

BUFFALO FISCAL STABILITY AUTHORITY
Audit, Finance, and Budget Committee
Meeting Minutes September 24, 2012

The following are the minutes from the meeting of the Audit, Finance, and Budget Committee (the "Committee") of the Buffalo Fiscal Stability Authority (the "BFSA") held on Monday, September 24, 2012, in the Buffalo Market Arcade Complex. The meeting was called to order at 12:35 PM.

Committee Members Present: Mesiah, Olsen

Committee Members Excused: Floss

Additional Directors Present: Arthur

Staff Present: Link, N. Miller, R. Miller, Mongold

Additional Present: Donna Gonser, CPA, Lumsden & McCormick, LLP

Opening Remarks

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

- To meet with BFSA's independent auditors, Lumsden and McCormick, to review BFSA's FY 2011-12 audit,
- A review of BFSA's Annual Report and,
- A review of BFSA's Annual Investment Report.

The Committee will consider sending a recommendation to the full Board for approval of the above reports.

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

Approval of Minutes

Chair Olsen introduced Committee Resolution No. 12-05 "Approving Minutes and Resolutions from June 4, 2012." He asked for a motion to move the item.

Director Mesiah offered a motion to approve the resolution.

Chair Olsen seconded the motion.

AUDIT, BUDGET AND FINANCE COMMITTEE RESOLUTION NO. 12-05
APPROVING MINUTES AND RESOLUTIONS FROM June 4, 2012

BE IT RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Budget and Finance Committee approves the minutes of its meeting on June 4, 2012.

BE IT FURTHER RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Budget and Finance Committee ratifies and affirms Resolution No. 12-05 that was approved on said date.

The Committee voted 2-0 to approve the resolution.

Independent Audit FY 2011-12

Chair Olsen advanced the agenda to the next item for consideration: receipt of the FY 2011-12 independent audit. Upon approval by the full Board, the FY 2011-12 independent audit will be issued in its final form. He asked Ms. Donna Gonser, CPA, Lumsden and McCormick, to present the audit findings.

Ms. Gonser began by stating that the fieldwork for the audit was performed in August 2012. The audit was completed on a timely basis. She provided the following summary:

Communications with those Charged with Governance

Responsibilities:

- It is the auditing firm's responsibility under U.S. Generally Accepted Auditing Standards to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement and that they are fairly presented in accordance with accounting principles generally accepted in the United States ("GAAP");
- The audit relies on testing, sampling, judgments and estimates.

Significant Accounting Policies, Management Judgments and Estimates:

- The BFSAs accounting policies were consistently applied for year ended June 30, 2012;
- Estimates are reasonable in light of known circumstances, such as the other postemployment benefits ("OPEB") liability, which represent the accrual for retiree health insurance benefits;
- GASB 54 was adopted beginning the fiscal year ended June 30, 2011, which changed the terminology for net assets into five new categories. They are:
 - non-spendable, restricted, and unrestricted which includes committed, assigned and unassigned.

Audit Adjustments:

- Assistance was provided for the other postemployment benefits adjustment related to retiree healthcare;
- GASB 34 adjusting entries were made which are required to report on the modified accrual basis.

Ms. Gonser added that no difficulties were encountered. The OPEB valuation was slightly skewed due to the small size of office staff. However, it is properly recorded and, over time, the fluctuation will level out and become balanced. There were no disagreements with management. Management representations were all received. No management consultations with other independent accountants were required. No other audit findings or audit issues were reported.

The Audit Approach

Ms. Gonser noted that the audit approach is a risk based approach. A considerable amount of time was spent with Ms. Jeanette Mongold, Executive Director, and Mr. Robert Miller, Comptroller, to discuss planning and Authority policies, procedures and controls.

Planning:

- Operations were consistent with prior year;
- No new debt was issued;
- Two positions were filled during the year: Comptroller and Executive Administrative Assistant;
- An advisory period became effective July 1, 2012.

Understanding of Authority Policies, Procedures, Controls, Personnel, and Industry:

- Having performed the audit in prior years, a good base of knowledge has been established. This base of knowledge was updated for the current year.

Assess Materiality and Evaluate Audit and Fraud Risks:

- A risk based approach was used;
- Areas identified as higher risk include: revenues, notes receivable, debt, classification of net assets and the amount due to and distributions to the City of Buffalo.

Fraud Considerations:

- The financial audit is not designed to detect fraud; limited fraud procedures are performed;
- Interviews were conducted with the staff;
- The petty cash, credit card and expense reports were examined;
- All journal entries were reviewed;
- No unusual items were noted.

Recommendations:

- No material weaknesses were noted;
- The previous audit noted a lack of separation of duties due to vacancies in job positions. This area was addressed following the filling of vacant positions;
- Upcoming changes due to GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB 65, *Items Previously Reported as Assets and Liabilities*, are forthcoming. More guidance will be available in the coming year.

Ms. Gonser noted that some separation of duties was not possible due to the size of the staff compliment. Secretary Arthur concurred with this assessment.

The Audit Scope and Results

Reports:

The following reports were issued:

- 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 New York State Public Authorities Law;
- Communication with those Charged with Governance;
- Management letter.

Assets:

BFSA is essentially a pass-through entity. Transactions that occur are related to the debt issued between 2004 and 2007. BFSA receives State aid payments as well as sales tax revenue. The amount needed to pay down the debt and operating expenses are retained with the balance being turned over to the City of Buffalo (the "City"). Restricted Aid and Incentives to Municipalities ("Restricted AIM") funds were disbursed to the City in the amount of approximately \$3 million dollars. Mirror bonds were repaid in the amount of \$12 million. Amounts due from other governments such as sales tax and State aid were consistent with last year at \$33 million. Other assets include bond issuance costs, which are amortized over the life of the bonds.

Liabilities:

Amounts payable to the City of Buffalo are the amounts to be received from other governments indicating the pass through nature of the entity. The bonds payable are \$96 million of which \$16 million was repaid this year.

Net Assets:

Investments and capital assets are minimal. Restricted assets are at \$30 million representing primarily the debt service reserves as well as Restricted AIM funds. Unrestricted funds are a negative \$20 million due to one series of a bond issuance that does not have an offsetting Mirror bond. This amount will become less negative as the revenue becomes recognized. Each year this amount will decrease by approximately \$5 million until fully amortized.

Condensed Statement of Activities:

Sales tax increased \$12 million due to the increase in sales tax revenue resulting from the economic recovery. State aid decreased by \$2 million due to declining State budget and the amount of State aid that is received. Interest income declined as it is based on the mirror bonds. Distributions to the City and the District increased as a result of the Restricted AIM funds requested from the City. General and administrative costs are the operating costs of the BFSA which increased due to the two positions that were filled during the year. Interest expense continues to decline as the bonds payable are paid off.

Change in Net Assets:

A change of \$3 million is due to the distribution to the City of Restricted AIM funds.

Comparative Highlights:

- State aid continues to decline based on the State budget;
- Sales tax revenue has increased slightly as the economy recovers;
- Personnel costs are increasing due to health insurance, pension contribution percentages and added personnel;
- Other expenses are driven by legal fees and are fairly consistent.

Ms. Gonser concluded her presentation. Chair Olsen requested a motion to accept the audit and its findings and to send the item to the full Board with a recommendation for approval.

Director Mesiah offered a motion to send the item to the full Board with a recommendation for approval.

Chair Olsen seconded the motion.

The Committee voted 2-0 to send the item to the full Board with a recommendation for approval.

BFSA Annual Report

Chair Olsen advanced the agenda to the next item for consideration: the review of the Annual Report. He requested that the Committee review the Annual Report and recommend approval of the report in substantially its final form, as well as to delegate authority to the BFSA Chair and Executive Director to make any necessary changes that may be required for its accurate and timely completion. He asked Ms. Mongold to discuss the reports.

Ms. Mongold began by stating the Annual Report is required to be filed with the New York State Office of the State Comptroller. It is accompanied by the year-end financial audit and the bylaws in effect during the fiscal year. The report details the activity of the BFSA during the fiscal year. The three main sections are:

The Organization

The report provides information regarding who serves on the Board of Directors, background information of the BFSA, the mission statement and governance information.

Summary of Accomplishments

The summary focuses on the following items:

- the 2012 fiscal year and actions taken by the Board that had a fiscal impact,
- indicators of financial progress for the City and Covered Organizations,
- bond ratings,
- a discussion on the significance of the multi-year financial planning model,
- a summary of legal matters, and
- a cumulative financial impact table.

Financial Overview of the City and Covered Organizations

The financial overview is a compilation of reports the BFSA Board received in May and June of 2012.

Ms. Mongold concluded her summary.

Chair Olsen asked for a motion to accept the Annual Report in substantially its final form, as well as to delegate authority to the BFSA Chair and Executive Director to make any necessary changes that may be required for its accurate completion.

Director Mesiah offered a motion to accept the Annual Report and to send the item to the full Board with a recommendation for approval.

Chair Olsen seconded the motion.

The Committee voted 2-0 to send the item to the full Board with a recommendation for approval.

Annual Investment Report

The Board opted not to review the Annual Investment Report.

Adjournment

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

Director Mesiah offered a motion to adjourn.

Chair Olsen seconded the motion.

The Committee voted 2-0 to adjourn the meeting.

The Committee adjourned at 1:02 PM.