

INVESTMENT REPORT – FISCAL YEAR 2007

Section 2925 of the New York State Public Authorities Law requires State Authorities to “annually prepare and approve an investment report which shall include the investment guidelines, as specified in subdivision three of this section, amendments to the guidelines since the last investment report, an explanation of the investment guidelines and amendments, the result of the annual independent audit, the investment income record of the corporation, a list of 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.”

Explanation of the Investment Guidelines

There were no amendments to the Guidelines during fiscal year 2006, which were reviewed and reaffirmed at the BFSA board meeting held on June 5, 2007. BFSA Investment Guidelines in effect as of June 30, 2007 reflect the principles and precepts of investment safety and control contained in the BFSA Act Article 3854 (11) as well as the Office of the State Comptroller’s “Investment Guidelines for Public Authorities” as revised on January 2, 1998. The BFSA Guidelines set forth the Authority’s policy and objectives regarding the investment of Authority funds, in accordance with the BFSA statute and the bond indenture executed by BFSA and its Trustee for debt issuances, the Bank of New York.

The investment objectives of the Authority are set in the guidelines as follows:

“The Authority investment activities shall have as their first and foremost objective the safeguarding of the principal amount of the investment funds. Additional considerations regarding the Authority’s investment activities shall be liquidity of investments, realization of a reasonable return on investments and diversification of investments”

Investment Activity

BFSA received or accrued a total \$1,006,595 in interest on investments during the fiscal year ended June 30, 2007 excluding interest earned on City of Buffalo mirror bonds. Additionally the Authority received or accrued \$264,514 in earnings on funds that it invests on behalf of the City of Buffalo.

Market value of investments on hand at June 30, 2007 totaled \$55,020,720 all of which matured within 90 days.

In the year ended June 30, 2007 BFSA had three principal types of investment accounts: 1) accounts held by the Bank of New York, Trustee under the Authority’s Bond Indenture, which contained debt service set asides (a. BFSA funds of 1/6 of interest and 1/12 of principal two months in advance of bond maturities; b. intercepted State Aid in June for payment of cash flow borrowing in August, 2) BFSA operating

accounts at HSBC and 3) accounts for funds BFSA invests at the request of the City of Buffalo at Bank of New York and HSBC Bank.

The BFSA Trust Indenture requires the Authority to retain out of the first payment of sales taxes each month an amount equal to 1/6 of the next interest payment and 1/12 of the next principal payment. The full amount of the next payment must be fully funded two months in advance of the maturity. These set asides are deposited into each bond account upon receipt of the funds (usually the 6th or 7th of each month) and invested primarily in A1/P1 commercial paper until the 15th of the same month. After a bidding process, the Authority has entered into various Forward Delivery Agreements for delivery of securities against the cash set asides. These agreements are structured to yield investment earnings within the parameters of the yield restrictions imposed by the federal government's requirements for tax-exempt bonds. In order to avoid potential yield problems, some set asides are invested in 0% SLGS. All securities mature before or on the next required payment date, so the longest maturity possible (although not common) is approximately 13 months. All transactions take place within the trustee accounts.

Interest earned in the year ended June 30, 2006 from these accounts was as follows:

Type of Account	Total Interest Earnings
Bond related, held by Trustee	\$ 231,516
BFSA Operating funds and BAN related	<u>\$ 775,079</u>
Subtotal	\$ 1,006,595
 City of Buffalo funds	 <u>\$ 264,514</u>
 Total earnings (cash and accrued)	 \$ 1,271,109

As of June 30, 2007 the Authority held cash and collateralized Certificates of Deposit, Treasury Bills, Treasury SLGS, Federal National Mortgage Association Discount Notes, Federal Home Loan Mortgage Corporation Discount Notes and commercial paper of the General Electric Credit Corporation and Citigroup Funding Corporation.

All bank deposits of Authority funds are required to be fully collateralized. All securities are held in either the trustee accounts or in a custodial account.

Fees

During the 2007 fiscal year BFSA issued a request for proposals for a forward delivery agreement covering the 2007A bond issue. Fees to the Authority's financial advisor and general counsel, for assistance in the structuring, documentation and bidding out of the agreement, were paid by the winning provider, as specified in the RFP. Total fees paid for the transaction were \$30,000.

BFSA pays its Trustee an annual fee of \$2,250 for each bond transaction covering all trustee services, including the operational aspects of the investments in each bond account.

The cost of operating funds bank accounts are covered through compensating balances.

Independent Audit

Attached