$ 96,786,858</u>	<u>\$ 101,105,745</u>

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For Discussion and Internal  
Purposes Only-Subject to Revision

See accompanying notes.

**683 NORTHLAND LLC**  
**(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31,**

	<u>2022</u>	<u>2021</u>
<b>Operating revenues:</b>		
Lease revenue	\$ 1,879,742	\$ 1,879,742
Other	-	450
Total operating revenues	<u>1,879,742</u>	<u>1,880,192</u>
<b>Operating expenses:</b>		
Professional fees	139,674	217,210
Asset management fees	55,000	55,000
Donation	44,366	217,462
Miscellaneous	32,608	32,736
Total operating expenses	<u>271,648</u>	<u>522,408</u>
Operating income	1,608,094	1,357,784
<b>Other (expense) income:</b>		
Gain on disposal	8,051	28,963
Interest income	312	167
Interest expense	(244,335)	(478,448)
Depreciation	(4,071,045)	(4,146,011)
Total other expense, net	<u>(4,297,017)</u>	<u>(4,595,329)</u>
<b>Net loss</b>	<u>\$ (2,688,923)</u>	<u>\$ (3,237,545)</u>

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**Tentative and Preliminary**  
**For Discussion and Internal**  
**Purposes Only-Subject to Revision**

See accompanying notes.

**683 NORTHLAND LLC**  
**(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF CHANGES IN MEMBERS' EQUITY**  
**For the Years Ended December 31,**

	<u>MEMBER</u>	<u>MANAGING MEMBER</u>	<u>TOTAL</u>
<b>Members' equity - January 1, 2021</b>	\$ 2,711,052	\$ 41,923,965	\$ 44,635,017
Members' capital contributions	961,846	13,857,994	14,819,840
Net loss	<u>(161,877)</u>	<u>(3,075,668)</u>	<u>(3,237,545)</u>
<b>Members' equity - December 31, 2021</b>	<b>3,511,021</b>	<b>52,706,291</b>	<b>56,217,312</b>
Members' capital contributions	348,325	6,792,792	7,141,117
Net loss	<u>(134,446)</u>	<u>(2,554,477)</u>	<u>(2,688,923)</u>
<b>Members' equity - December 31, 2022</b>	<u><b>\$ 3,724,900</b></u>	<u><b>\$ 56,944,685</b></u>	<u><b>\$ 60,669,506</b></u>
Percentage interest	<u>5.00%</u>	<u>95.00%</u>	<u>100%</u>

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See accompanying notes.



**683 NORTHLAND LLC**  
**(A LIMITED LIABILITY COMPANY)**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31,**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (2,688,923)	\$ (3,237,545)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	4,071,045	4,146,011
Amortization	-	43,675
Gain on disposal	(18,051)	(28,963)
Decrease in assets:		
Due from related party	3,200	40,717
Increase (decrease) in liabilities:		
Accounts payable	(50,744)	35,491
Accrued interest	(14,644)	(31,395)
Deferred lease liability - Master Lease Agreement	(1,395,255)	(1,393,059)
<b>Net cash used by operating activities</b>	<u>(52,373)</u>	<u>(425,068)</u>
<b>Cash flows from investing activities:</b>		
Acquisition and construction of land, property, and equipment	-	(66,306)
Proceeds from disposals of land, property and equipment	62,500	273,400
<b>Net cash provided by investing activities</b>	<u>62,500</u>	<u>207,094</u>
<b>Cash flows from financing activities:</b>		
Payments of prepaid lease under the Master Lease Agreement	1,869,206	5,532,421
Members' contributions	7,141,117	14,819,840
Repayment of developer fee	-	(1,433,360)
Net proceeds on line of credit	-	183,575
Repayments of long term debt	(9,179,643)	(18,919,190)
<b>Net cash (used) provided by financing activities</b>	<u>(169,320)</u>	<u>183,286</u>
<b>Net decrease in cash and restricted cash</b>	<b>(200,193)</b>	<b>(34,688)</b>
<b>Cash and restricted cash - beginning of year</b>	<u>514,344</u>	<u>549,032</u>
<b>Cash and restricted cash - end of year</b>	<u>\$ 314,151</u>	<u>\$ 514,344</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 258,979</u>	<u>\$ 466,168</u>

See accompanying notes.

683 NORTHLAND LLC  
(A LIMITED LIABILITY COMPANY)

STATEMENTS OF CASH FLOWS (CONTINUED)  
For the Years Ended December 31,

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The following table provides a reconciliation of cash and restricted cash to the amounts reported within the balance sheets:

	<u>2022</u>	<u>2021</u>
Operating cash	\$ 66,665	\$ 123,353
Restricted cash	<u>247,486</u>	<u>390,991</u>
Total cash and restricted cash	<u>\$ 314,151</u>	<u>\$ 514,344</u>

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Tentative and Preliminary  
For Discussion and Internal  
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See accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 1. ORGANIZATION**

683 Northland LLC (the Company) is a limited liability company formed pursuant to the laws of the State of New York on December 13, 2016. The Company was formed to facilitate the ownership, rehabilitation and operation of a commercial and industrial facility located at 683 Northland Avenue, City of Buffalo, known as the Niagara Machine & Tool Works Factory (the Building). The Company serves as lessor to 683 Northland Master Tenant, LLC, a related entity. The relationship between lessor and lessee is governed by a Master Lease Agreement dated December 28, 2017.

The Building is listed on the National Register of Historic Places and will receive an allocation of federal and state historic rehabilitation tax credits under Section 47 of the Internal Revenue Code of 1986, as amended, and New York credit for Rehabilitation of Historic Properties under Section 606(00) of New York State tax law. The Building was developed in two phases; Phase 1 received an allocation of rehabilitation tax credits in during the year ended December 31, 2018; Phase 2 received allocations in the years ending December 31, 2020 and 2019. No further credits are anticipated.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting:** The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Cash:** The statement of cash flows considers amounts available for current operations to be cash and includes amounts for restricted reserves.

**Concentration of Credit Risk:** The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

During the years ended December 31, 2022 and 2021, one tenant represented 100% of lease revenue.

**Accounts Receivable:** Accounts receivable are comprised of billed and uncollected amounts due for reimbursements related to leasehold improvements, furniture, fixtures and equipment. On a periodic basis, the Company evaluates its accounts receivable and will establish an allowance for doubtful accounts if necessary. There was no allowance for the years ended December 31, 2022 and 2021.

**Lease Income:** The Company recognizes revenue on the date lease payment becomes due in accordance with the Master Lease Agreement. Lease payments received in advance are deferred until earned. The Master Lease Agreement is an operating lease.

**Land, Property and Equipment:** Land, property and equipment are carried at cost which includes all direct costs of acquisition and construction as well as indirect costs including interest incurred during the rehabilitation period. Renewals and betterments that materially extend the life of the assets are capitalized. Expenditures for maintenance and repairs are charged against operations. Depreciation is provided for using the straight-line method based on the following useful lives:

Building	39 years
Land improvements	15 years
Leasehold improvements	15 years
Building improvements	10 years
Furniture, fixtures, and equipment	7 years
Equipment	5 years

NOTES TO THE FINANCIAL STATEMENTS

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**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Company reviews its land, property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of land, property and equipment to the future net undiscounted cash flow expected to be generated by the land, property and equipment and any estimated proceeds from the eventual disposition of the land, property and equipment. If the land, property and equipment is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the land, property and equipment exceeds the fair value of such land, property and equipment. There were no impairment losses recognized for the years ended December 31, 2022 and 2021.

**Debt Issuance Costs:** There was no amortization of debt issuance costs for long term debt for the year ended December 31, 2022. Amortization of debt issuance costs amounted to \$43,675 for the year ending December 31, 2021 and is included in interest expense.

**Income Taxes:** No provision or benefit has been made for income taxes in the accompanying financial statements since taxable income or loss of the Company passed through to the respective members for reporting passes through to, and is reportable by, the members individually.

**Use of Estimates:** In preparing financial statements in accordance with U.S. GAAP, management makes estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

**Leases:** In February 2016, the Financial Accounting Standards Board (FASB) issued ASC Topic 842, Leases. ASC Topic 842 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. Under ASC Topic 842 lessor accounting will remain similar to lessor accounting under previous GAAP, while aligning with the FASB's new revenue recognition guidance. In December 2018, the FASB issued ASU 2018-20, which clarifies lessor treatment of sales taxes and other similar taxes collected from lessees, lessor costs paid directly by lessees and recognition of variable payments for contracts with lease and non-lease components. The Company adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Company has applied Topic 842 to reporting periods beginning on January 1, 2021.

The Company elected the "practical expedients" under the transition guidance within Topic 842, which does not require contracts to be separated between lease components and non-lease components. The non-lease components represent additional services such as utilities which are variable in nature.

The Company determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Company obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company also considers whether its service arrangements include the right to control the use of an asset.

As a lessor, the Company has leasing operations which consist of the Master Lease Agreement which carries a remaining term of 19 years and 8 months. The lease does not include an option to renew. The lessee does not have an option to purchase the leased assets.

The adoption of the new lease standard did not materially impact members' equity or cash flows and did not result in a cumulative-effect adjustment to the opening balance of members' equity.

**Subsequent Event:** These financial statements have not been updated for subsequent events occurring after [date], which is the date these financial statements were available to be issued.

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 3. LAND, PROPERTY AND EQUIPMENT**

Land, property and equipment consists of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Land	\$ 589,272	\$ 589,272
Buildings and improvements	104,433,211	104,433,211
Furniture, fixtures and equipment	7,360,751	7,457,666
Leasehold improvements	291,222	291,222
	<u>112,674,456</u>	<u>112,771,371</u>
Less: Accumulated depreciation	<u>(16,334,108)</u>	<u>(12,315,529)</u>
	<u>\$ 96,340,348</u>	<u>\$ 100,455,842</u>

Depreciation expense for the year ended December 31, 2022 amounted to \$4,071,045 (\$4,146,011 – 2021).

**NOTE 4. CAPITAL CONTRIBUTIONS AND ALLOCATION OF PROFITS AND LOSSES**

The Company consists of two members; 683 WTC, LLC and BBRC Land Company I, LLC. 683 WTC, LLC is the managing member and a 95% owner. BBRC Land Company I, LLC has a 5% membership interest. Both members fulfilled all required capital contributions in prior years.

The managing member contributed an additional \$6,782,792 in capital during the year ended December 31, 2022 (\$13,857,994 – 2021).

The member interest contributed a total of \$348,325 during the year ended December 31, 2022 (\$961,846 – 2021)

The terms of the amended and restated operating agreement of the Company, effective as of December 28, 2017, provides for, among other things, that profits and losses be allocated to each member in accordance with the ratio of the value of the respective capital accounts to the value of all capital accounts in the aggregate.

**NOTE 5. TRANSACTIONS WITH AFFILIATES**

The Company has a Master Lease Agreement (the Agreement) with the master tenant member to receive lease income commencing August 26, 2019, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through August 31, 2038. For the years ended December 31, 2022 and 2021, the Company recognized \$1,879,742 in lease revenue related to the Agreement. The lease agreement includes scheduled lease increases over the term of the lease, which in accordance with U.S. GAAP, will be recognized on a straight-line basis over the term of the lease. The Company will reduce the deferred lease liability by \$1,896,446 over each of the next 5 years.

Future minimum lease receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31:

2023	\$ 492,423
2024	528,046
2025	558,098
2026	565,617
2027	580,645
Thereafter	<u>6,309,728</u>
	<u>\$ 9,034,557</u>

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 5. TRANSACTIONS WITH AFFILIATES (CONTINUED)**

**Developer's Fee - Related Party:** The Company has an agreement with Buffalo Urban Development Corporation (the "Developer") regarding the developer fee amounting to \$11,886,746. The remaining developer fee payable was paid in full during the year ended December 31, 2021.

**Due from Related Party:** The Company has paid certain operating expenses directly to third parties on behalf of 683 Northland Master Tenant, LLC. The outstanding amount for the year ending December 31, 2022 is \$132,359 (\$135,559 - 2021).

**NOTE 6. LONG TERM DEBT**

**Mortgage Payable:** During 2017, the Company borrowed amounts totaling \$13,730,000 related to the Northland Corridor project from BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. Buffalo Urban Development Corporation, a related party, is a guarantor on the loan agreement. Interest accrues at the rate of 1.33776% and is due quarterly. The loans are collateralized by the building. Interest only payments from the date of the agreement, December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest are due quarterly, commencing December 31, 2024, until the maturity date of December 28, 2052. Under the loan agreements, the Company shall pay BACDE NMTC Fund 16, LLC an annual asset management fee of \$45,000 through 2025 and NTCIC-NORTHLAND, LLC an annual asset management fee of \$10,000 through 2026. Asset management fees amounted to \$55,000 for year ending December 31, 2022 and 2021.

**Bridge Loans:** The Company entered into two bridge loan agreements with KeyBank on December 28, 2017, in the amounts of \$20,000,000 (Loan A) and \$10,000,000 (Loan B). Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors on these loan agreements. The loans are collateralized by security interest in all assets of 683 WTC, LLC, BBRC Land Company I, LLC and 683 Northland LLC, assignment of rents by the Company, and assignment of construction contracts and architect's agreements. The bridge loan agreement for Loan B matured on June 30, 2021 and was paid in full as of December 31, 2021. The bridge loan agreement for Loan A was extended through June 30, 2023. The balance outstanding at December 31, 2022 totaled \$1,001,167 (\$10,180,810 - 2021). Interest on Loan A is calculated at the adjusted daily SOFR rate plus 2.4% (6.19% at December 31, 2022). Previous to December 29, 2022, interest on Loan A was calculated at prime rate (as established by KeyBank), plus .25% with a floor of 3% (3% at December 31, 2021). Accrued interest amounted to \$9,168 as of December 31, 2022 (\$23,812 - 2021). Interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum. Management intends to repay Loan A with capital contributions from the managing member. The capital contributions from the managing member will be funded by the proceeds received in connection with the Brownfield tax credits.

The above long term debt is summarized by funding source below as follows at December 31:

	<u>2022</u>	<u>2021</u>
KeyBank- bridge loans	\$ 1,001,167	\$ 10,180,810
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 14,731,167</u>	<u>\$ 23,910,810</u>

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 6. LONG TERM DEBT (CONTINUED)**

Current maturities of long-term debt are as follows for the years ending December 31, 2022:

2023	\$ 1,001,167
2024	100,188
2025	404,116
2026	409,549
2027	415,056
Thereafter	<u>12,401,091</u>
	<u>\$ 14,731,167</u>

**NOTE 7. LINE OF CREDIT**

**Line of Credit:** The Company entered into a non-revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,000,000. Agreement was amended on December 29, 2022, and allows borrowings up to \$677,158. Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors this agreement. Borrowings are to be used to pay interest on the Bridge loans (see Note 6) while awaiting member contributions. Borrowed amounts on the line bear interest at an adjusted daily SOFR rate plus 2.4% (6.19% at December 31, 2022) per annum (previously adjusted LIBOR rate – 3.25% at December 31, 2021) and are collateralized by security interest in all assets of 683 WTC, LLC, BUDC and BBRC Land Company I, LLC. All outstanding principal and interest amounts are due upon maturity. The agreement matures on December 31, 2023.

**NOTE 8. RESTRICTED CASH AND FUNDED RESERVES**

The Company was required to establish interest reserve accounts for the KeyBank bridge loans and asset management fees in connection with the loans due to BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. The interest and asset management fees incurred in connection to these loans are paid from these reserve accounts. The balances in the reserve accounts were as follows as of December 31:

	<u>2022</u>	<u>2021</u>
KeyBank interest reserve	\$ 9,170	\$ 23,813
BACDE NMTC Fund 16, LLC reserve	147,316	216,178
NTCIC-NORTHLAND, LLC reserve	<u>91,000</u>	<u>151,000</u>
	<u>\$ 247,486</u>	<u>\$ 390,991</u>

**REPORT TO THE BOARD OF DIRECTORS**  
**BUFFALO URBAN DEVELOPMENT CORPORATION**

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**DECEMBER 31, 2022**

**DRAFT**  
**Tentative and Preliminary**  
**For Discussion and Internal**  
**Purposes Only-Subject to Revision**



March 8, 2023

To the Members of the Board of Directors  
Buffalo Urban Development Corporation  
95 Perry Street, Suite 403  
Buffalo, New York 14203

Members of the Board:

We are pleased to present this report related to our audits of the financial statements of the Buffalo Urban Development Corporation (BUDC), as of and for the year ended December 31, 2022. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for BUDC's financial reporting process.

This report is intended solely for the information and use of the BUDC and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to be of service to the BUDC.

[signature]

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## Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditors Communications with Those Charge with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
<b>Our Responsibilities with Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated January 5, 2023. Our audit of the consolidated financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication dated January 5, 2023 regarding the planned scope and timing of our audit and identified significant risks.
<b>Accounting Policies and Practices</b>	<p data-bbox="821 888 1443 911"><b>Preferability of Accounting Policies and Practices</b></p> <p data-bbox="821 940 1481 1089">Under generally accepted principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p data-bbox="821 1108 1409 1131"><b>Adoption of, or Change in, Accounting Policies</b></p> <p data-bbox="821 1146 1481 1295">Management has the ultimate responsibility for the appropriateness of the accounting policies used by BUDC. The following is a description of significant accounting policies that were either initially selected or implemented during the year:</p> <p data-bbox="821 1341 1481 1852">In June 2017, the GASB issued Statement No. 87, Leases. The guidance in this Statement supersedes the previous lease guidance. Under the new guidance, lessors are required to recognize most leases on their statement of net position through a lease asset and related lease liability that mirrors the lessee's books and records. Lessors do not derecognize the underlying asset on their books and records. The new standard was effective for fiscal years beginning after July 1, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessors for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company adopted this standard effective January 1, 2022 using the transition method. Upon the adoption of Statement No. 87, as a lessor a</p>

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Area	Comments
<b>Accounting Policies and Practices(Cont.)</b>	<p>right to use asset and related lease liability was recognized under the Master Lease Agreement on the statements of net position. The underlying asset remained on the books and records. The adoption of Statement No 87 did not materially impact cash flows and did not result in a cumulative-effect adjustment to the opening balance of net position.</p> <p><b>Significant or Unusual Transactions</b></p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p><b>Management's Judgments and Accounting Estimates</b></p> <p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates."</p>
<b>Basis of Accounting</b>	<p>The financial statements were prepared on assumption that the entity will continue as a going concern.</p>
<b>Audit Adjustments</b>	<p>There were no audit adjustments made to the original trial balances presented to us to begin our audit.</p>
<b>Uncorrected Misstatement</b>	<p>We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.</p>
<b>Disagreements with Management</b>	<p>We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.</p>
<b>Difficult or Contentious Matters for Which We Consulted</b>	<p>There were no matters that were difficult or contentious for which we consulted outside the engagement team and that we reasonably determined are relevant to the Audit Committee's oversight of the financial reporting process.</p>
<b>Consultations with Other Accountants</b>	<p>We are not aware of any consultations management had with other accountants about accounting or auditing matters.</p>
<b>Significant Difficulties Encountered in Performing the Audit</b>	<p>We did not encounter any significant difficulties in dealing with management during the audit.</p>

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**Shared Responsibilities: AICPA Independence**

The AICPA regularly emphasizes that auditor independence is a joint responsibility and is managed most effectively when management, audit committees, and audit firms work together in considering compliance with AICPA independence rules. For Freed Maxick, CPAs to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and Freed Maxick, CPAs each play an important role.

**Our Responsibilities**

- AICPA rules require independence both of mind and in appearance when providing audit and other attestation services. Freed Maxick, CPAs is to ensure that the AICPA's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

**The Company's Responsibilities**

- Timely inform Freed Maxick, CPAs, before the effective date of transactions or other business changes, of the following:
  - New affiliates, directors, officers, or person in financial reporting oversight roles.
  - New beneficial owners of the Company's equity securities that have significant influence.
  - Change in corporate structure impacting affiliates such as add-on acquisitions or exits.
  - Provide necessary affiliate information such as new or updated investment structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
  - Understand and conclude on the permissibility, prior to the Company and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with Freed Maxick, CPAs.
- Not entering into relationships resulting in Freed Maxick, CPAs, Freed Maxick, CPAs covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting or financial reporting oversight role at the Company.

**Significant Written Communication Between Management and Our Firm**

A copy of the representation letter provided to us by management is attached as Exhibit A.

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For Discussion and Internal Review  
Purposes Only - subject to Revisions

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the BUDC's December 31, 2022 financial statements:

Estimate	Accounting Policy	Management's Estimation Process	Basis of our conclusions on Reasonableness of Estimate
<b>Depreciation of Property, Plant &amp; Equipment and Land Adjustments to Net Realizable Value</b>	Management depreciates property, plant and equipment over the estimated lives of the assets. Management adjusts net realizable value of land for capitalizable expenses.	Useful lives were assigned based on BUDC's useful life policy. Management was consistent in calculating depreciation based on the useful lives assigned to each asset. Land adjustments to net realizable value are calculated by management utilizing actual capitalizable expenses and information from Annual Property Report regarding the fair value of the properties.	The methods and lives used to estimate depreciation expense appears reasonable. Methods used to estimate adjustments to net realizable value of land appear reasonable.

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## Recently Issued Accounting Standards

The GASB has issued several statements not yet implemented by the BUDC. BUDC's management has not yet determined the effect these Statements will have on the BUDC's consolidated financial statements. However, BUDC plans to implement all standards by the required dates. The Statements which might impact the BUDC are as follows:

### **Summary of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements***

This Statement issued in May 2020 will be effective for the BUDC beginning with its fiscal year ending December 31, 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

This Statement establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. To the extent relevant, the standards for SBITAs are based on the standards established in GASB Statement No. 87, *Leases*, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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The Finance & Audit Committees, Boards of Directors, and Management  
Buffalo Urban Development Corporation

In planning and performing our audits of the financial statements of the Buffalo Urban Development Corporation (BUDC), of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the BUDC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the separate financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BUDC's internal control.

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

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

This communication is intended solely for the information and use of management, the Finance and Audit Committees, Boards of Directors, and others within the BUDC. It is not intended to be, and should not be, used by anyone other than these specified parties.

Buffalo, New York  
XXXXX, 2023

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## Exhibit A - Significant Written Communications Between Management and Our Firm

Engagement Letter – previously furnished

Representation Letter – see attached

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AUDITED  
CONSOLIDATED FINANCIAL STATEMENTS

**BUFFALO URBAN DEVELOPMENT  
CORPORATION**

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DECEMBER 31, 2022

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Tentative and Preliminary  
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**BUFFALO URBAN DEVELOPMENT CORPORATION  
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FINANCIAL SECTION

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**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF NET POSITION**  
**DECEMBER 31,**

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 20,354,670	\$ 2,817,690
Grants receivable	32,183,206	10,160,553
Restricted cash	4,014,036	4,487,462
Other current assets	6,230,118	6,626,745
Total current assets	<u>62,782,030</u>	<u>24,092,450</u>
<b>Noncurrent assets:</b>		
Loans receivable	9,666,400	9,666,400
Equity investment	178,051	178,051
Capital assets, net	104,743,215	108,785,225
Right to use asset	7,737,832	-
Land and improvements held for sale, net	788,212	3,363,434
Total noncurrent assets	<u>123,113,710</u>	<u>121,993,110</u>
Total assets	<u>\$ 185,895,740</u>	<u>\$ 146,085,560</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	44,122	\$ 959,332
Unearned revenue	3,843,820	14,373,673
Line of credit	677,158	677,158
Current portion of loans payable	1,001,167	10,180,810
Total current liabilities	<u>55,766,267</u>	<u>26,190,973</u>
<b>Noncurrent liabilities:</b>		
Deferred lease liability	28,430,972	20,219,190
Loans payable	14,099,750	14,099,750
Note payable	-	257,381
Total noncurrent liabilities	<u>42,530,722</u>	<u>34,576,321</u>
<b>NET POSITION</b>		
Net investment in capital assets	90,430,510	87,868,099
Restricted	3,409,239	3,624,405
Unrestricted (deficit)	(6,240,998)	(6,174,238)
Total net position	<u>87,598,751</u>	<u>85,318,266</u>
Total liabilities and net position	<u>\$ 185,895,740</u>	<u>\$ 146,085,560</u>

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See accompanying notes.

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2022</u>	<u>2021</u>
<b>Operating revenues:</b>		
Lease and other revenue	\$ 9,024,458	\$ 14,869,875
Grant revenue	8,056,896	4,425,140
Loan interest and commitment fees	96,664	112,107
Brownfield funds	36,183	40,821
Total operating revenues	<u>17,214,201</u>	<u>19,447,943</u>
<b>Operating expenses:</b>		
Development costs	8,148,766	4,253,238
Depreciation	4,152,123	4,225,517
General and administrative	1,667,554	2,036,694
Salaries and benefits	384,459	482,778
Management fee	138,967	125,408
Adjustment to net realizable value	125,675	98,713
Total operating expenses	<u>14,617,544</u>	<u>11,222,348</u>
Operating income	2,596,657	8,225,595
<b>Nonoperating revenues (expenses):</b>		
Loss on disposal	(427,553)	(118,382)
Interest income	18,967	722
Amortization expense	-	(43,675)
Interest expense	(260,911)	(450,479)
Total nonoperating expenses, net	<u>(664,497)</u>	<u>(611,814)</u>
Change in net position	1,932,160	7,613,781
Net position - beginning of year	85,318,266	76,742,639
Add: capital contributions	<u>348,325</u>	<u>961,846</u>
Net position - end of year	<u>\$ 87,598,751</u>	<u>\$ 85,318,266</u>

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For Discussion and Internal  
Purposes Only-Subject to Revision

See accompanying notes.

**BUFFALO URBAN DEVELOPMENT CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities:</b>		
Amounts (paid) received from Brownfields funds	\$ (10,717)	\$ 67,767
Grants received	25,504,390	8,464,959
Receipts from loans and commitment fees	96,664	112,107
Repayments of loans	-	750,000
Rental and other revenue	10,013,539	19,562,372
Payments to employees, suppliers, and other	(11,237,591)	(6,934,777)
<b>Net cash provided by operating activities</b>	<b><u>24,366,285</u></b>	<b><u>22,022,428</u></b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(154,561)	(449,194)
Proceeds from sale/disposal of capital assets	2,197,117	872,400
Repayment of line of credit	-	(923,370)
Proceeds from line of credit	-	183,575
Repayment of loans	(9,437,024)	(18,961,134)
Capital contributions	348,325	961,846
<b>Net cash used by capital and related financing activities</b>	<b><u>(7,046,143)</u></b>	<b><u>(18,315,877)</u></b>
<b>Cash flows from investing activities:</b>		
Change in restricted cash	473,426	(789,753)
Interest earned	18,967	722
Interest paid	(275,555)	(525,549)
<b>Net cash provided (used) by investing activities</b>	<b><u>216,838</u></b>	<b><u>(1,314,580)</u></b>
<b>Net increase in cash</b>	<b>17,536,980</b>	<b>2,391,971</b>
<b>Cash - beginning of year</b>	<b><u>2,817,690</u></b>	<b><u>425,719</u></b>
<b>Cash - end of year</b>	<b><u>\$ 20,354,670</u></b>	<b><u>\$ 2,817,690</u></b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,596,657	\$ 8,225,595
Adjustment to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	4,152,123	4,225,517
(Increase) decrease in grants receivable	(22,022,653)	3,489,057
Decrease in other current assets	396,627	525,981
Decrease in loans receivable	-	750,000
(Decrease) increase in accounts payable and accrued expenses	(700,566)	116,154
Increase in unearned revenue	39,470,147	550,762
Increase in deferred lease liability	473,950	4,139,362
<b>Net cash provided by operating activities</b>	<b><u>\$ 24,366,285</u></b>	<b><u>\$ 22,022,428</u></b>
<b>Non-cash transactions:</b>		
Grants received but not yet earned	\$ 38,983,032	\$ 548,961

See accompanying notes.

**BUFFALO URBAN DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Buffalo Urban Development Corporation (BUDC) have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. 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 more significant of the BUDC's accounting policies are described below.

**A. REPORTING ENTITY**

The Buffalo Urban Development Corporation (BUDC) was incorporated to facilitate partnership with the private sector in the development of the City of Buffalo (the City). Funding was initially received from the City; however the City has not allocated direct funding to BUDC for several years and future allocations are not expected. Funding is received 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 Fund). The Fund dedicates certain payments received in lieu of real estate taxes (PILOT) for future eligible project costs. The fund is administered by ECIDA and reimburses BUDC for eligible project costs incurred. The activity of the Fund is included in these financial statements.

The financial reporting entity consists of (a) the primary entity, which is BUDC, (b) 683 WTC, LLC, (WTC) of which BUDC is the sole member, and (c) 683 Northland LLC (Northland) in which 683 WTC, LLC has a 95% equity interest.

In accordance with U.S. GAAP, BUDC is not considered a component unit of another entity.

**B. BASIS OF PRESENTATION**

Revenues from grants, Brownfield funds, rental payments, and interest on loans are reported as operating revenues. All expenses related to operating BUDC are reported as operating expenses. Certain other transactions are reported as nonoperating activities including BUDC's interest income from deposits and interest expense related to long-term debt.

When both restricted and unrestricted resources are available for use, it is BUDC's policy to use restricted resources first, then unrestricted resources as they are needed.

**C. CONSOLIDATED FINANCIAL STATEMENT PRESENTATION**

The consolidated financial statements include the accounts of BUDC, WTC, and Northland. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. These consolidated financial statements have been prepared in conformity with U.S. GAAP.

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

BUDC is considered a special-purpose government engaged in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The financial statements of BUDC are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred; regardless of when the cash transaction takes place.

Nonexchange transactions, in which BUDC gives or receives value without directly receiving or giving equal value in exchange, include grants. Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied.

**E. CASH AND RESTRICTED CASH**

BUDC's cash consists of cash on hand and demand deposits. Certain assets are classified on the consolidated statements of net position as restricted because their use is limited.



**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. LOANS RECEIVABLE**

Loans receivable are presented net of an allowance for uncollectible accounts. BUDC maintains an allowance for estimated uncollectible accounts which is based on an analysis of the loan portfolio and reflects an amount that, in management's judgment, is adequate to provide for potential loan losses. Loans are written off when, in management's judgment, no legal recourse is available to collect the amount owed.

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

**G. OTHER CURRENT ASSETS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. These amounts are included in other current assets and amounted to \$5,748,442 and \$6,188,769 for December 31, 2022 and 2021, respectively. Other current assets include interest and accounts receivables and amounted to \$481,676 and \$437,976 for December 31, 2022 and 2021, respectively.

**H. CAPITAL ASSETS**

Capital assets are recorded at acquisition cost and depreciated over the estimated useful lives of the respective assets using the straight-line method. The cost of repairs, maintenance and minor replacements are expensed as incurred, whereas expenditures that materially extend property lives are capitalized. When depreciable property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in income. Contributed capital assets are recorded at fair value at the date received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the BUDC are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Furniture and equipment	\$1,000	Straight-line	3-10 years
Buildings and improvements	\$1,000	Straight-line	5-40 years

**I. INSURANCE**

BUDC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, personal injury liability, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Settled claims from these risks has not yet exceeded commercial insurance coverage for the past three years.

**J. NET POSITION**

Equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and related debt.
- b. *Restricted* - Consists of net positions with constraints on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. Included in this classification are the Buffalo Brownfields Redevelopment Fund and a loan fund.
- c. *Unrestricted* - The net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use by BUDC.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. INCOME TAXES**

BUDC is exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and the income realized will not be subject to New York State corporate franchise tax. BUDC is subject to unrelated business income tax related to certain lending transactions associated with WTC.

**L. STATEMENTS OF CASH FLOWS**

For the purposes of the statements of cash flows, BUDC considers all cash, other than restricted cash, which includes cash and demand accounts.

**M. USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

**N. LEASES**

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 Leases. Statement No. 87 amends the existing accounting standards for lease accounting, including requiring lessors to recognize most leases on their statements of net position to mirror the lessee's books and records. The BUDC adopted Statement No. 87 on January 1, 2022, using the transition method as outlined which eliminates the requirement to restate the prior-period financial statements. Under this transition method, the BUDC has applied Statement No. 87 to reporting periods beginning on January 1, 2022.

BUDC determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to. A contract is or contains a lease when the contract conveys control of the right to use another entity's nonfinancial asset for a period of time in an exchange or an exchange-like transaction.

As a lessor, Northland has a lease under the Master Lease Agreement (Note 8). Under Statement No. 87 Northland recorded a right to use asset and liability amounting to \$8,060,094 at January 1, 2022 upon adoption. The liability includes unamortized prepaid rent payments. Lease revenue is recognized straight line over the life of the Master Lease Agreement.

The adoption of Statement No. 87 did not materially impact cash flows and did not result in a cumulative-effect adjustment to the opening balance of net position.

**O. ACCOUNTING PRONOUNCEMENTS**

The BUDC has evaluated the provisions of Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, Statement No. 93, *Replacement of Interbank Offered Rates* and Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-an amendment of GASB Statements No. 14 and 84, and a supersession of GASB Statement No. 32* and determined that they have no significant impact on the BUDC's financial statements.

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**O. ACCOUNTING PRONOUNCEMENTS (CONTINUED)**

The following are GASB Statements that have been issued recently and are currently being evaluated, by the BUDC, for their potential impact in future years.

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 96, *Subscription-Based Information Technology Arrangements*, which will be effective for the year ending December 31, 2023.
- Statement No. 99, *Omnibus 2022*, which will be effective based on individual applications. Earlier implementation is encouraged and permitted.
- Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, which will be effective for the year ending December 31, 2024.
- Statement No. 101, *Compensated Absences*, which will be effective for the year ending December 31, 2024.

**P. RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform with current year presentation.

**NOTE 2. CASH AND INVESTMENTS**

BUDC's investment policies are governed by State statutes. In addition, BUDC has its own written investment policy. BUDC monies must be deposited in Federal Deposit Insurance Corporation (FDIC)-insured commercial banks or trust companies located within the State. BUDC is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its agencies, repurchase agreements and obligations of the State and its localities.

Collateral is required for demand deposits and certificates of deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations of the State and its municipalities and school districts and obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

As of December 31, 2022 and 2021, BUDC's aggregate bank deposits were considered fully collateralized.

**Investment and Deposit Policy**

BUDC follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of BUDC's Treasurer.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. BUDC's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

BUDC's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. BUDC's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

**BUFFALO URBAN DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with BUDC's investment and deposit policy, all deposits of BUDC including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Corporation (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits. BUDC restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by the State of New York and its localities.
- Obligations issued by other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organizations.

**NOTE 3. LOANS RECEIVABLE**

In 2017, BUDC made a loan in the amount of \$9,666,400 to Northland NMTC Investment Fund, LLC (NMTC). Interest accrues at the rate of one percent per annum (1%) and is due quarterly. Interest only payments from the date of first advance, which was December 28, 2017 through December 31, 2021, are payable quarterly. Principal and interest shall be paid commencing December 31, 2024 through December 31, 2042. NMTC pledges its entire interest in BACDE NMTC Fund 16, LLC and NTCIC-Northland, LLC. BUDC's policy is to present loans receivable net of an allowance for uncollectible loans. Management has determined that no allowance for this loan was necessary in 2022 and 2021.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the BUDC for the year ended December 31, 2022 was as follows:

	Balance January 1, 2022	Increases	Decreases	Balance December 31, 2022
<b>Non-depreciable capital assets</b>				
Land	874,014	-	-	874,014
Idle buildings and improvements	5,024,834	144,861	-	5,169,695
<b>Total non-depreciable capital assets</b>	<b>5,898,848</b>	<b>144,861</b>	<b>-</b>	<b>6,043,709</b>
<b>Depreciable capital assets:</b>				
Buildings and improvements	107,884,114	-	-	107,884,114
Furniture and equipment	7,511,625	9,700	96,915	7,424,410
Less: accumulated depreciation	12,509,362	4,152,123	52,467	16,609,018
<b>Total depreciable assets, net</b>	<b>102,886,377</b>	<b>(4,142,423)</b>	<b>44,448</b>	<b>98,699,506</b>
<b>Total capital assets, net</b>	<b>\$ 108,785,225</b>	<b>\$ (3,997,562)</b>	<b>\$ 44,448</b>	<b>\$ 104,743,215</b>

**BUFFALO URBAN DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS (CONTINUED)**

Capital asset activity for the BUDC for the year ended December 31, 2021 was as follows:

	Balance January 1, 2021	Increases	Decreases	Balance December 31, 2021
Non-depreciable capital assets				
Land	\$ 874,014	\$ -	\$ -	\$ 874,014
Idle buildings and improvements	4,687,894	336,940	-	5,024,834
Total non-depreciable capital assets	5,561,908	336,940	-	5,898,848
Depreciable capital assets:				
Buildings and improvements	107,814,194	69,920	-	107,884,114
Furniture and equipment	7,925,057	6,688	420,120	7,511,625
Less: accumulated depreciation	8,465,782	4,225,517	181,937	12,509,362
Total depreciable assets, net	107,273,469	(4,148,909)	238,183	102,886,377
Total capital assets, net	\$ 112,835,377	\$ (3,811,969)	\$ 238,183	\$ 108,785,225

Land, buildings, and improvements related to the Northland Corridor amounted to \$6,043,709 and \$5,898,848 at December 31, 2022 and 2021. BUDC intends to return these properties to productive use, assist with revitalizing the surrounding neighborhood, and provide employment opportunities for nearby residents by creating a new manufacturing hub on the City's east side. Once completed, BUDC expects to lease the property to local businesses, government agencies, and nonprofit organizations.

Due to the extensive amount of revitalization, pollution remediation (Note 15), and other related activities, the anticipated costs of certain Northland properties exceed the expected fair value of the properties based on current estimates. Adjustments to net realizable value totaled \$11,349 and \$60 for the years ended December 31, 2022 and 2021, respectively.

**NOTE 5. LAND AND IMPROVEMENTS HELD FOR DEVELOPMENT AND SALE**

In 2002, on behalf of the City, 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, now known as Buffalo Lakeside Commerce Park (BLCP). 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, the City, and the County. With additional funding from the State, BUDC purchased 130 acres of land to add to the BLCP and constructed additional roads and infrastructure. Between 2004 and 2008 there were multiple BLCP parcels sold to local businesses. In 2022 and 2021, approximately 72 and 20 acres of land, respectively were sold to local developers.

In 2018, BUDC purchased approximately 7 acres of property at 308 Crowley Street in the City of Buffalo for the purpose of remediation and redevelopment. The property includes a derelict building which underwent select demolition. One acre of land was sold in 2020, .65 acres were sold in 2021, and remaining property (5.687 acres) were sold in 2022.

**BUFFALO URBAN DEVELOPMENT CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5. LAND AND IMPROVEMENTS HELD FOR DEVELOPMENT AND SALE (CONTINUED)**

Land and improvements held for sale are recorded at net realizable value based on assessment of the fair value of each project as follows at December 31:

	<u>2022</u>	<u>2021</u>
BLCP	\$ 6,038,215	\$ 8,533,718
308 Crowley	-	71,510
Less adjustment to net realizable value (BLCP)	<u>5,250,003</u>	<u>5,241,794</u>
Total land and improvements held for development and sale	<u>\$ 788,212</u>	<u>\$ 3,363,434</u>

**NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE**

BUDC was awarded several grants between 2016-2021 from Empire State Development (ESD) for the demolition, remediation, renovation, construction and site/street improvements for various Northland properties and the Western New York Workforce Training Center project (Training Center). In 2022, BUDC was awarded two grants totaling \$14,446,429 for Phase 1 of the Build Back Better Regional Challenge and are outstanding in grants receivable from the U.S. Department of Commerce Economic Development Administration (EDA) as of December 31, 2022.

In 2019, BUDC was awarded a \$3,998,549 grant from ESD under the Restore NY Program in support of the demolition and rehabilitation at certain properties in the Northland Corridor. A \$281,250 grant was also awarded from National Grid's Brownfield Redevelopment Program in support of this work. As of December 31, 2022 \$1,660,727 is outstanding in grants receivable from ESD.

Between 2019-2022, BUDC was awarded eight grants from the Ralph C. Wilson, Jr. Foundation totaling \$52,803,200 for project coordination and advancing the transformation of Ralph C. Wilson, Jr. Centennial Park into a world-class park and recreational amenity for the City and the Western New York Region. As of December 31, 2022 \$14,876,050 is outstanding in grants receivable (\$7,740,000 - 2021).

To further support the shoreline components of the Centennial Park project, BUDC was awarded two grants totaling \$1,224,252 from the Great Lakes Commission in 2020 and 2021. In 2022, BUDC was awarded a \$300,000 grant from Community Foundation for Southeast Michigan and a \$50,000 grant from Community Foundation for Greater Buffalo. As of December 31, 2022 \$50,000 is outstanding in grants receivable (\$137,451 - 2021).

In 2022, BUDC was awarded a \$960,000 grant from the MLB-MLBPA Youth Development Foundation in support of field lighting and youth baseball fields constructions. As of December 31, 2022 \$860,000 is outstanding in grants receivable.

The following is a summary of grants receivable and unearned grant revenue at December 31,:

	<u>2022</u>	<u>2021</u>
Grants receivable:		
EDA	\$ 14,446,429	\$ -
Ralph C Wilson Jr. Foundation	14,876,050	7,740,000
ESD	1,660,727	2,033,102
MLB-MLBPA Youth Development	860,000	-
National Grid	250,000	250,000
Community Foundation	50,000	-
General Motors	40,000	-
Great Lakes Commission	-	137,451
	<u>\$ 32,183,206</u>	<u>\$ 10,160,553</u>

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6. GRANTS RECEIVABLE AND UNEARNED REVENUE (CONTINUED)**

Unearned revenue:			
Ralph C Wilson Jr. Foundation	\$	35,906,550	\$ 11,850,415
EDA		14,426,952	-
ESD		1,704,068	1,835,008
MLB-MLBPA Youth Development		960,000	-
National Grid		381,250	381,250
Community Foundation		325,000	-
Other		100,000	300,000
General Motors		40,000	-
Great Lakes Commission		-	7,000
	\$	<u>53,843,820</u>	\$ <u>14,373,673</u>

**NOTE 7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

The following is a summary of accounts payable and accrued expenses at December 31,:

	<u>2022</u>	<u>2021</u>
Accounts payable	\$ 186,573	\$ 862,805
Accrued payroll	28,017	23,615
Accrued interest	9,168	23,846
Other accrued expenses	20,364	49,100
	<u>\$ 244,122</u>	<u>\$ 969,332</u>

**NOTE 8. MASTER LEASE AGREEMENT**

Northland has a Master Lease Agreement (the Agreement) with the master tenant member to receive lease income commencing August 26, 2018, the day prior to the first date on which Phase I of the Building was placed in service for purposes of the historical tax credits, through August 31, 2038. As a lessor, the underlying building and other assets are recorded as a right to use asset and corresponding deferred lease liability in line with the lessee's books and records as of December 31, 2022. Northland utilized an interest rate of 2.05% to calculate the deferred lease liability. Additionally, the underlying assets were not derecognized and remain on the statements of net position within capital assets.

Northland recognized \$1,879,742 in lease (rent) revenue related to the Agreement for the years ended December 31, 2022 and 2021. The lease agreement includes scheduled lease (rent) increases over the term of the lease, which in accordance with U.S. GAAP, will be recognized on a straight-line basis over the term of the lease. Northland will reduce the deferred lease (rent) liability by \$1,896,446 over each of the next 5 years and through the remainder of the life of the lease agreement.

Under the Agreement, Northland receives base and prepaid lease payments. As of December 31, 2022, the Company had received \$27,397,807 in prepaid rent (\$25,528,601 – 2021). All prepaid rent payments required under the Agreement have been made as of December 31, 2022. Unamortized prepaid lease payments amounted to \$20,693,140 as of December 31, 2022 (\$20,219,190 – 2021). The unamortized lease payments related to base rent as calculated with the implementation of Statement No. 87 amount to \$7,737,832 as of December 31, 2022 and are included with unamortized prepaid lease payments in the deferred lease liability on the consolidated statements of net position.

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 8. MASTER LEASE AGREEMENT (CONTINUED)**

Future minimum rental receipts to be received under the Master Lease Agreement are contractually due as follows as of December 31, 2022:

2023	\$	492,423
2024		528,046
2025		558,098
2026		565,617
2027		580,645
Thereafter		6,309,728
	\$	<u>9,034,557</u>

**NOTE 9. NOTE PAYABLE**

In connection with the purchase of property related to BLCF, 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, 2021, the note payable amounted to \$257,381. The December 31, 2021 balance represents the remaining 19.61 acres of land at \$13,125 per acre. The note was paid in full during the year ended December 31, 2022.

**NOTE 10. LINE OF CREDIT**

BUDC entered into a revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,800,000. Borrowings are to be used to pay for specific projects that are reimbursed through grants but require the work to be completed prior to reimbursement and for general working capital purposes. Borrowed amounts on the line bear interest at an adjusted LIBOR rate per annum and are collateralized by security interest in all assets of BUDC. Interest payments are due on the first of each month. Principal is due upon demand. The line of credit had no outstanding balance at December 31, 2022 and 2021.

Northland entered into a non-revolving line of credit agreement with KeyBank on April 29, 2020 which allows for borrowings up to \$1,000,000. Agreement was amended on December 29, 2022, and allows borrowings up to \$677,158. Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors under this agreement. Borrowings are to be used to pay interest on the Bridge loans (see Note 11) while awaiting member contributions. Borrowed amounts on the line bear interest at an adjusted daily SOFR rate plus 2.4% (6.19% at December 31, 2022) per annum (previously adjusted LIBOR rate – 3.25% at December 31, 2021) and are collateralized by security interest in all assets of 683 WTC, LLC, BUDC and BBRC Land Company I, LLC. All outstanding principal and interest amounts are due upon maturity. The agreement matures on December 31, 2023. The amount outstanding on the line of credit amounted to \$677,158 at December 31, 2022 and 2021.

**NOTE 11. LOANS PAYABLE**

**Mortgage Payable**

During 2017, Northland borrowed amounts totaling \$13,730,000 related to the Northland Corridor project from BACDE NMTC Fund 16, LLC and NTCIC-NORTHLAND, LLC. Buffalo Urban Development Corporation, a related party, is a guarantor on the loan agreement. Interest accrues at the rate of 1.33776% and is due quarterly. The loans are collateralized by the building. Interest only payments from the date of the agreement, December 28, 2017 through December 31, 2024 are payable quarterly. Principal and interest are due quarterly, commencing December 31, 2024, until the maturity date of December 28, 2052. Under the loan agreements, the Company shall pay BACDE NMTC Fund 16, LLC an annual asset management fee of \$45,000 through 2025 and NTCIC-NORTHLAND, LLC an annual asset management fee of \$10,000 through 2026. Asset management fees amounted to \$55,000 for years ending December 31, 2022 and 2021.



**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11. LOANS PAYABLE (CONTINUED)**

Bridge Loans

Northland entered into two bridge loan agreements with KeyBank on December 28, 2017, in the amounts of \$20,000,000 (Loan A) and \$10,000,000 (Loan B). Buffalo Urban Development Corporation, 683 WTC, LLC, and BBRC Land Company I, LLC, related parties, are guarantors on these loan agreements. The loans are collateralized by security interest in all assets of 683 WTC, LLC, BBRC Land Company I, LLC and 683 Northland LLC, assignment of rents by the Company, and assignment of construction contracts and architect's agreements. The bridge loan agreement for Loan B matured on June 30, 2021 and was paid in full as of December 31, 2021. The bridge loan agreement for Loan A was extended through June 30, 2023. The balance outstanding at December 31, 2022 totaled \$1,001,167 (\$10,180,810 - 2021). Interest on Loan A is calculated at the adjusted daily SOFR rate plus 2.4% (6.19% at December 31, 2022). Previous to December 29, 2022, interest on Loan A was calculated at prime rate (as established by KeyBank), plus .25% with a floor of 3% (3% at December 31, 2021). Accrued interest amounted to \$9,168 as of December 31, 2022 (\$23,812 - 2021). Interest on Loan B is calculated at the prime rate (as established by KeyBank) plus .25% per annum. Management intends to repay Loan A with capital contributions from the managing member. The capital contributions from the managing member will be funded by the proceeds received in connection with the Brownfield tax credits.

Term Note

BUDC entered into a term note agreement with M&T Bank on February 28, 2019 totaling \$369,750 for the purchase of the land and building at 714 Northland. This note is interest-bearing only until maturity in March 2024. Interest on the note is calculated at one-month LIBOR plus 2.65 percentage points (6.75% at December 31, 2022).

The above debt is summarized by funding source below as follows at December 31:

	2022	2021
KeyBank	\$ 1,001,167	\$ 10,180,810
BACDE NMTC Fund 16, LLC	8,730,000	8,730,000
NTCIC-NORTHLAND, LLC	5,000,000	5,000,000
M&T Bank	369,750	369,750
	<u>\$ 15,100,917</u>	<u>\$ 24,280,560</u>

Current maturities of long term debt are as follows for the years ended December 31:

2023	\$ 1,001,167
2024	469,938
2025	404,116
2026	409,549
2027	415,056
Thereafter	12,401,091
	<u>\$ 15,100,917</u>

Interest expense for the years ending December 31, 2022 and 2021 was \$260,911 and \$450,479, respectively.

**NOTE 12. EQUITY INVESTMENT**

Equity investment represents WTC's 1% investment in 683 Northland Master Tenant, LLC (Master Tenant). WTC utilizes the historical cost method of accounting for its investment in the Master Tenant which results in the equity investment balance being comprised of WTC's original capital contribution in the Master Tenant. The investment amounted to \$178,051 at December 31, 2022 and 2021.

**NOTE 13. RESTRICTED NET POSITION**

BUDC's restricted net position consists of amounts related to the Buffalo Brownfields Redevelopment Fund in the amount of \$179,785 and \$278,701 at December 31, 2022 and 2021, respectively, and a loan fund in the amount of \$3,229,454 and \$3,345,704 at December 31, 2022 and 2021, respectively.

**NOTE 14. NOTES RECEIVABLE WTC**

BUDC and WTC have note agreements in the amount of \$25,045,279 and \$27,142,000 whereby BUDC will advance proceeds to WTC as requested. The notes carry an interest rate of one percent (1%), compounded annually and the notes are for a period of thirty years. The balance of the notes plus accrued interest is due upon maturity date at December 28, 2047 and November 24, 2050. The total outstanding balance on these notes was \$52,187,279 at December 31, 2022 and 2021. Accrued interest on the loan amounted to \$2,023,519 and \$1,501,646 at December 31, 2022 and 2021, respectively. These notes and the related interest are eliminated upon consolidation.

**NOTE 15. POLLUTION REMEDIATION**

Various pollution remediation activities will be necessary as BUDC moves into Phase 3 redevelopment at the Northland Corridor. Based on preliminary environmental studies, demolition plans, and design plans, management believes that remediation activities should total approximately \$3,000,000. Management expects that the entire cost of the remediation will be reimbursed by grants; therefore, no pollution remediation liability has been accrued in these financial statements.

**NOTE 16. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through XXXX, 2023, which is the date the financial statements are available for issuance and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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SUPPLEMENTARY INFORMATION

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**BUFFALO URBAN DEVELOPMENT CORPORATION  
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<b>Buffalo Urban Development Corporation</b>	<b>683 WTC LLC</b>	<b>683 Northland LLC</b>	
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 20,287,817	\$ 188	\$ 66,665	
Grants receivable	32,183,206	-	-	
Restricted cash	3,766,550	-	247,486	
Other current assets	8,079,053	56,530	132,359	(1)
Total current assets	<u>64,316,626</u>	<u>56,718</u>	<u>446,510</u>	
<b>Noncurrent assets:</b>				
Loans receivable	61,853,679	-	-	(1)
Equity investment	-	66,311,763	-	(1)
Capital assets, net	8,402,867	-	38,340,348	
Right to use asset	-	-	7,737,832	
Land and improvements held for sale, net	788,212	-	-	
Total noncurrent assets	<u>71,044,758</u>	<u>66,311,763</u>	<u>104,078,180</u>	
Total assets	<u>\$ 135,361,384</u>	<u>\$ 66,348,481</u>	<u>\$ 104,524,690</u>	
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	\$ 228,235	\$ 2,037,824	\$ 15,887	(1)
Unearned grant revenue	53,843,820	-	-	
Lines of credit	-	-	677,158	
Current portion of loans payable	-	-	1,001,167	
Total current liabilities	<u>54,072,055</u>	<u>2,037,824</u>	<u>1,694,212</u>	
<b>Noncurrent liabilities:</b>				
Deferred lease liability	-	-	28,430,972	
Loans payable	369,750	52,187,279	13,730,000	(1)
Total noncurrent liabilities	<u>369,750</u>	<u>52,187,279</u>	<u>42,160,972</u>	
<b>NET POSITION (DEFICIT)</b>				
Net investment in capital assets	8,821,329	-	81,609,181	
Restricted	3,409,239	-	-	
Unrestricted (deficit)	68,689,011	12,123,378	(20,939,675)	(1)
Total net position (deficit)	<u>80,919,579</u>	<u>12,123,378</u>	<u>60,669,506</u>	
Total liabilities and net position	<u>\$ 135,361,384</u>	<u>\$ 66,348,481</u>	<u>\$ 104,524,690</u>	

(1) This represents activities between the entities to be eliminated for the consolidated financial statements.

**BUFFALO URBAN DEVELOPMENT CORPORATION**  
**CONSOLIDATING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

	<u>Buffalo Urban Development Corporation</u>	<u>683 WTC LLC</u>	<u>683 Northland LLC</u>	
<b>Operating revenues:</b>				
Lease and other revenue	\$ 151,560	\$ 6,993,156	\$ 1,879,742	\$
Grant revenue	8,056,896	-	-	
Loan interest and commitment fees	618,537	-	-	(1)
Brownfield funds	36,183	-	-	
Total operating revenue	<u>8,863,176</u>	<u>6,993,156</u>	<u>1,879,742</u>	
<b>Operating expenses:</b>				
Development costs	8,148,766			
Adjustment to net realizable value	125,675			
Salaries and benefits	384,459			
General and administrative	1,298,112	2,794	216,648	
Management fee	83,967		55,000	
Depreciation	81,078		4,071,045	
Total operating expenses	<u>10,122,057</u>	<u>2,794</u>	<u>4,342,693</u>	
Operating (loss) income	(1,258,881)	6,840,362	(2,462,951)	(1)
<b>Nonoperating revenues (expenses):</b>				
(Loss) gain on disposal	(400,604)		18,051	
Interest income	118,519	136	312	
Amortization expense	-		-	
Interest expense	(16,576)	(521,873)	(244,335)	(1)
Total nonoperating expenses, net	<u>(438,661)</u>	<u>(521,737)</u>	<u>(225,972)</u>	
Change in net position	(1,697,542)	6,318,625	(2,688,923)	
Net position - beginning of year	82,647,121	5,804,753	56,217,312	(1)
Add: capital contributions	-	-	7,141,117	(1)
Net position - end of year	<u>\$ 80,919,579</u>	<u>\$ 12,123,378</u>	<u>\$ 60,669,506</u>	\$

(1) This represents activities between the entities to be eliminated for the consolidated financial statements.

**INTERNAL CONTROL AND COMPLIANCE**

**DRAFT**  
**Tentative and Preliminary**  
**For Discussion and Internal**  
**Purposes Only-Subject to Revision**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Buffalo Urban Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Buffalo Urban Development Corporation (BUDC) as of and for the year ended December 31, 2022, and the related notes to the consolidated financial statements, which collectively comprise BUDC's consolidated financial statements and have issued our report thereon dated XXXX, 2023. The financial statements of 683 Northland, LLC were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with 683 Northland, LLC.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the BUDC's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BUDC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

Buffalo, New York  
XXXXX, 2023

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**INDEPENDENT ACCOUNTANT'S REPORT**

To the Members of the Board of Directors  
Buffalo Urban Development Corp BUDC oration  
95 Perry Street, Suite 403  
Buffalo, New York 14203

We have examined the Buffalo Urban Development Corporation's (the BUDC) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") during the period January 1, 2022 to December 31, 2022. Management of the BUDC is responsible for the BUDC's compliance with the specified requirements. Our responsibility is to express an opinion on the BUDC's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the BUDC complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the BUDC complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the BUDC's compliance with specified requirements.

In our opinion, the BUDC complied, in all material respects, with the Investment Guidelines during the period January 1, 2022 to December 31, 2022.

This report is intended solely for the information and use of the Board of Directors, management and others within the BUDC and the New York State Authorities Budget Office, and is not intended to be and should not be used by anyone other than these specified parties.

Buffalo, New York  
March XX, 2023

**AUDITED  
SCHEDULE OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**

# **BUFFALO BROWNFIELDS REDEVELOPMENT FUND**

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**DECEMBER 31, 2022**

**DRAFT**  
Tentative and Preliminary  
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**BUFFALO BROWNFIELDS REDEVELOPMENT FUND  
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**DRAFT**  
**Tentative and Preliminary**  
**For Discussion and Internal**  
**Purposes Only-Subject to Revision**

**BUFFALO BROWNFIELDS REDEVELOPMENT FUND  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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**Operating revenues:**

County of Erie PILOTs by end user:

Sonwil	\$ 60,339
Cobey	12,028
Total County of Erie PILOTs	<u>72,367</u>

Total operating revenues 72,367

**Operating expenses:**

County of Erie share of PILOTs	36,183
Eligible project costs	136,615
Total operating expenses	<u>172,798</u>

Operating loss (100,431)

**Nonoperating revenues:**

Interest income 1,515

Change in net position (98,916)

**Net position - beginning** 278,701

**Net position - ending** \$ 179,785

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See accompanying note.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity:** The Buffalo Brownfields Redevelopment Fund (the Fund) was formed in July 2005 by agreement between Erie County Industrial Development Agency (ECIDA), the City of Buffalo (the City), the County of Erie (the County), and Buffalo Urban Development Corporation (BUDC) for the purpose of remediation and redevelopment of Brownfields properties in the City. Under this agreement, ECIDA receives payments in lieu of taxes (PILOTs) from property owners located within the Buffalo Lakeside Commerce Park (BLCP). These PILOT payments are the result of abated City and County property taxes, as authorized by ECIDA. A portion of these PILOT payments is paid to the City and County, while the remainder is held in the Fund to assist in further development of BLCP. After completion of BLCP, funds can be used in connection with similar projects located within the City that are undertaken by BUDC.

**Basis of Presentation:** The schedule of revenues, expenses, and changes in net position (the schedule) presents the activity of the Fund, which is accounted for and is part of BUDC's financial statements. The schedule has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America as applied to governmental units and specifically business-type activities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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**Buffalo Urban Development Corporation**

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Buffalo, New York 14203  
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fax: 716-856-6754  
web: [buffalourbandevelopment.com](http://buffalourbandevelopment.com)



**Item 6**

**MEMORANDUM**

**TO:** Audit & Finance Committee  
**FROM:** Mollie Profic, Treasurer  
**SUBJECT:** Reimbursement of Brownfield Expenses from Brownfield Fund  
**DATE:** March 9, 2023

The Buffalo Brownfields Redevelopment Fund (“BBRF” or the “Fund”) was established in 2005, and allows certain third-party expenses incurred by BUDC in connection with the development of Buffalo Lakeside Commerce Park (“BLCP”) to be reimbursed under the Fund Administration Agreement. These out-of-pocket third-party costs “include, but are not limited to, land acquisition, site investigations, site planning, remediation, road and utility construction and related legal costs”. In September 2012, the Board designated the BLCP project as complete, which allowed for the expansion of the use of BBRF funds to “other comparable projects” in the City of Buffalo. Riverbend, Northland and 308 Crowley Street were designated “comparable” projects by the Board beginning October 1, 2012, January 1, 2015 and June 26, 2018, respectively.

A cumulative summary of reimbursements from 2011 - 2021 by project is below:

<b>Project</b>	<b>Amount</b>
Buffalo Lakeside Commerce Park	\$ 1,735,223
Riverbend	128,434
Northland Corridor	2,755,018
308 Crowley	68,439
<b>Total</b>	<b>\$ 4,687,114</b>

BUDC is now requesting reimbursement of Riverbend and Northland costs incurred in 2022. 2022 costs incurred related to BLCP and 308 Crowley Street have been netted with land sale proceeds. Attachment 1 to this memorandum details the \$131,533 in eligible third-party costs that have been incurred by BUDC and which are eligible for reimbursement by the Fund. After this reimbursement, the BBRF balance will be approximately \$352,500.

**Action:**

I am requesting that the Committee recommend the approval of the reimbursement to BUDC of \$131,533 in third party Riverbend and Northland costs from the BBRF as outlined in Attachment 1 to this memorandum.

Hon. Byron W. Brown, Chairman of the Board • Dennis Penman, Vice Chairman • Brandy Merriweather, President  
Rebecca Gandour, Executive Vice President • Mollie Profic, Treasurer • Atiqa Abidi, Assistant Treasurer • Kevin J. Zanner, Secretary

**Buffalo Urban Development Corporation**  
**Summary of Costs Paid by BUDC & Reimbursable from BBRF**  
**For the Year Ended December 31, 2022**

<b>Buffalo Lakeside Commerce Park</b>	<b><u>2022</u></b>
Costs shared with BLCP Property Owners Association Members:	
<i>Landscaping</i>	\$ 24,667
<i>Legal Costs</i>	9,863
<i>Property Insurance</i>	4,089
<i>Snow removal</i>	2,078
<i>Utilities</i>	324
<i>Legal - lawsuit and property sales</i>	56,868
<i>Operations &amp; Maintenance</i>	1,690
<i>Consultants</i>	4,088
<i>Netted against proceeds from land sale</i>	<u>(103,666)</u>
	-
<b>Riverbend</b>	
<i>Taxes, Operations &amp; Maintenance</i>	132
<b>308 Crowley</b>	
<i>Legal Costs</i>	18,811
<i>Consultants</i>	500
<i>Property Insurance</i>	13,838
<i>Netted against proceeds from land sale</i>	<u>(33,149)</u>
	-
<b>Northland*</b>	
<i>Insurance</i>	65,623
<i>General Development</i>	682
<i>Operations &amp; Maintenance</i>	21,167
<i>Legal Costs</i>	37,980
<i>Snow removal</i>	39,110
<i>Landscaping</i>	14,716
<i>714 Northland costs</i>	51,972
<i>Consultants</i>	44,488
<i>Utilities (net of reimbursements from tenant)</i>	2,023
<i>Less: 612 Northland &amp; 714 Northland rents received</i>	<u>(146,360)</u>
	131,401
<b>Total</b>	<u><u>\$ 131,533</u></u>

\*Northland costs represent those costs that are not eligible or reimbursed through grant agreement(s).

# BUFFALO URBAN DEVELOPMENT CORPORATION

## INVESTMENT AND DEPOSIT POLICY

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### ARTICLE I

#### Scope

Section 2925 of the New York Public Authorities Law requires the Buffalo Urban Development Corporation (the "Corporation") to adopt by resolution comprehensive investment guidelines which detail its operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the Corporation.

This investment and deposit policy ("Investment Policy") is adopted by the Corporation pursuant to the foregoing provisions of the Public Authorities Law and shall apply to all moneys and other financial resources available for investment on the Corporation's own behalf or, when applicable, on behalf of any other entity or individual. The provisions of this Investment Policy are also consistent with the requirements of Sections 10 and 11 of the New York General Municipal Law, which the Corporation is not required to comply with, but has elected to follow as a "best practice."

This Investment Policy shall be applicable to all affiliates and subsidiaries of the Corporation, and to all other affiliates or subsidiary companies of the Corporation which may hereafter be established by the Corporation and which are determined to be subject to the requirements of Section 2925 of the Public Authorities Law (an "Affiliate"). Unless otherwise indicated, all references to the "Corporation" herein shall also include the each Affiliate.

### ARTICLE II

#### Governing Principles

##### A. Investment Objectives.

The primary objectives of the Corporation's investment policy are, in order of priority, as follows: (i) to conform with all applicable federal, state and local laws and legal requirements; (ii) to adequately safeguard principal; (iii) to provide sufficient liquidity to meet all operating requirements of the Corporation; and (iv) to obtain a reasonable rate of return.

##### B. Diversification.

The policy of the Corporation is to diversify by investment instrument, by maturity, and where practicable by financial institution.



**C. Internal Controls.**

1. All funds received by an officer or employee of the Corporation shall be promptly deposited with the depositories designated by the Corporation (pursuant to Article III.A of this Investment Policy) for the receipt of such funds.
2. The Treasurer or Assistant Treasurer of the Corporation shall maintain or cause to be maintained a proper record of all books, notes, securities or other evidence of indebtedness held by the Corporation for investment and deposit purposes. Such record shall identify the security, the fund for which it is held, the place where kept, the date of sale or other disposition, and the amount received from such sale or other disposition.
3. The Corporation is responsible for establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that deposits and investments are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and are managed in compliance with applicable laws and regulations.

**D. Authorized Financial Institutions and Dealers.**

The Corporation shall maintain a list of financial institutions and dealers approved for investment purposes and establish appropriate limits to the amount of investments that may be outstanding with each financial institution or dealer. All financial institutions with which the Corporation conducts business must be creditworthy as determined by criteria established by the Treasurer or Assistant Treasurer of the Corporation. All banks with which the Corporation does business shall provide their most recent Consolidated Report of Condition (Call Report) at the request of the Corporation. Security dealers not affiliated with a bank shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers.

**E. Purchase of Investments.**

The Corporation may contract for the purchase of investments directly, including through a repurchase agreement, from an authorized trading partner. All purchased obligations, unless registered or inscribed in the name of the Corporation, shall be purchased through, delivered to, and held in the custody of a bank or trust company. Such obligations shall be purchased, sold or presented for redemption or payment by such bank or trust company only in accordance with prior written authorization from the officer authorized to make the investment. All such transactions shall be confirmed in writing to the Corporation by the bank or trust

company and shall be held pursuant to a written custodial agreement as described in Article IV.C.2 of this Policy.

F. Repurchase Agreements.

The Corporation may enter into repurchase agreements subject to the following restrictions:

1. All repurchase agreements must be entered into subject to a Master Repurchase Agreement.
2. Trading partners are limited to commercial banks or trust companies authorized to do business in New York State and primary reporting dealers.
3. Obligations shall be limited to obligations of the United States of America and obligations guaranteed by agencies of the United States of America.
4. No substitution of securities will be allowed.
5. Obligations purchased pursuant to a repurchase agreement shall be held by a custodian other than the trading partner, pursuant to a written custodial agreement that complies the terms of Article IV.C.2 of this Policy.

**ARTICLE III**  
**Investments**

A. General Policy.

It is the general policy of the Corporation that funds not required for immediate expenditure shall be invested as described in Article III.B below. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of the principal as well as the probable income, net of fees, to be derived.

B. Permitted Investments.

The Treasurer or Assistant Treasurer is authorized to invest funds not required for immediate expenditure in the following investments, which are permitted under Section 11 of the General Municipal Law:

1. Special time deposit accounts in, or certificates of deposit issued by any commercial bank or trust company that is located in and authorized to do business in New York State, provided that such deposit account or certificate of deposit is secured in the same manner as provided in Article IV.B of this

Investment Policy and is payable within such time as the proceeds shall be needed to meet expenditures for which the funds were obtained;

2. Obligations of the United States of America;
3. Obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America;
4. Obligations of the State of New York; and
5. Such other obligations as may be permitted under Section 11 of the General Municipal Law.

All investments as provided in Sections B(2) through B(5) of this Article shall be payable or redeemable at the option of the Corporation within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable at the option of the Corporation within two years of the date of purchase, and comply with such other requirements as set forth in Section 11 of the General Municipal Law.

#### **ARTICLE IV** **Deposits**

##### **A. Designation of Depositories.**

The Corporation shall, by resolution, designate one or more commercial banks or trust companies for the deposit of Corporation funds received by the Corporation. Such resolution shall specify the maximum amount that may be kept on deposit at any time with each bank or trust company. Such designations and amounts may be changed at any time by further resolution of the Corporation.

##### **B. Collateralization of Deposits.**

All deposits of the Corporation (including certificates of deposit and special time deposits) in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured as follows:

1. By a pledge of “eligible securities” with an aggregate “market value” as defined by Section 10 of the General Municipal Law, at least equal to the aggregate amount of deposits. A list of eligible securities is attached hereto as Schedule A.

2. By a pledge of a pro rata portion of a pool of eligible securities, having in the aggregate a market value at least equal to the aggregate amount of deposits from all such officers within New York State at such bank or trust company.

3. By an irrevocable letter of credit issued by a qualified bank (other than the bank with which the money is being deposited or invested) in favor of the Corporation for a term not to exceed ninety (90) days with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured short-term debt obligations are rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization or by a bank that is in compliance with applicable minimum risk-based capital requirements.

4. By an eligible surety bond payable to the Corporation for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claimspaying ability is rated in the highest rating category by at least two nationally recognized statistical rating organizations. The terms and conditions of any eligible surety bond shall be subject to Board approval.

C. Safekeeping and Collateralization.

Eligible securities used for collateralizing deposits shall be held by the depository and/or third party bank or trust company subject to security and custodial agreements as described below.

1. Security Agreement Requirements. The security agreement shall provide that eligible securities are being pledged to secure Corporation deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events which will enable the Corporation to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the Corporation, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the depository or its custodial bank.

2. Custodial Agreement Requirements. The custodial agreement shall provide that securities held by the bank or trust company, as agent of and custodian for the Corporation, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposit or other liabilities. The custodial agreement should also describe that the custodian shall confirm the receipt, substitution or release of the securities. The custodial agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the Corporation a perfected interest in the securities and may include such other terms as the Board deems necessary.

**ARTICLE V**  
**Monitoring and Reporting Obligations**

The following monitoring and reporting procedures shall be applicable in connection with the deposit and investment of funds subject to this Investment Policy:

A. Monthly Monitoring.

Each cash and investment account statement will be reviewed and reconciled on a monthly basis. The Treasurer or Assistant Treasurer will review each account reconciliation for accuracy and will investigate any unusual items noted.

B. Monitoring and Reporting.

Pursuant to Section 2925(5) of the Public Authorities Law, the Treasurer or Assistant Treasurer of the Corporation shall present a report at each meeting of the Board of Directors which will include the following information: (i) the cash and investment balances of the Corporation; (ii) identification of any new investments since the last report; (iii) information concerning the selection of investment bankers, brokers, agents dealers or auditors since the last report; and (iv) the names of the financial institutions holding Corporation deposits.

C. Annual Monitoring and Reporting.

1. On an annual basis, the Corporation will obtain an independent audit of its financial statements, which shall include an audit of its cash and investments and the Corporation's compliance with this Investment Policy. The results of the independent audit shall be made available to the Board of Directors at the time of its annual review of this Investment Policy.

2. Pursuant to Section 2925(6) of the Public Authorities Law, staff shall, on an annual basis, prepare and submit for Board approval an investment report which shall include this Investment Policy, amendments to the Investment Policy since the last investment report, an explanation of the Investment Policy and any amendments, the results of the annual independent audit, the investment income record of the Corporation and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the Corporation since the last investment report. The investment report will be distributed to those individuals identified in Section 2925(7)(b) of the Public Authorities Law. The Corporation shall make available to the public copies of its investment report upon reasonable request therefor.

**ARTICLE VI**  
**Annual Review**

This Investment Policy shall be reviewed and approved by the Board of Directors of the Corporation on an annual basis.

**ARTICLE VII**  
**Savings Clause**

Nothing contained in Section 2925 of the Public Authorities Law shall be deemed to alter, affect the validity of, modify the terms of or impair any contract, agreement or investment of funds made or entered into by the Corporation in violation of, or without compliance with the provisions of Section 2925 of the Public Authorities Law.

**SCHEDULE A ELIGIBLE SECURITIES**

Obligations issued by the United States of America, an agency thereof or a United States government sponsored corporation or obligations fully insured or guaranteed as to the payment of principal and interest by the United States of America, an agency thereof or a United States government sponsored corporation.

Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

Obligations partially insured or guaranteed by any agency of the United States of America, at a proportion of the market value of the obligation that represents the amount of the insurance or guaranty.

Obligations issued or fully insured or guaranteed by the State of New York, obligations issued by a municipal corporation, school district or district corporation of New York State or obligations of any public benefit corporation which under a specific state statute may be accepted as security for deposit of public moneys.

Obligations issued by states (other than the State of New York) of the United States rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

Obligations of Puerto Rico rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

Obligations of counties, cities and other governmental entities of another state having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.

Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization.

Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by federal bank regulatory agencies.

Commercial paper and bankers' acceptances issued by a bank (other than the bank with which the money is being deposited or invested) rated in the highest short-term category by at least one nationally recognized statistical rating organization and having maturities of not longer than sixty days from the date they are pledged.

Zero-coupon obligations of the United States government marketed as "Treasury STRIPS."

Adopted: 4/7/2009

Re-Adopted: 4/6/2010

Re-Adopted: 3/29/2011

Re-Adopted: 3/27/2012

Re-Adopted: 3/26/2013

Re-Adopted: 3/25/2014

Amended and Adopted: 3/31/2015

Re-Adopted: 3/29/2016

Re-Adopted: 3/28/2017

Amended and Adopted: 3/27/2018

Re-adopted: 3/26/2019

Re-adopted: 3/31/2020

Re-adopted: 3/30/2021

Re-adopted: 3/29/2022

**Buffalo Urban Development Corporation**  
**Investment Report - DRAFT**  
For the year ended December 31, 2022



# **Buffalo Urban Development Corporation**

## **2022 Annual Investment Report**

### **Purpose of Report:**

Under Section 2925(6) of the Public Authorities Law, BUDC is required to annually prepare and approve an Investment Report. The Investment Report is to include: BUDC's Investment Guidelines (see below), the results of the annual independent audit (see below), a list of the total investment income received by the corporation and a list of the fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the corporation since the last investment report.

The attached schedule details the corporation's investment income and related fees for the year ended December 31, 2022 and was approved by the BUDC Board of Directors at their March 28, 2023 meeting.

### **Investment Guidelines:**

In accordance with Section 2925 of the Public Authorities Law, BUDC is required to adopt Investment Guidelines which detail its operative policy and instructions to staff regarding the investing, monitoring and reporting of funds of the Agency. In addition, BUDC has elected to follow the deposit and investment restrictions contained in Sections 10 and 11 of the General Municipal Law as a "best practice".

BUDC's Investment Guidelines were approved by the BUDC Board of Directors at their March 28, 2023 meeting and are posted on the BUDC website at <http://www.buffalourbandevelopment.com/budc-corporate-policies>. The Investment Guidelines are consistent with the Guidelines adopted on March 29, 2022.

### **Investment Audit:**

BUDC's auditors have audited the corporation's compliance with the Investment Guidelines for Public Authorities. In their report dated March XX, 2023 Freed Maxick CPAs have indicated that BUDC complied, in all material respects, with these Investment Guidelines.

# Buffalo Urban Development Corporation (BUDC) and Affiliates

## Annual Investment Report

For the year ended December 31, 2022

Account Type	Financial Institution	G/L Balance 1/1/2022	G/L Balance 12/31/2022	Interest Rate <sup>a</sup> Dec 2022	2022		Restricted	Purpose
					Investment Income	Fees		
<b>BUDC Accounts:</b>								
1 Interest Checking	KeyBank	2,568,435	20,097,419	0.61%	16,712	-		General BUDC checking account
2 Checking	KeyBank	6,100	6,100	-	-	-	√	Northland Corridor account
3 Checking	KeyBank	3,345,704	3,229,454	-	-	-	√	Downtown Loan Fund
4 Interest Checking	M&T Bank	561,316	452,106	2.00%	1,515	-	√	Restricted account for City of Buffalo rea
5 Interest Checking	KeyBank	39,709	-	0.01%	1	-	√	Imprest account for grant AC426 <sup>c</sup>
6 Interest Checking	KeyBank	119,750	184,298	0.61%	292	-		Account for 714 Northland property
7 Interest Checking	KeyBank	149,742	84,990	0.61%	115	-	√	Imprest account for ESD grant #133857
		<u>\$ 6,790,757</u>	<u>\$ 24,054,367</u>		<u>\$ 18,635</u>	<u>\$ -</u>		
<b>683 Northland LLC Accounts:</b>								
8 Interest Checking	KeyBank	123,353	66,665	0.59%	310	-		General 683 Northland checking account
9 Interest Checking	KeyBank	23,813	9,170	0.65%	2	-	√	Interest Reserve account
10 Checking	Citibank	151,000	91,000	-	-	-	√	NTCIC Reserve checking account
11 Checking	Citibank	216,178	147,316	-	-	1,014	√	BACDE Reserve checking account
		<u>\$ 514,343</u>	<u>\$ 314,150</u>		<u>\$ 312</u>	<u>\$ 1,014</u>		
<b>683 WTC, LLC Accounts:</b>								
12 Interest Checking	KeyBank	52	188	0.55%	135	-		General 683 WTC Checking account
		<u>\$ 52</u>	<u>\$ 188</u>		<u>\$ 135</u>	<u>\$ -</u>		
		<u>\$ 7,305,153</u>	<u>\$ 24,368,705</u>		<u>\$ 19,082</u>	<u>\$ 1,014</u>		

**Notes:**

All accounts are FDIC guaranteed and secured by collateral posted by the depository or its agent for balances above the FDIC limit.

<sup>a</sup> The Interest Rate is the annualized rate for the month of December 2022 and is prior to the deduction of fees (if any).

<sup>b</sup> This account is known as the Buffalo Brownfields Redevelopment Fund (BBRF) and is held by the ECIDA on behalf of BUDC.

<sup>c</sup> Account closed 2022.



## **2022 Assessment of the Effectiveness of Internal Controls**

Management of the Buffalo Urban Development Corporation (BUDC) is responsible for establishing and maintaining adequate internal controls over financial reporting. The accounting, financial reporting and cash management functions rely on a system of controls outlined in the organization's Financial Policies & Procedures documentation. Internal controls are reviewed continuously, and adjustments are made as needed. Many administrative processes (e.g. payroll, cash management) are performed by employees of the Erie County Industrial Development Agency (ECIDA) under a shared services agreement due to shared office space. ECIDA's CFO serves as BUDC's Treasurer, and ECIDA's Senior Accountant serves as BUDC's Assistant Treasurer. Examples of key internal controls are:

- **Payroll:** BUDC's payroll is processed by a third-party processor, Bene-Care Payroll, LLC. The CFO and Bookkeeper verify that payments are only made to employees that are entitled to be paid. As a service organization Bene-Care Payroll, LLC. undergoes a Service Organization Controls (SOC) audit each year. Their most recent SOC 1 audit asserts that the internal controls in place at Bene-Care Payroll, LLC are suitably designed and operating as intended to provide reasonable assurance that control objectives were achieved.
  - Risk = Low
- **Cash Disbursements:** Disbursements are made primarily by check and wire transfer. Invoices require approval by the purchaser prior to payment. As a result of the COVID-19 pandemic and the rise of remote work, email approval of invoices is also considered as an acceptable form of approval. Invoices are reviewed by the CFO prior to processing by the Bookkeeper. Two signatures are required on all checks (President, Executive VP, Treasurer or Assistant Treasurer). All wire transfers require dual approval. The CFO retrieves and reviews all bank statements and approves all bank reconciliations. Only Finance Department staff have access to online banking sites.
  - Risk = Low
- **Cash Receipts:** Checks received are logged by ECIDA's Receptionist and forwarded to the Senior Accountant. The Senior Accountant stamps checks "for deposit only", codes the checks and prepares deposits. The Bookkeeper deposits checks at the bank. The CFO reviews and initials deposit slips and deposit receipts and verifies proper account coding. The Bookkeeper records deposits in the general ledger software. Wire/ACH receipts are reviewed and coded by the CFO or Senior Accountant and are recorded in the general ledger software by the Bookkeeper.
  - Risk = Low

All computers are password protected and require multi-factor authentication to log in. General ledger software is separately password protected. Access to the general ledger software is restricted to the CFO, Senior Accountant and Bookkeeper.

BUDC is subject to an annual financial statement audit by an independent accounting firm, in accordance with Government Auditing Standards. While auditors are not engaged to perform an audit of internal controls, the auditors do review and test internal controls as part of their audit procedures. There have been no material weaknesses or significant deficiencies in internal controls nor other management letter recommendations noted by the independent auditors.

In summary, the present internal control structure appears to be sufficient to meet internal control objectives in preventing and detecting errors and irregularities.

This statement certifies that the Buffalo Urban Development Corporation followed a process that assessed and documented the adequacy of its internal control structure and policies for the year ending December 31, 2022. To the extent that deficiencies were identified, the authority has developed corrective action plans to reduce any corresponding risk.

**Buffalo Urban Development Corporation  
2022 Audit & Finance Committee Self-Evaluation**

**Responsibilities of the Audit & Finance Committee:**

The core responsibilities of the Audit & Finance Committee, as mandated under Section 2825 of the New York Public Authorities Law, are set forth in the Bylaws and include: (i) the independent auditor and annual financial statements; (ii) oversight of management’s internal controls, compliance, and risk assessment practices; (iii) special investigations and whistleblower policies; and (iv) miscellaneous issues related to the financial practices of the Corporation.

Audit & Finance Committee Self-Evaluation	Yes	No	Pen ding	Comments
1. Are the members of the Audit & Finance Committee appointed in accordance with the Bylaws and do individuals appointed to the Audit & Finance Committee possess the necessary skills to understand the duties and functions of the Audit & Finance Committee and are familiar with corporate financial and accounting practices?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
2. Is each member of the Audit & Finance Committee an “independent member” within the meaning of, and to the extent required by, Section 2825 of the New York Public Authorities Law, as amended from time to time? Did Audit & Finance Committee members, who are members of the Corporation, comply with the conflict of interest provisions applicable to public officers under Article 18 of the New York General Municipal Law?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
3. Did the Audit & Finance Committee meet a minimum of once (1) each calendar year?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The Audit & Finance Committee met on 1/13/22, 2/10/22, 6/9/22, 7/18/22, and 9/21/22.
4. Were meeting notices and agendas prepared for each meeting and provided to Audit & Finance Committee members by electronic or regular mail at least five (5) days in advance of the scheduled meeting? Were minutes of all meetings recorded by the Secretary or any Assistant Secretary of the Corporation? Did all meetings comply with the requirements of the Open Meetings Law?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Notices and agendas were provided for each meeting in advance. The meetings fully complied with the Open Meetings Law and the Secretary of the corporation recorded official minutes for all meetings.

Audit & Finance Committee Self-Evaluation	Yes	No	Pending	Comments
<p>5. Did the Audit &amp; Finance Committee develop the Corporation's audit practices, which should address independent auditors and financial statements; internal controls, compliance, and risk assessment; special investigations; and other responsibilities?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	See Questions #6-#10 below.
<p>6. Did the Audit &amp; Finance Committee:</p> <p>(a) Recommend to the Board the appointment of independent auditors, establish the compensation to be paid to the auditors, pre-approve all audit services provided by the independent auditor, and provide oversight of the audit services provided by the independent auditor?</p> <p>(b) Engage independent auditors to provide permitted audit services consistent with the procurement policy of the Corporation?</p> <p>(c) Review and approve the Corporation's audited financial statements, associated management letter, and all other auditor communications?</p> <p>(d) Review significant accounting and reporting issues and understand their impact on the financial statements of the Corporation?</p> <p>(e) Meet with the Corporation's independent auditor at least annually to discuss the financial statements of the Corporation and any issues that may have arisen during the audit?</p> <p>(f) Review and discuss any significant risks reported in the independent audit and assess the responsiveness of management's follow-up activities regarding same?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>In March 2022, Freed Maxick completed audits of BUDC and 683 Northland Master Tenant, LLC for the year ended 12/31/21. On 3/22/22, Freed Maxick presented the draft 2021 audited financial statements for both entities to members of the Audit &amp; Finance Committee (a quorum was not present). Freed Maxick issued an unmodified (clean) opinion for both audits. They also indicated that the audits did not uncover any significant weaknesses in internal control. Freed Maxick also presented the 2021 draft financial statements of the Buffalo Brownfields Redevelopment Fund. The ECIDA is the custodian for the Brownfields Fund. Accordingly, the financial statements were presented to the Committee members for informational purposes only.</p>

Audit & Finance Committee Self-Evaluation	Yes	No	Pending	Comments
<p>7. Did the Audit &amp; Finance Committee review management's assessment of the effectiveness of the Corporation's internal controls and review the actions taken by management on the independent accountants' and auditors' suggestions for correcting weaknesses in the Corporation's internal controls, regulatory compliance, and organizational structure and operations?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>Management's assessment of the effectiveness of internal controls was reviewed with the Committee members present on 3/22/22. As per the March 2022 audit reports, no significant weaknesses in internal control were noted.</p>
<p>8. Did the Audit &amp; Finance Committee:</p> <p>(a) Ensure that the Corporation has a confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest by directors, officers, or employees of the Corporation or anyone having business dealings with the Corporation?</p> <p>(b) Develop procedures for the receipt, retention, investigation, or referral of complaints concerning accounting, internal controls, and auditing?</p> <p>(c) Request and oversee special investigations as needed or refer specific issues to the Board or appropriate committee for further investigation?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>The BUDC adopted a Whistleblower Policy in March of 2012. The policy describes the process for reporting suspected fraudulent activities and describes the protections provided to individuals who report suspected fraudulent activities. No changes were recommended to this policy in 2022.</p>
<p>9. Did the Audit &amp; Finance Committee obtain information and training needed to enhance the committee members' understanding of the role of the independent auditor, the risk management process, internal controls, and appropriate level of familiarity in financial reporting standards and processes?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>In March 2022 the Audit &amp; Finance Committee was provided an article entitled, "What's on the horizon for 2022?" published by the Deloitte Center for Board Effectiveness.</p>

Audit & Finance Committee Self-Evaluation	Yes	No	Pending	Comments
<p>10. Did the Audit &amp; Finance Committee:</p> <p>(a) Report its actions and recommendations to the Board?</p> <p>(b) Report to the Board at least annually regarding any changes to the Audit &amp; Finance Committee Charter?</p> <p>(c) Provide a self-evaluation to the Board on an annual basis?</p> <p>(d) Report to the Board at least annually on the findings of its independent auditors?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>On 3/29/22, the Audit &amp; Finance Committee reported on its activities to the BUDC Board of Directors. These activities included the: (1) 2021 Audit &amp; Finance Committee self-evaluation; (2) Audit &amp; Finance Committee Charter; (3) 2021 draft financial statements audited by Freed Maxick; (4) 2021 draft financial statements for the Buffalo Brownfields Redevelopment Fund audited by Freed Maxick; (5) 2021 Property Report; (6) Investment &amp; Deposit Policy; and (7) 2021 Investment Report.</p>



Audit & Finance Committee Self-Evaluation	Yes	No	Pending	Comments
<p>11. Did the Audit &amp; Finance Committee:</p> <p>(a) Assess the financial requirements of the Corporation's capital plans including its current and future capital needs, justification of why the capital expenditures are required and a review and explanation of funding sources for its capital projects?</p> <p>(b) Review the financial aspects of the Corporation's proposed projects, major transactions, significant expenditures, new programs &amp; services, proposals to discontinue programs &amp; services and make recommendations to the Board based on such reviews?</p> <p>(c) Review and recommend changes to the Corporation's Procurement Policy, including thresholds for procuring commodities, equipment, goods or services with or without written requests for proposals?</p> <p>(d) Review proposals for financing the Corporation's capital expenditures and other business ventures and make recommendations to the Board concerning such proposals and the level and nature of the debt that may be acquired by the Corporation? In connection with these reviews, did the Committee consider information consistent with prudent borrowing practices such as the ability of the Corporation to generate cash flow to support its debt obligations and other cash flow needs?</p> <p>(e) Review the Corporation's existing loan agreements and other debt facilities and make recommendations for repayment, consolidation and refinancing?</p> <p>(f) When requested by the Board, make recommendations to the Board concerning criteria that should govern the Corporation's financing?</p> <p>(g) Review, at least annually, the Corporation's insurance policies and liability coverage and recommend any necessary changes?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>(a), (b), (d), (e) &amp; (f) The Audit &amp; Finance Committee discusses the financial requirements for all BUDC projects. BUDC staff provided updates for the BBRF, Northland, and Centennial Park funding sources during the 1/13/22, 2/10/22, 6/9/22, 7/18/22 and 9/21/22 Audit &amp; Finance Committee meetings.</p> <p>(c) BUDC's Governance Committee reviewed the Procurement Policy during its 3/8/22 meeting. No changes were necessary. The Board re-adopted the policy on 3/29/22.</p> <p>(e) The Audit &amp; Finance Committee received updates on the BBRP loan program and 683 Northland construction loan during its 1/13/22, 2/10/22, 6/9/22, 7/18/22 and 9/21/22 meetings. The reports included status reports on BBRP program updates and construction loan repayment and renewal. During an unofficial meeting on 11/10/22, Committee members present discussed extending the financing. The Board approved this extension on 11/29/22.</p>

Audit & Finance Committee Self-Evaluation	Yes	No	Pending	Comments
<p>12. Did the Audit &amp; Finance Committee:</p> <p>(a) Review the Corporation's proposed annual operating budget as presented by Corporation management for the upcoming fiscal year?</p> <p>(b) Recommend the annual budget to the Board for approval after incorporating modifications the Audit Committee deemed appropriate?</p> <p>(c) Make recommendations to the Board regarding transfers of money under the budget, if requested by the Board?</p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<p>The Audit &amp; Finance Committee reviewed the 2023 draft budget and proposed three-year forecast during its 9/22/22 meeting and recommended that the full Board approve the budget and three-year forecast.</p>

Audit & Finance Committee Self-Evaluation
<b>Other Self-Evaluation Notes</b>
<p>1) In addition to the above:</p> <ul style="list-style-type: none"> <li>• During the 1/13/22 meeting the Committee approved the renewal of a consulting agreement with the former BUDC President.</li> <li>• During the 2/10/22 meeting the Committee approved the renewal of a consulting agreement with the former BUDC Executive Vice President and reviewed the audit engagement letters.</li> <li>• During the 6/9/22 meeting the Treasurer reviewed the draft 2021 IRS Form 990/990-T with the Committee.</li> <li>• During the 7/18/22 meeting the Committee recommended the retention of Freed Maxick to provide audit and tax services for the 2022-2025 audits.</li> </ul>

# **BUFFALO URBAN DEVELOPMENT CORPORATION**

## **AMENDED AND RESTATED AUDIT AND FINANCE COMMITTEE CHARTER**

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The Board of Directors of Buffalo Urban Development Corporation (the “Corporation”) hereby adopts this Amended and Restated Audit and Finance Committee Charter (“Charter”) of the Corporation as of the Effective Date set forth herein.

### **ARTICLE I**

#### **Purpose**

The purpose of the Audit and Finance Committee (the “Audit Committee”) shall be to: (1) assure that the Corporation’s Board of Directors (the “Board”) fulfills its responsibilities for the Corporation’s internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting; (2) provide an avenue of communication between management, the independent auditors and the Board; (3) oversee the Corporation’s capital requirements and its acquisition, management and repayment of debt, and to recommend policies concerning the same; and (4) review and make recommendations regarding budgetary matters.

### **ARTICLE II**

#### **Powers**

The Audit Committee shall have the power to: (1) conduct or authorize investigations into any matters within its scope of responsibility; (2) seek any information it requires from Corporation employees, all of whom should be directed by the Board to cooperate with the Audit Committee’s requests; and (3) meet with Corporation staff, independent auditors, experts, other advisors or Corporation counsel, as the Audit Committee may deem appropriate. The Board shall ensure that the Audit Committee has sufficient resources to carry out its duties under this Charter.

### **ARTICLE III**

#### **Composition of the Audit and Finance Committee**

A. The Audit Committee shall be appointed by the Board and shall be comprised of not less than three (3) independent members, who shall constitute a majority of the Committee. In the event that the Board has less than three (3) independent members, the Board may appoint non-independent members to the Audit Committee so long as the independent members constitute a majority of the Committee. The term “independent member,” as defined in Section 2825 of the New York Public Authorities Law, shall mean a member who: (i) is not, and in the past two years has not been, employed by the Corporation or an affiliate in an executive capacity; (ii) is not, and in the past two years has not been, employed by an entity that received remuneration valued at more

than Fifteen Thousand Dollars for goods and services provided to the Corporation or received any other form of financial assistance valued at more than Fifteen Thousand Dollars from the Corporation; (iii) is not a relative of an executive officer or employee in an executive position of the Corporation or an affiliate; and (iv) is not, and in the past two years has not been, a lobbyist registered under a state or local law and paid by a client to influence the management decisions, contract awards, rate determinations or any other similar actions of the Corporation or an affiliate of the Corporation.

B. Appointees to the Audit Committee are required to possess the necessary skills to understand the duties and functions of the Audit Committee and be familiar with corporate financial and accounting practices. The Board shall designate one member of the Audit Committee to serve as Chair of the Audit Committee. Each member of the Audit Committee shall serve for a term of one (1) year and until his or her successor shall be appointed and qualified.

**ARTICLE IV**  
**Committee Meetings**

A. The Audit Committee will meet at least annually and as frequently as may be necessary or appropriate in order to fulfill the functions outlined in this Charter. The Audit Committee may invite other individuals, such as staff members, auditors or other technical experts to attend meetings and provide pertinent information, as necessary.

B. Meeting notices will be prepared for each meeting and provided to Audit Committee members by electronic or regular mail at least five (5) days in advance of the scheduled meeting. Meetings shall be held in compliance with the requirements of the Open Meetings Law. Agenda materials will be provided in advance of each meeting. A quorum of the Audit Committee shall consist of a majority of the members then serving on the Audit Committee. The affirmative vote of a majority of the members then serving on the Audit Committee shall constitute an act of the Audit Committee. Minutes of the Committee meetings shall be recorded by the Secretary or, in his or her absence, an Assistant Secretary or any other person designated as secretary of the meeting by the Chair of the Audit Committee.

**ARTICLE V**  
**Committee Responsibilities**

The Board has delegated responsibilities to the Audit Committee in furtherance of the committee's purposes. Those responsibilities include the following:

A. **Independent Auditors and Financial Statements**

The Audit Committee shall:

- (i) Recommend to the Board the appointment of independent auditors, establish the compensation to be paid to the auditors retained by the Corporation, pre-approve all audit services

provided by the independent auditor and provide oversight of the audit services provided by the independent auditor.

(ii) Engage independent auditors to provide permitted audit services, consistent with and in accordance with the procurement policy of the Corporation. The Corporation's independent auditor shall be prohibited from providing non-audit services unless having received previous written approval from the Audit Committee. Non-audit services include tasks that directly support the Corporation's operations, such as (a) bookkeeping or other services related to the accounting records or financial statements of the Corporation; (b) financial information systems design and implementation; (c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; (d) actuarial services; (e) internal audit outsourcing services; (f) management functions or human resource services; (g) broker or dealer, investment advisor, or investment banking services; and (h) legal services and expert services unrelated to the audit function.

(iii) Review and approve the Corporation's audited financial statements, associated management letter and all other auditor communications.

(iv) Review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements of the Corporation.

(v) Meet with the Corporation's independent auditor at least annually to discuss the financial statements of the Corporation, and on an as-needed basis to discuss any significant issues that may have arisen during the course of the audit.

(vi) Review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities pertaining to the same.

#### B. Internal Controls, Compliance and Risk Assessment

The Audit Committee shall review management's assessment of the effectiveness of the Corporation's internal controls and review the actions taken by management on the independent accountants' and auditors' suggestions for correcting weaknesses, if any, in the Corporation's internal controls, regulatory compliance, organizational structure and operations, and if applicable, any weaknesses noted.

#### C. Special Investigations

The Audit Committee shall:

(i) Ensure that the Corporation has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal

activity, conflicts of interest or abuse by the directors, officers or employees of the Corporation or any persons having business dealings with the Corporation or breaches of internal control.

(ii) Develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing.

(iii) Request and oversee special investigations as needed and/or refer specific issues to the Board or appropriate committee of the Board for further investigation.

D. Annual Budget

The Audit Committee shall:

(i) Review the Corporation's proposed annual operating budget as presented by Corporation management for the upcoming fiscal year.

(ii) Recommend the annual budget to the Board for approval after incorporating any modifications the Audit Committee deems appropriate.

(iii) Make recommendations to the Board regarding transfers of money under the budget, if requested by the Board.

E. Capitalization, Financial and Procurement Requirements

The Audit Committee shall:

(i) Assess the financial requirements of the Corporation's capital plans. The assessment is to include current and future capital needs, a justification of why such capital expenditures are required and a review and explanation of funding sources for capital projects such as grants, bank loans and existing cash reserves.

(ii) Review the financial aspects of the Corporation's proposed projects, major transactions, significant expenditures, new programs and services, as well as proposals to discontinue programs and services, and make recommendations to the Board based on such reviews.

(iii) Review and recommend changes to the Corporation's procurement policy, including thresholds for procuring commodities, equipment, goods or services with or without written requests for proposals.

(iv) Review proposals for financing the Corporation's capital expenditures and other business ventures, and make recommendations to the Board concerning such proposals and the level and nature of debt that may be acquired by the Corporation. In connection with such

reviews, the Audit Committee shall consider such information as it determines to be consistent with prudent borrowing practices, including, without limitation, the ability of the Corporation to generate cash flow to support its debt obligations and other cash flow needs.

(v) Review the Corporation's existing loan agreements and other debt facilities, and make recommendations for repayment, consolidation and refinancing, if appropriate.

(vi) When requested by the Board, make recommendations to the Board concerning criteria that should govern the Corporation's financings.

(vii) Review, at least annually, the Corporation's insurance policies and liability coverage, and make recommendations regarding changes to each, if appropriate.

F. Other Responsibilities

The Audit Committee shall:

(i) Obtain information and training needed to enhance the Audit Committee members' understanding of the role of the independent auditor, the risk management process, internal controls, budgeting, capitalization requirements, debt acquisition and an appropriate level of familiarity in financial reporting standards and processes.

(ii) Review this Charter annually, reassess its adequacy and recommend to the Board any proposed changes. This Charter shall be updated as applicable laws, regulations, accounting and auditing standards change.

(iii) Conduct an annual self-evaluation of its performance, including the effectiveness of the Committee, its compliance with this Charter, and how it has discharged its duties and met its responsibilities as outlined herein.

**ARTICLE VI**  
**Committee Reports**

The Audit Committee shall:

A. Report its actions and recommendations to the Board at each regular meeting of the Board following a meeting of the Audit Committee and when otherwise requested by the Board.

B. At the Board's request, report to the Board regarding the status of and the Audit Committee's recommendations for the Corporation's proposed and existing borrowing arrangements and other debt facilities.

C. Report to the Board on a periodic basis, at least annually, the findings of its independent auditors. These reports shall include careful consideration of the actions taken by management on the independent auditors' suggestions for correcting weaknesses, if any, in the Corporation's internal controls, regulatory compliance, organizational structure and operations. These reports may include the adequacy of the audit effort by the Corporation's independent auditors, the financial and regulatory compliance reporting decisions of management, the adequacy of disclosure of information essential to a fair presentation of the financial affairs and regulatory compliance efforts of the Corporation, and the organization and quality of the Corporation's system of management and internal accounting controls.

D. Report to the Board, at least annually, regarding any proposed changes to this Charter.

## **ARTICLE VII**

### **Amendments**

This Charter shall be effective upon the affirmative vote of the Board of Directors of the Corporation and may be amended upon affirmative vote of a majority of the Board of Directors of the Corporation.

Effective Date: April 7, 2009

Amended: March 2, 2010

Re-adopted: March 26, 2013

Re-adopted: March 14, 2014

Re-adopted: March 31, 2015

Re-adopted: March 29, 2016

Re-adopted: March 28, 2017

Amended and Restated: July 25, 2017 (Board of Directors)

Reviewed: March 15, 2018 (Audit & Finance Committee of the Board of Directors)

Reviewed: March 14, 2019 (Audit & Finance Committee of the Board of Directors)

Reviewed: March 19, 2020 (Audit & Finance Committee of the Board of Directors)

Reviewed: March 22, 2021 (Audit & Finance Committee of the Board of Directors)

Reviewed: March 29, 2022 (Audit & Finance Committee of the Board of Directors)





## Center for Board Effectiveness

# On the audit committee's agenda 2023: The year of the risk-centric agenda

### The audit committee's role in risk oversight

Predicting the future is difficult, particularly in times of change and uncertainty. However, it seems safe to predict that the 2023 agendas of many audit committees will be risk-centric.

Of course, risk oversight is among the most important—if not **the** most important—of the audit committee's responsibilities. While the audit committee is not responsible for overseeing all of a company's risks, it is often responsible for oversight of the company's risk oversight policies and processes, principally the enterprise risk program. This program, which management leads, entails identifying key risks across the organization, from financial risks to workforce risks and from risks due to raw material shortages to risks arising from natural disasters and other crises. In other words, except in cases where a company has a risk committee,<sup>1</sup> the audit committee oversees the process of evaluating and managing risks that could pose a threat to the company's viability and success.

According to the latest *Audit Committee Practices Report* published by Deloitte and the Center for Audit Quality, 43% of the total respondents surveyed said that the audit committee has primary oversight responsibility for enterprise risk management.

However, the audit committee's responsibility for risk oversight goes beyond understanding and advising with regard to the creation and implementation of a sound enterprise risk program. The committee is charged with understanding and advising on how management continuously identifies, monitors, and assesses risks and ensuring that material risks are allocated to the full board or the appropriate committee. And the audit committee is itself responsible for overseeing key areas of risk, such as risks that impact financial reporting and disclosure, including internal controls and fraud. ➤

1. The Sarbanes-Oxley Act of 2002 mandated the formation of risk committees at certain large financial institutions. However, risk committees have not become prevalent in other companies. According to the 2022 U.S. Spencer Stuart Board Index, only 12% of the S&P 500 had such committees.



## Financial reporting and disclosure<sup>2</sup>

As noted above, disclosure is one of the risk areas for which the audit committee has primary responsibility. This responsibility stems from a number of legal requirements; for example, the U.S. Securities and Exchange Commission (SEC) rules require disclosure as to whether the audit committee recommends to the full board the inclusion of a company's financial statements in its annual report on Form 10-K. Another example is the Sarbanes-Oxley Act and related SEC rules, which give the audit committee sole responsibility for hiring, monitoring, compensating, and (where appropriate) firing the independent auditors. The audit committee also has oversight responsibility for the internal audit function. Flowing from these requirements and practices, the audit committee is the repository of the most knowledge of and familiarity with disclosure requirements, including concepts such as materiality.

These and other areas relating to disclosure are likely to be in the spotlight in 2023, in part because of ongoing enforcement efforts by the SEC and other government agencies, investor and media scrutiny, and other factors, including historical evidence that recessionary economies and market volatility tend to increase levels of fraud. In fact, in November 2022, the SEC's acting chief accountant stated that "[t]he current economic environment is subject to significant uncertainties and, historically, that oftentimes leads to heightened fraud risk."<sup>3</sup> In an earlier speech, he also said that "auditors ... have a responsibility to consider fraud and to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error."<sup>4</sup> Other economic factors that could result in enhanced SEC scrutiny include inflation and fluctuations in foreign exchange rates.

The anticipated focus on disclosure in 2023 is also likely to be affected by new rules that may be adopted by the SEC. Under the leadership of Chair Gensler, the SEC has proposed a number of rules that will, if adopted, expand disclosures in areas such as cybersecurity and climate change. And the SEC is widely expected to propose rules calling for added disclosure in several areas, including human capital, emerging technologies, and cryptocurrencies, among others.

In short, disclosure and financial reporting are likely to be priority items on the 2023 agendas of many audit committees. ➔

## Areas of risk oversight in 2023

For many, the number and severity of risks seem to increase daily, suggesting that in 2023 the audit committee will increasingly need to focus on its risk oversight responsibilities. A complete list of the risks to be overseen in 2023 might be very lengthy, but a survey reported in the *Audit Committee Practices Report* suggests that the following areas are most likely to be the subjects of audit committee risk oversight in 2023: disclosure, including financial reporting, internal controls, and fraud; cybersecurity; effectiveness of the enterprise risk management program; environmental, social, and governance (ESG) reporting and disclosure; inflation; and digital transformation. We address some of these, as well as other risks, below.



2. The survey sought information regarding risks other than those associated with financial reporting and internal controls.  
 3. Jean Eaglesham, "SEC accountant warns of heightened fraud risk amid recession fears, market selloff," Wall Street Journal, November 3, 2022.  
 4. Paul Munter, "The auditor's responsibility for fraud detection," US Securities and Exchange Commission, October 11, 2022.

## Enterprise risk management

Oversight of enterprise risk management (ERM)—the processes used to identify, monitor, and assess risks—has been on the audit committee's agenda for many years. However, this oversight role may require extra vigilance in 2023, as the pace of change and the challenges faced by companies seem to increase daily. A key component of this oversight is the receipt and review by the committee of a dashboard showing material risks and the degree of risk associated with each (e.g., red, yellow, and green), as well as which risks are trending up and down. In addition, the committee should consider new and emerging risks that have been added to the dashboard or that may be added in the future.

Aside from general oversight, the audit committee needs to assess whether the ERM process is evolving to meet the challenges of the day. An ERM program that has worked well for several years may generate complacency or may fail to identify new risks or to sense emerging risks, both internal and external, or their potential impact on the company. Accordingly, the committee may need to reevaluate the efficacy of the program or some of its components. The committee may also need to consider whether employee departures or other developments have impaired the resources needed to properly execute the ERM program.



## Environmental and climate change

While audit committees may not have primary responsibility for overseeing risks associated with climate change and other environmental matters—the *Audit Committee Practices Report* indicates that only 34% of the companies surveyed allocate this responsibility to their audit committees—they have significant responsibility for evaluating disclosures and controls relating to ESG issues. The nature and extent of environmental and climate change disclosures may depend upon the proposed rules on the topic in 2022. However, companies have already begun to provide extensive disclosures on their environmental activities, the risks they face from climate change, and a host of related matters, and it seems likely that even if the SEC rules are not adopted as proposed or at all, companies will provide expanded disclosure on the subject. Particularly, the new [European Union \(EU\) rules](#) will require ESG reporting on a broader set of ESG topics than those required under current and proposed SEC rules and will scope in certain companies that previously were not subject to mandatory nonfinancial reporting requirements, including public and private non-EU companies that meet certain EU-presence thresholds. Given the audit committee's key role in disclosure oversight, discussed above, any increase in environmental and climate change disclosures (or even broader ESG disclosed metrics) will add to the audit committee's responsibilities. According to the *Audit Committee Practices Report*, only 6% of the respondents said that audit committees are responsible for the oversight of ESG strategy, including climate and carbon commitments. However, regardless of whether audit committees take on a larger role in these areas, they will be responsible for determining whether their companies' internal and disclosure controls are adequate to address the matters in question.

Even in the absence of increased requirements, the SEC has commented on some companies' disclosures of environmental and climate change matters. For example, a number of companies that publish ESG or sustainability reports that are not filed with the SEC have received comments asking why disclosures in such reports differ from those in the companies' SEC filings. ➔

## Cybersecurity and other technology matters

Cybersecurity has been at the top of many audit committees' lists of key risks for several years and shows no signs of going away or becoming less significant. In fact, the *Audit Committee Practices Report* suggests that cybersecurity will be an increasingly important area of focus for audit committees in the future. Moreover, the report indicates that a majority of the companies surveyed allocate oversight responsibility for cybersecurity to their audit committees. Cybersecurity risk is also likely to loom large in 2023 due to the expected adoption of final SEC rules requiring extensive disclosure on the topic, including whether any member of the board of directors has cybersecurity expertise. Given the prominent role that many audit committees have in cybersecurity risk oversight, the adoption of the latter requirement may impact audit committee succession planning in 2023 and beyond.

Cybersecurity risks are not the only technology-driven risks that may call for greater audit committee oversight in 2023. As the use of artificial intelligence grows—and, with it, concerns about data privacy, ethical implications of artificial intelligence, and other matters—audit committees will be expected to address associated risks, in some cases including areas for which the audit committee may have primary responsibility.

Additional risks associated with technology include the possibility that a line of business—possibly the principal line of business in which the company engages—will be subject to disruption by a new technology and risks that can result from unethical practices in the use of artificial intelligence.

Another area of audit committee involvement with environmental and climate change matters relates to the inclusion of quantitative environmental or climate change metrics in companies' executive compensation plans. While these plans are largely within the jurisdiction of the compensation committee, the audit committee may have a role to play in determining which metrics to use, whether and how achievement of the metrics and the precise impact on compensation can be measured, and the disclosures on these areas. Moreover, to the extent that companies provide third-party assurance as to the computation of the metrics and the impact on compensation, the audit committee is likely to have a role in determining the type of assurance that can be provided as well as who should provide it. Such assurance can provide positive signals to investors and others regarding the quality and reliability of disclosures, and audit committees will have a key role in overseeing assurance engagements.

## Wrapping it all up

Of course, the foregoing is a summary of just some of the risk areas that audit committees will likely oversee in 2023. There are many other risk areas, including human capital, geopolitical instability, and energy price volatility, to name just a few, that will almost certainly call for audit committee oversight in the coming year. It is also likely if not certain that new risks will emerge as the year progresses. To the extent that the audit committee's responsibilities are so broad and that boards and management alike tend to assign new and emerging areas of risk to the audit committee, it is not surprising that the committee has sometimes been referred to as the "kitchen sink" committee. However, given the importance of its responsibilities with regard to risk oversight—among many other areas—that nickname should be regarded as a badge of honor. In any case, audit committees will continue to have vast responsibilities in 2023 and beyond.

## Post-pandemic challenges: Supply chain disruption, workforce shortages, and inflationary pressure

Effects of the economic and other challenges resulting from the pandemic continue to roil companies and their operations. Disruptions in global supply chains continue to plague industries from manufacturing to consumer goods to health care. The audit committee will need to exercise oversight with regard to how management is addressing the risks associated with supply chain disruptions and how the company satisfies the needs of a wide variety of stakeholders despite the inability to provide products or services in a timely manner.

Companies in a wide range of industries, regardless of size or other characteristics, are experiencing workforce shortages, whether due to historically low rates of unemployment, the so-called "great resignation," or other factors. As with supply chain challenges, audit committees will need to stay on top of how their companies are dealing with such shortages, the extent to which critical functions may not be adequately addressed, and/or how the company is seeking to alleviate workforce shortages or the problems they create, particularly as these shortages impact the finance and audit functions.

For many companies and their employees, the word "inflation" was meaningless, as global inflationary pressures have not been felt for many years. Depending upon the industry, the geographic locations of operations, and other factors, the impact of inflation may have different effects; however, most if not all companies must deal with it in one way or another, and the audit committee will be particularly sensitive to the impact of inflation on financial performance and related disclosures. A related concern, referred to above, is that incidents of accounting fraud tend to increase during times of economic volatility and uncertainty, and audit committees therefore need to be sensitive to that risk, as well.



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## About the Center for Board Effectiveness

Deloitte's Center for Board Effectiveness helps directors deliver value to the organizations they serve through a portfolio of high quality, innovative experiences throughout their tenure as board members. Whether an individual is aspiring to board participation or has extensive board experience, the Center's programs enable them to contribute effectively and provide focus in the areas of governance and audit, strategy, risk, innovation, compensation, and succession. For more information, contact us at [centerforboardeffectiveness@deloitte.com](mailto:centerforboardeffectiveness@deloitte.com).

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**Buffalo Urban Development Corporation**  
**Property Report**  
**Year Ended: December 31, 2022**

Table 1. This is a listing of all real property owned by BUDC, or through its affiliates or subsidiaries, at December 31, 2022

<b>BUDC Facility</b>	<b>Address or SBL of Property</b>	<b>Full Description of Property</b>	<b>Estimated FMV of Property</b>	<b>Note: The FMV is estimated using an average per acre value based on a sampling of non-current appraisals. Negotiated "final sale" value may vary.</b>
<b>Buffalo Lakeside Commerce Park</b>	80 Ship Canal Parkway	2.01 acres of vacant land	\$ 70,350	
	134 Ship Canal Parkway	2.15 acres of vacant land	\$ 75,250	
	158 Ship Canal Parkway	2.15 acres of vacant land	\$ 75,250	
	193 Ship Canal Parkway	9.59 acres of vacant land	\$ 335,650	
	200 Ship Canal Parkway	5.86 acres of vacant land	\$ 205,100	
	280 Ship Canal Parkway	0.42 acre of vacant land	\$ 14,700	
<b>Northland Corridor</b>	537 East Delavan Avenue	10.52 acres of land (60K s.f. vacant, 19K s.f. occupied)	\$ 900,000	
	577 Northland Avenue	29,000 s.f. of greenspace	\$ 29,000	
	631 Northland Avenue	2.63 acres of land w/ a 40,000 s.f. vacant building	\$ 400,000	
	644 Northland Avenue	11,000 s.f. of land w/ 4,000 s.f. building	\$ 32,000	
	655 Northland Avenue	1.28 acres of parking and greenspace	\$ -	
	664 Northland Avenue	12,000 s.f. of parking	\$ 50,000	
	699 Northland Avenue	3,225 s.f. of vacant land	\$ 3,225	
	683 Northland Avenue	7.27 acres of land w/ 235,000 s.f. of occupied buildings	\$ 14,000,000	
	688 Northland Avenue	12,000 s.f. of parking	\$ 50,000	
	714 Northland Avenue	1.81 acres of land w/ an 18,000 s.f. occupied building	\$ 435,000	
	741 Northland Avenue	4.665 acres of land w/ a 92,000 s.f. derelict building	\$ 550,000	
	767 Northland Avenue	7,998 s.f. of vacant land	\$ 8,000	
	777 Northland Avenue	4.14 acres of land w/ a 81,000 s.f. derelict building	\$ 50,000	
	126 Dutton Avenue	7,800 s.f. of vacant land	\$ 7,800	
	TBD Dutton Avenue	351 acres of vacant land	\$ 15,000	
	162 Winchester Street	3,940 s.f. of vacant land	\$ 4,000	
	164 Winchester Street	3,940 s.f. of vacant land	\$ 4,000	
	168 Winchester Street	3,940 s.f. of vacant land	\$ 4,000	
	572 Northland Avenue	4,560 s.f. of vacant land	\$ 5,000	
	574 Northland Avenue	7,260 s.f. of vacant land	\$ 7,000	
	1669 Fillmore Avenue	6,144 s.f. of vacant land	\$ 6,000	
	1675 Fillmore Avenue	7,680 s.f. of vacant land	\$ 8,000	
	1679 Fillmore Avenue	9,457 s.f. of vacant land	\$ 2,800	
	1681 Fillmore Avenue	28,564 s.f. of vacant land	\$ 29,000	
<b>Other</b>	1322 South Park Avenue	2,860 s.f. of vacant land	\$ 9,000	
<b>Not Marketed, Buffalo</b>				

Table 2. The following is a listing of personal property (with a fair market value ("FMV") in excess of \$5,000) and all real property that was disposed of during 2022.

<b>Address and Location of Property</b>	<b>Full Description of Property</b>	<b>Estimated FMV of Property</b>	<b>Name &amp; Address of Purchaser</b>	<b>Date of Sale</b>	<b>\$ Received by BUDC Related Entity (Morbell, LLC &amp; King Crow, LLC)</b>
308 Crowley Avenue	5,585 acres of land w/ a 262,374 s.f. derelict building	\$ 118,000	James King Sawing Machine LLC 653 New York Avenue NW Ste. 600 Washington, DC 20001	06/01/22	\$ 120,000
310 Ship Canal Parkway	10.84 acres of vacant land (5.33 Useable)	\$ 241,650	Labrona Way, LLC 700 Second Street Encinitas, CA 92024	08/16/22	-
24 Laborer's Way	5.40 acres of vacant land	\$ 189,000	Labrona Way, LLC 700 Second Street Encinitas, CA 92025	08/16/22	-
70 Laborer's Way	18.11 acres of vacant land (10.17 Useable)	\$ 435,350	Labrona Way, LLC 700 Second Street Encinitas, CA 92024	08/16/22	-
126 Laborer's Way	18.08 acres of vacant land (6.00 Useable)	\$ 350,800	Labrona Way, LLC 700 Second Street Encinitas, CA 92027	08/16/22	-
15 Laborer's Way	4.92 acres of vacant land	\$ 172,200	Labrona Way, LLC 700 Second Street Encinitas, CA 92028	08/16/22	-
51 Laborer's Way	5.32 acres of vacant land	\$ 186,200	Labrona Way, LLC 700 Second Street Encinitas, CA 92029	08/16/22	-
87 Laborer's Way	4.67 acres of vacant land	\$ 163,450	Labrona Way, LLC 700 Second Street Encinitas, CA 92030	08/16/22	-
125 Laborer's Way	5.47 acres of vacant land	\$ 191,450	Labrona Way, LLC 700 Second Street Encinitas, CA 92031	08/16/22	\$ 1,997,500 (for all properties)

Table 3. The following is a listing of all real property that was acquired during 2022.

<b>Address and Location of Property</b>	<b>Full Description of Property</b>	<b>Estimated FMV of Property</b>	<b>Name &amp; Address of Seller</b>	<b>Date of Purchase</b>	<b>\$ Paid by BUDC Related Entity (Morbell, LLC)</b>
None					