
BUFFALO FISCAL STABILITY AUTHORITY
Audit, Finance & Budget Committee Meeting Minutes
October 3, 2011

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 Monday, October 3, 2011, in the Buffalo Market Arcade Complex. The meeting was called to order at 12:37 PM.

Committee Members Present: Floss, Mesiah and Olsen

Additional Board Members Present: Arthur, Collins and Johnstone

Staff Present: Link, Miller and Mongold

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

Opening Remarks

Committee Chair Olsen opened the meeting. He announced the meeting's agenda as follows:

- A review of the results of external audit of the BFSA;
- A review of the internally prepared Annual Report; and
- A recommendation of acceptance and approval of both items to the full Board of the BFSA.

Chair Olsen called a roll of the members. Finding a quorum present, the meeting commenced.

Approval of Minutes

Chair Olsen introduced Audit, Budget & Finance Committee Resolution No. 11-04, "Approving Minutes and Resolution from June 15, 2011."

Director Floss offered a motion to approve the resolution. Director Mesiah seconded this motion.

AUDIT, BUDGET, & FINANCE COMMITTEE RESOLUTION NO. 11-04
APPROVING MINUTES AND RESOLUTION FROM JUNE 15, 2011

BE IT RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Budget and Finance Committee approves the minutes of its meeting on June 15, 2011.

BE IT FURTHER RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Budget and Finance Committee ratifies and affirms Resolution No. 11-03 that was approved on said date.

This Resolution shall take effect immediately.

The Committee voted 3-0 to approve the resolution.

Receipt and Review of External Independent Audit

Chair Olsen advanced the agenda to the next item for consideration: receipt and review of the external independent audit by the firm Lumsden & McCormick, LLP. After reviewing the final draft of the audit, a recommendation is expected to be made to present the finalized financial statements to the full Board with a recommendation for approval. Chair Olsen asked Ms. Donna Gonser, Lumsden & McCormick auditing partner, to provide a summary.

Ms. Gonser addressed the Committee. She noted that the audit had gone well and thanked Executive Director Jeanette M. Mongold for her assistance. Ms. Mongold had taken on the dual role of Executive Director as well as Comptroller, as the position has been vacant since May 2011. Certain duties should be delegated following the hiring of a new Comptroller.

Ms. Gonser provided the following information:

Communication with Those Charged with Governance

- The Communication with Those Charged with Governance had been provided.
 - It explains the auditing firm’s responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards;
 - An audit provides reasonable, but not absolute assurance that the financial statements are free from material misstatement and are fairly presented in all material respects in accordance with the accounting principles generally accepted in the U.S.. The audit doesn’t include 100% testing but rather relies on testing, sampling, judgments and assessments.
- Accounting policies were consistently applied with the exception of GASB 54 which required a restatement of the net asset restrictions. Amounts previously considered reserved are now considered restricted and includes State Aid and Incentives to Municipalities (“AIM”) funds, debt service set-asides, and the net assets which arose from the mirror bond transactions.
- Audit adjustments consisted of other postemployment benefits (“OPEB”), or healthcare for retired employees, and assistance with the GASB 34 entries.
 - Public authorities are required to reassess its OPEB liability every three years. At the last evaluation, BFSa had seven employees. At the current evaluation, BFSa had three employees. This reduction in the number of employees had a significant impact on the accrual; the auditors questioned whether the liability should actually be lower than what the actuarial evaluation had stated. After consulting with GASB, it was determined that the actuarial evaluation was correct. Over time, the OPEB liability will self-correct to reflect the change in overall staffing.
- No other difficulties were noted. No disagreements with management were noted. No management consultations with other independent accountants were required. There were no other audit findings or issues.

Audit Approach

- Engagement staffing was achieved by balancing continuity with the rotation of personnel. The auditors were able to build off of the institutional knowledge acquired over the last few audits. The five year partner rotation requirement from Public Authorities Law was adhered to.

- The audit approach towards understanding the BFSA's business is to update policies, procedures and controls and use this understanding to identify and evaluate fraud risk.
- A risk-based approach was utilized and focused on the areas of revenue, bonds receivable and bonds payable.
- Additionally, considerable resources were dedicated to the classification of net assets as it relates to GASB 54, as well as amounts due to and distributed to the City of Buffalo.
- The financial audit is not designed to detect fraud; limited procedures are performed in this area and include interviews, the review of credit card statements, the review of expense reports, and a count and reconciliation of petty cash. In addition, journal entries were reviewed as statistics indicate that fraud is often hidden by journal entries. No unusual items were noted.
- The financial audit sought recommendations for greater efficiencies and examined the effectiveness of the existing controls.
 - With the vacancy in the Comptroller position, the Executive Director performed many tasks that had been previously separate. The Board of Directors does practice strong oversight which mitigates control weaknesses. The recommendation is that such duties be realigned to the new Comptroller, once in place.

Audit Scope and Results

- Reports that were issued are as follows:
 - The Independent Auditor's Opinion on Financial Statements – unqualified or clean opinion with no exceptions to Generally Accepted Account Principles;
 - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters – no exceptions noted;
 - Report on Compliance with §2925(3)(f) of New York State Public Authorities Law – compliance with the internal and external regulations;
 - Communication with Those Charged with Governance; and
 - Management Letter – includes the recommendations of separation of duties aforementioned.

Condensed Statement of Net Assets

- BFSA 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.
- The Balance Sheet reports several balances that relate to each other, and net against each other. The most significant balance reported on the Balance Sheet is Notes Receivable from the City of Buffalo, which represents Mirror Bonds and is offset by Bonds Payable. Due from Other Governments and Due to Other Governments also net out. If you review the Balance Sheet, there are basically “in's” and “out's”; in's on the asset side and out's on the liability side essentially result in a netting.

- Cash, cash equivalents and investments total approximately \$37 million; the funds represent the debt service reserve and AIM funds and are reflected as restricted net assets in the amount of \$36,221,000.
- Notes receivable – City of Buffalo Notes Receivable, or Mirror Bonds, are offset by Bonds Payable in the liabilities section. However, it is noted that the bonds weren't issued for 100% of the actual bonds, resulting in a difference which is recorded as unrestricted net assets of \$25,744,000. This deficit will gradually decrease as State aid is received to pay down those bonds payable.
- Funds Due from Other Governments in the amount of \$32 million represent sales tax along with the December State aid expected payment that is accrued at fiscal year end June 30, 2011. This is offset by the \$29 million Due to City of Buffalo and reported in the liabilities section.

Condensed Statement of Activities

- **General Revenues** - Sales tax revenues were \$109 million, up \$2.3 million over the prior year.
 - State aid revenue totaled \$166 million, a slight decrease from the prior year but consistent with the State budget.
 - Interest income is approximately \$5 million as a result of investments by the Authority.
- **General Expenditures** – Distributions to the City fluctuate annually, based on the amount of sales taxes intercepted by the BFSA and annual changes in State AIM received. Additionally, the BFSA is holding approximately \$18 million of Restricted AIM funds, which are released to the City annually in accordance with the City's adopted budget. The City did not budget for any Restricted AIM funds in 2011 and therefore there was no release of Restricted AIM this past fiscal year. In 2009 – 2010, the City received \$4 million of Restricted AIM.
 - Distributions to the City School District totaled \$34 million, an increase of \$1.5 million over last year and the result of the overall increase of sales tax revenue.
 - General and administrative expenses decreased due to the temporary reduction in staffing. Interest expense is also reduced due to the continued repayment of debt.

Ms. Gonser concluded her presentation.

Chair Olsen requested a motion to send the Independent Auditors' Report to the full Board with a recommendation for approval.

Director Floss made a motion to send the Independent Auditors' Report to the full Board with a recommendation for approval. Director Mesiah seconded this motion.

A vote 3-0 to send the Independent Auditors' Report to the full Board with a recommendation for approval.

At 12:51 PM County Executive Collins joined the proceedings.

Chair Olsen directed a question to Ms. Mongold regarding a recent change in generally accepted accounting principles. Chair Olsen inquired about the change in generally accepted accounting principles with respect to GASB 54, and indicated it would be helpful to more fully understand the

application of this standard as some of the BFSA's statutory obligations relate to certain occurrences under generally accepted accounting principles. In particular, he referred to the use of surpluses and how the use of such surpluses is reported under generally accepted accounting principles.

Ms. Mongold agreed that a summary would be helpful and noted that GASB regulations are produced by the Government Accounting Standards Board. GASB regulations not only affect all governmental entities. GASB 54 deals chiefly with how fund balance and net assets are displayed on the balance sheet. There will be significant changes seen in the balance sheets for the City of Buffalo and the Buffalo School District.

Director Johnstone noted that this request had been made in the past with the approval of the BFSA's Financial Statements.

Director Floss noted that the impact of the recent change of reporting is significant to the City of Buffalo and the School District. It would be helpful to see how the two entities handle the change in accounting principles.

Annual Report

Chair Olsen advanced the agenda to the next item for consideration: review of the BFSA Annual Report. He asked for a motion to send a recommendation to the full Board to approve the report in its final form as well as to delegate the authority to the BFSA Chair and Executive Director to make any changes necessary for accurate completion.

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

Director Mesiah seconded the motion.

The Committee voted 3-0 to send the Annual Report to the full Board with a recommendation for approval.

Adjournment

Chair Olsen asked if there was any new business to be considered. Hearing none, he requested a motion to adjourn the meeting.

Director Floss offered a motion to adjourn.

Director Mesiah seconded the motion.

The Committee voted 3-0 to adjourn.

The Committee adjourned at 12:57 PM.