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Certified Public Accountants

March 20, 2017

To the Board of Directors of the Buffalo
Erie Niagara Land Improvement Corporation:

In planning and performing our audits of the financial statements of the Buffalo Erie Niagara Land Improvement Corporation (the "Corporation") as of and for the years ended December 31, 2016 and 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We communicated a material weakness identified during our audit in a separate communication dated March 20, 2017.

Additionally, during our audit we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated March 20, 2017 on the financial statements of the Corporation. Our comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized in Exhibit I.

This communication is intended solely for the information and use of management and those charged with governance and is not intended to be, and should not be, used by anyone other than these specified parties.

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Net Asset Surplus Policy

Net assets, also referred to as equity, provides the Corporation with the ability to respond to unexpected issues. Net assets provide the necessary resources to respond to unexpected issues – emergency repair expenses, unanticipated improvements, revenue shortfalls, etc. Equity also provides for cash flow between revenues. Grant revenue is generally received on a quarterly basis based upon estimated expenses, and there may also be a lag between property sales due to volatility in real estate markets. During our audit we found that the Corporation does not regularly estimate future expected cash flows.

The adequacy of the Corporation's net assets and cash flows should be assessed based upon the Corporation's own specific circumstances. Risk factors such as the predictability of future revenues, the volatility of expenses, exposure to significant one-time outlays (disasters, immediate capital needs), legal claims and liquidity concerns need to be considered when developing such a policy.

As noted above, calculating a reserve requires considerations of the Corporation's risk factors. Therefore, it is necessary to estimate highly uncertain events like natural disasters and economic downturns. To develop an adequate response the Corporation may consider the following guidance:

- **Accept.** First, the Corporation must accept that we are subject to uncertainty, including events that they haven't even imagined.
- **Assess.** Next, the Corporation must assess the potential impact of uncertainty. Historical reference cases are a useful baseline.
- **Augment.** The range of uncertainty the Corporation really faces will almost always be greater than they assess it to be, so they should augment that range. Historical reference cases provide a baseline, but that baseline may not be adequate to account for all future possibilities.

We recommend that the Corporation formally assess its financial risks and cash flow needs, analyze and quantify those risks and needs, and incorporate its findings into a formal policy outlining the level of unrestricted net assets to be maintained, as well as any planned use. The policy should include a minimal level of unrestricted net assets that the Corporation maintains in order to cover operating expenses and respond to unexpected issues. Additionally, policies and procedures for restricting and/or authorizing the use of net assets should be in place. Considering the uncertainty of the future grants offered to land banks, we recommend that the Corporation implement cash flows monitoring procedures. In the event analyzed future estimated expenses exceeded expected revenues, the Corporation could utilize cash flows monitoring to determine if there is any need for short-term borrowing.

Remittance of Back Taxes

The Corporation does not have a policy in place with regards to the remittance of back taxes due to a municipality following the sale of a property. It was observed that certain amounts due to municipalities were repaid in excess of one year from the date of sale.

We recommend that the Corporation update their accounting policies and procedures manual related to property sales. The policy should identify an appropriate timeline to process the amounts due to municipalities upon the sale of a property.

Accounting Policies and Procedures

Similar to the prior year, the Corporation does not have a complete accounting policies and procedures manual in place.

The Corporation has initiated documenting accounting policies and procedures; however, not all relevant policies and procedures are included. We recommend that the Corporation continue populating their accounting policies and procedures manual to inform all employees of operating procedures and policies. The manual should include an organization chart, job descriptions, description of accounting procedures and principles to be followed, and a chart of accounts. Additionally, the manual should include examples of standard and non-standard journal entries with a brief narrative for each type of non-standard journal entry (property acquisition, property improvement, property sale, etc.). The manual should include the Corporation's policies and procedures for year-end accruals and procedures for transactions that have a period of service spanning multiple fiscal years (e.g. excess liability insurance).