

BUFFALO FISCAL STABILITY AUTHORITY
Audit, Finance & Budget Committee Meeting Minutes
September 29, 2010

The following are the minutes from the meeting of the Audit, Finance & Budget Committee (the "Committee") of the Buffalo Fiscal Stability Authority (the "BFSA") held on Wednesday, September 29, 2010, in the Buffalo and Erie County Central Public Library Auditorium. The meeting was called to order at 12:34 PM.

Board Present: Floss and Olsen

Board Absent: Townsend

Staff Present: Kelly, Link, Miller, Mobley and Mongold

Additionally Present: Ms. Donna M. Gonser, CPA, Lumsden & McCormick, LLP

Opening Remarks

Committee Chair Olsen opened the meeting. He announced that the meeting's agenda was to review and approve the meeting minutes from the March 11, 2010 Committee meeting as well as to review the results of the external audit of the BFSA and the internally prepared Annual Report. The Committee will make recommendations to the full Board based on the review of these items.

Chair Olsen took a roll call. Finding a quorum present, the meeting proceeded.

Approval of Minutes

Director Floss offered a motion to approve Committee Resolution No. 10-03, "Approving Committee Minutes and Resolutions from March 21, 2010." Chair Olsen seconded the motion.

RESOLUTION NO. 10-03

APPROVING COMMITTEE MINUTES & RESOLUTIONS FROM MARCH 11, 2010

BE IT RESOLVED that the Audit, Finance & Budget Committee of the Buffalo Fiscal Stability Authority approves the minutes of its meeting of March 11, 2010.

BE IT FURTHER RESOLVED that the Audit, Finance & Budget Committee ratifies and affirms resolutions 10-01 and 10-02 which were approved March 11, 2010.

This Resolution shall take effect immediately.

Vote 2-0 to approve.

Review of BFSA's Fiscal Year 2010 Independent Audit

Chair Olsen advanced the agenda to the next item for consideration: a review of the BFSA's fiscal year 2010 audit. He requested a summary from Ms. Donna Gonser, Partner, Lumsden & McCormick, LLP.

Ms. Gonser addressed the Committee. She thanked the Committee for the opportunity to provide a review of the audit. Additionally, she thanked Executive Director Jeanette Mongold and her staff for all of the assistance given during the audit, and noted that the audit went very well, consistent with prior years.

She provided the following summary of the audit's findings:

Communication with those Charged with Governance

The "Communication with those Charged with Governance" letter prepared and submitted to the BFSA includes:

- Lumsden & McCormick's responsibility under United States Generally Accepted Auditing Standards and Government Auditing Standards is to provide reasonable, but not absolute assurance, that the financial statements are free from material misstatement, and that they are fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- The more significant estimates include sales tax revenue, the amortization of bond discounts and premiums, and accrued State Aid as of June 30, 2010.
- Significant accounting policies, management judgments and estimates: policies were consistently applied for the year ending June 30, 2010. Estimates were deemed reasonable in light of known circumstances.
- Certain minor adjustments were noted including: Other Post-Employment Benefits ("OPEB"), reduction in State Aid for fiscal years 2010 and 2011, and investment income and related distribution to the City of Buffalo.

Additionally, the "Communication with those Charged with Governance" letter cited:

- No difficulties were encountered;
- No disagreements with management arose;
- The required management representations were received; and
- No other audit findings or issues arose.

Lumsden & McCormick's Audit Approach

The audit approach included the following:

- Engagement staffing: the goal is to balance continuity with a rotation of personnel;
- Obtain an understanding of BFSA policies, procedures, controls, personnel, and industry; and
- Assessment of materiality and evaluation of audit and fraud risks. The risk-based approach identified the following risk areas: revenue (always identified as a risk area); bonds receivable; debt; classification of net assets; and both the amount due to and distributed to the City of Buffalo.

Fraud considerations:

- The financial audit was not designed to detect fraud. However, a limited number of fraud detection procedures were performed during the audit;
- Auditors conducted interviews of staff and Directors, and reviewed credit card statements, expense reports, and petty cash;
- Journal entries were reviewed;
- No unusual items were detected.

A review of internal controls was conducted. It found:

- No significant deficiencies or material weaknesses.

An awareness issue was communicated regarding changes in 1099-Misc. reporting beginning with 2012.

Audit Scope and Results:

The reports generated are as follows:

- Independent Auditors' Opinion on Financial Statements (unqualified);
- 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;
- Report on Compliance with Section 2925(3)(f) of the New York State Public Authorities Law;
- Communication with those Charged with Governance; and
- No Material Weaknesses Letter.

Ms. Gonser continued her presentation of the audit. She gave a cursory overview of the Condensed Statement of Net Assets and noted that BFSAs role is essentially a pass-through entity for the City of Buffalo, which intercepts State aid and sales tax revenues on behalf of the City, retaining certain balances on a monthly basis for the payment of debt service payments and some operational expenses, and generally remitting the remainder of the funds to the City. Some State aid funds have restrictions pursuant to the State enabling legislation. Such State aid funds are considered restricted funds and are held by the BFSAs until the City of Buffalo requests them for use, and such use is in accordance with the enabling legislation.

Ms. Gonser explained that the most significant item on the Statement of Net Assets is "Bonds Payable" of approximately \$128 million. No new bonds have been issued since 2007. However, from 2004 through 2007, BFSAs issued a series of bonds to finance the City of Buffalo and the Buffalo School District's capital projects, as well as for deficit financing purposes. The remaining balance of the bonds is \$128 million with repayment of funds during 2011 of \$12 million. With respect to assets, "Notes Receivable - City of Buffalo" is approximately \$97 million. This asset reflects bonds that are referred to as "Mirror Bonds", which were issued by the City of Buffalo and privately placed with the BFSAs. There is a difference of about \$27 million between the receivable and the payable, because Mirror Bonds were not issued for an earlier BFSAs bond. This balance is reflected in the unrestricted amount under Net Assets. It is a negative net asset; it will decrease over time as BFSAs makes principal payments against these bonds.

Ms. Gonser added that there are cash equivalents and investments of almost \$35 million. This amount represents the amount retained by BFSAs for payment of debt service as well as the restricted State aid. There is a \$35 million offset in Restricted Net Assets of approximately the same amount. The third

item of significance noted was the “Due from other Governments” amount of about \$32 million, representing May and June sales tax revenues and State aid receivable, offset by a liability “Due to the City of Buffalo” of about \$28 million.

Ms. Gonser presented the “Condensed Statement of Activities.” She stated that the sales tax revenues and State aid represent about 98% of BFSA’s total revenues. State aid decreased from 2010 to 2011. BFSA did not receive any restricted State aid dollars that it had received in past years. Additionally, on the expense side the distribution to the City of Buffalo also decreased by about \$1.5 million. The distributions to the City of Buffalo are driven by revenue collections, offset by what is retained by the BFSA for the payment of debt services as well as the restricted State aid funds. Distributions to the Buffalo School District are based on the sales tax revenue received. General and Administrative expenses have remained constant.

She continued that the change in net assets is fairly significant. There was a surplus the previous year of almost \$11 million compared to a decrease of about \$2.4 million in the current year. The \$14 million decrease is driven primarily by the general revenue State aid decrease in 2010.

Ms. Gonser concluded her presentation.

Director Floss offered a motion to send the Independent Audit to the full Board with a recommendation for approval. Chair Olsen seconded the motion.

Vote 2-0 to send the Independent Audit to the full Board with the recommendation toward approval.

BFSA Annual Report

Chair Olsen advanced the agenda to the next item for consideration: the review of the BFSA Annual Report. He noted that the BFSA is required to file an annual report along with its year end audit and the BFSA’s bylaws that were in effect during the 2010 fiscal year. The draft annual report had been provided and details BFSA activities during the fiscal year and has been prepared following the format required by the Office of the State Comptroller.

Director Floss offered a motion to send the Annual Report to the full Board with a recommendation for approval. Chair Olsen seconded the motion.

Vote 2-0 to send the material to the full Board with a recommendation for approval.

Adjournment

Chair Olsen entertained a motion to adjourn the meeting that was duly seconded by Director Floss. The meeting adjourned at 12:49 PM.