

BUFFALO FISCAL STABILITY AUTHORITY
Audit, Finance and Budget Committee Meeting Minutes
September 23, 2013

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 September 23, 2013, in the Buffalo Market Arcade Complex. The meeting was called to order at 12:56 PM.

Committee Members Present

Floss, Mesiah, and Olsen

Additional Directors Present

Arthur and Jurasek

Staff Present

Link, N. Miller, R. Miller, Mongold-Robe

Additionally Present

Donna Gonsler, 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 & McCormick, LLP, to review BFSA’s FY 2012-13 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.

Secretary Arthur called a roll of the members. Finding a quorum present, the meeting commenced.

Approval of Minutes

Committee Chair Olsen asked for a motion to approve Committee Resolution No. 13-04: “Approving Minutes and Resolutions from the June 19, 2013, Meeting.”

Director Mesiah offered a motion to approve the resolution.

Director Floss seconded the motion.

**AUDIT, FINANCE & BUDGET COMMITTEE RESOLUTION NO. 13-04
APPROVING MINUTES AND RESOLUTIONS FROM JUNE 19, 2013 MEETING**

BE IT RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Finance and Budget Committee approves the minutes of its meeting on June 19, 2013.

BE IT FURTHER RESOLVED that the Buffalo Fiscal Stability Authority's Audit, Finance and Budget Committee ratifies and affirms Resolution No. 13-04 that was approved on said date.

The Committee voted 3-0 to approve the resolution.

Independent Audit FY 2012-13

Committee Chair Olsen advanced the agenda to the next item for consideration: receipt of the FY 2012-13 independent audit. Upon approval by the full Board, the FY 2012-13 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 2013. The audit was completed on a timely basis. All deadlines were met; communication was encouraged during the year so that there would be no surprises in the report.

Ms. Gonser provided the following information:

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 BFSA's accounting policies were consistently applied for year ended June 30, 2013;
- There were no audit difficulties or disagreements;
- Estimates are reasonable in light of known circumstances;
- GASB 63 was implemented. Previously, financial statements reported a Statement of Net Assets which included assets, liabilities, and net assets. The Statement of Net Position is now required in lieu of the Statement of Net Assets and includes two new report items: Deferred Outflows of Resources and Deferred Inflows of Resources. Total Net Assets has been replaced with Total Net Position. The FY 2013-14 Independent Audit will be required to include the expensing of the Deferred Outflows of Resources which had previously been recorded as an asset on the Statement of Net Assets. A retroactive adjustment will be required at that time.

Audit Adjustments:

- There were no audit or passed audit entries;
- GASB 34 adjusting entries were made which are required to report on the modified accrual basis.

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-Robe, Executive Director, and Mr. Robert Miller, Comptroller, to discuss planning and Authority policies, procedures and controls.

Planning:

- Operations were consistent with the prior year;
- No new debt was issued;
- Two vacant positions were filled at the end of FY 2011-12, resulting in higher FY 2012-13 personnel costs;
- 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 knowledge base 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 included: revenues, notes receivable, debt, classification of net position and the amount due to and distributions to the City of Buffalo (the “City”);
- The other post-employment benefits (“OPEB”) liability was somewhat skewed because the population base of employees is small; it will reverse over time. Costs are being amortized over ten years.

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.

Internal Controls:

- No material weaknesses were noted.

Awareness Items: New Pronouncements

- GASB 63 (2013) – Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position;
- GASB 65 (effective 2014) – Item previously reported as assets and liabilities will be reported differently. A retroactive restatement of bond issuance costs will be required;
- GASB 68 (effective 2015) – Accounting and financial reporting for pensions;
 - The current funding model will change to a full accrual model and require the Statement of Net Position to reflect the proportionate share of liabilities for the New York State and Local Employees' Retirement System;
 - Enhanced disclosures and required ten year supplemental information will be required.

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*. No exceptions found;
- Report on Compliance with Section 2925(3)(f) of New York State Public Authorities Law;
- Communication with those Charged with Governance;
- Management letter.

Condensed Statements of Net Position

BFSA is essentially a pass-through entity; as a pass-through agency, the assets, liabilities and net position have a correlation.

Assets, Liabilities & Net Position

- BFSA had approximately \$27.9 million in cash, cash equivalents, and investments which almost equals the Restricted Net Position of \$26,495 million. The use of cash and investments, which also includes New York State Aid to Municipalities (“AIM”) held by the BFSA, is restricted and is therefore reported as a Restricted Net Position.
- Notes Receivable from the City of Buffalo of \$61.2 million represents mirror bonds and are offset by the Bonds Payable of \$81.1 million. Mirror bonds do not equal the bonds payable because there was one series in which mirror bonds were not issued. The difference is reflected in the Unrestricted Net Position line. As the bonds are repaid, the funds will be reflected in the Unrestricted Net Position line. The differential will continue to decrease.

- The \$15.8 million balance of Due from Other Governments represents the May and June sales tax receipts. There is a \$17 million dollar variance in prior year Due from Other Governments and Due to the City of Buffalo due to receipt of \$19 million in advance funds in June for State Aid; these funds are normally not received until December. In past years these funds were accrued as revenue and recorded to be paid to the City of Buffalo.
- Total assets were \$105.0 million at the end of the 2012-13 fiscal year.

Condensed Statement of Activities:

- Sales tax increased \$3.3 million due to the increase in sales tax revenue resulting from the economic recovery.
- State aid increased by \$12.1 million due to a combination of an increase in the State Efficiency Grant dollars and a spin up of nearly \$11 million in New York State Aid to Municipalities (“AIM”) funds. This \$11 million would have normally been received in FY 2014.
- Interest income declined from prior year by \$627,000 as it is based on annual investments of debt service set-asides, the balance of which decreased last year.
- Distributions to the City and the Buffalo City School District (the “District”) increased by \$12.6 million and \$1.5 million, respectively, which is reflective of the increase in sales tax revenue and State Aid.
- General and Administrative expenses represent the operating costs of the BFSAs, which decreased \$67,000.
- Interest expense continues to decline as the bonds are paid off.

Change in Net Position:

- A change of \$1.4 million was due to an increase in Distributions to the City of Buffalo and to the City of Buffalo School District, offset somewhat by a lower increase in expenditures.

Five-Year Comparative Highlights:

- State aid increased in 2013, based on increases within the State budget;
- Sales tax revenue has increased slightly since 2009 as the economy recovers;
- Personnel costs have increased in 2013, due to health insurance increases, increase in pension contribution rates, and the filling of two vacancies;
- Other expenses have decreased significantly due to lower legal fees.

Ms. Gonser concluded her presentation.

Director Floss noted that BFSAs’ change in outside legal counsel had yielded significant savings in FY 2012-13 for the Authority.

Committee Chair Olsen concurred and noted that litigation expenses had also dropped considerably. He 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.

Director Floss seconded the motion.

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

Committee Chair Olsen noted the change in legal counsel has shown cost savings.

BFSA Annual Report

Committee Chair Olsen advanced the agenda to the next item for consideration: the review of the Annual Report. The purpose is to review and approve the Annual Report in substantially its final form and to delegate authority to the BFSA Chair, the Vice Chair, the Executive Director and the Comptroller to make any necessary changes that may be required for its accurate completion. A copy of the draft report was included in the board book for review. The Annual Investment Report was also included in the board book for review.

Executive Director Jeanette Mongold-Robe reviewed the BFSA Annual Report and the Annual Investment Report. Once approved by the Directors, it and the current Bylaws are required to be filed with the NYS Comptroller, as annually required. The format used for the Annual Report is prescribed by the New York State Office of the State Comptroller (“NYSOSC”). There are three sections: Section I is Organizational and includes background information and the mission statement; Section II is the Summary of Accomplishments from inception in 2003 to the current year and includes financial progress indicators for the City of Buffalo and covered organizations, monitoring standards, and the four year financial plan; and Section III is the compilation of reports issued by BFSA on the annual 2013-14 budgets and related four year financial plans of the City of Buffalo and the covered organizations. Upon approval, the report will be filed with the NYSOSC and available on the BFSA website.

Committee Chair Olsen noted there has been \$398 million in savings incurred through actions of the BFSA Board of Directors. The BFSA-imposed wage-freeze provided a significant portion of these savings and allowed the District to have annually balanced budgets in past years.

Ms. Mongold-Robe spoke of the BFSA’s sales-tax intercept provision. The BFSA invests the debt service set-asides from the intercepted sales tax at a guaranteed interest rate of 3.5-5.5% annually. The investment earnings are transmitted to the City. These guaranteed interest rates far exceed the current market rates which the City would be able to obtain, which was approximately 0.30%.

Director Floss complimented the BFSA Staff for doing a wonderful job completing the Annual Report and making sure the BFSA is in compliance with requirements. He noted that the information presented is based on past events and does not represent future expectations. He recommended a narrative be added to the Annual Report explaining this.

Committee Chair Olsen noted the City's strong performance which led to the BFSA transitioning into an advisory period. He cited the ability of the Mayor to balance budgets effectively while planning for future labor contracts. The City has made progress with both the number of employees and in increasing the available real property tax margin. Property taxes have remained stable. The City is considerably more fiscally stable than the District, which has projected crushing deficits and problems. The financial plan of the District does not represent the four-year reality of the District, and furthermore grant funding creates programs and expectations that often continue to generate costs after the funding has expired. There are serious issues with the District's forecast that will need to be discussed further with leadership. The big hurdle to overcome is how to provide quality education when you have a massive budget deficit to overcome.

Director Jurasek inquired whether or not the City and the Covered Organization's audited financial statements would accompany the Annual Report's submission to the NYSOSC. Ms. Mongold-Robe replied that these particular documents were not part of the submission but the BFSA's analysis of the City and Covered Organization's FY 2013-14 adopted budgets and FY 2014-17 financial plans was provided as a component of the report.

Committee Chair Olsen requested a motion to accept the Annual Report and to send the item to the full Board with a recommendation for approval.

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

Director Floss seconded the motion.

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

Annual Investment Report

Committee Chair Olsen advanced the agenda to the next item for consideration: the review of the Annual Investment Report.

Ms. Mongold-Robe provided a summary of the report. The report is for informational purposes only and does not require BFSA Board approval. It must be filed with the NYSOSC. The report includes a 2012-13 fiscal summary: \$416,000 of investment earnings last year were remitted to the City of Buffalo, and total Trustee expenses were \$12,350 for FY 2012-13. The amounts intercepted for the payment of principal and interest on the outstanding bonds is invested in Forward Delivery Agreements which accounted for \$387,000 of the total earnings. As debt is paid off, less sales tax is intercepted and held-back. The City could have earned approximately \$30,000 in sales tax interest revenue if they had invested the monies at current market rate; an additional \$350,000 was earned and remitted to the City because BFSA had entered into the Forward Delivery Agreement when interest rates were more favorable.

Committee Chair Olsen called for a motion to send the Annual Investment Report to the full Board with a recommendation for approval.

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

Director Floss seconded the motion.

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

Adjournment

Committee Chair Olsen asked if there was additional business to be considered by the Committee. Hearing none, he asked for a motion to adjourn.

Director Floss offered a motion to adjourn.

Director Mesiah seconded the motion.

The Committee voted 3-0 to adjourn the meeting.

The Committee adjourned at 1:30 PM.