

## **INVESTMENT REPORT – FISCAL YEAR 2008**

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 2008 and the Guidelines were reaffirmed by Resolution #08-35 at the Board Meeting held August 20, 2008. BFSA Investment Guidelines in effect as of June 30, 2008 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 \$941,726 in interest on investments during the fiscal year ended June 30, 2008. BFSA also earned \$43,524 on investments of funds held for the City of Buffalo.

Market value of investments on hand at June 30, 2008 totaled \$29,786,489 all maturing within 90 days.

In the year ended June 30, 2008 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 funds accounts and 3) an account for restricted AIM funds which BFSA holds pending the City of Buffalo indication of the intended use for the funds. Funds in 2) and 3) are

held by the Bank of New York in a custodial account or at HSBC in BFSA owned accounts. For a few months of the fiscal year BFSA also had funds owned by the City which were being held at the City's request and disbursed to the City on a monthly basis.

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 6<sup>th</sup> or 7<sup>th</sup> of each month) and invested in A1/P1 commercial paper until the 15<sup>th</sup> 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, 2008 from these accounts was as follows:

<b>Type of Account</b>	<b>Total Interest Earnings</b>
Bond and Note related, held by Trustee	\$ 572,927
Earnings on restricted AIM funds and other BFSA funds	<u>\$ 368,799</u>
<b>Subtotal</b>	<b>\$ 941,726</b>
Funds held for the City of Buffalo	<u>\$ 43,524</u>
<b>Total earnings (cash and accrued)</b>	<b>\$ 985,250</b>

As of June 30, 2008 the Authority held the following investments at market value:

\$ 4,011,818 Federal Home Loan Mtg Corp.  
 \$19,905,902 Federal National Mtg Association  
 \$ 194,669 Federal Home Loan Banks  
 \$ 140,646 US Treasury Bills  
 \$ 2,658,954 US Treasury SLGS  
 \$ 2,874,500 HSBC CDs

All bank deposits of Authority funds are required to be fully collateralized. Collateral is held by a custodian in the Authority's account and consisted of US Government and agency obligations.

## **Fees**

No fees were paid in connection with the investment portfolio during the fiscal year.

BFSA pays its Trustee an annual fee of \$2,000 for each bond transaction covering all trustee services, including the operational aspects of the investments in each bond account. Trustee also charges \$250 dissemination fee and \$1,600 in custodial fee per year.

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

### **Independent Audit**

Attached