

BUFFALO FISCAL STABILITY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2007

BUFFALO FISCAL STABILITY AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo Fiscal Stability Authority
Buffalo, New York

We have audited the accompanying financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority) as of June 30, 2007, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

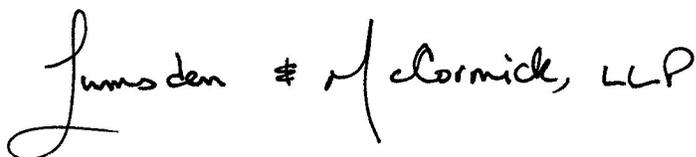
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2007, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis preceding the financial statements is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 17, 2007

BUFFALO FISCAL STABILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2007

(UNAUDITED)

Introduction

The Buffalo Fiscal Stability Authority ("BFSA", the "Authority") is a corporate governmental agency and instrumentality of the State of New York constituting a public benefit corporation created by the BFSA Act (the Act) – Chapter 122 of the Laws of 2003, as amended, signed by the Governor on July 3, 2003. BFSA has a broad range of financial control and oversight powers over the City of Buffalo (the City), the Buffalo Public School District (the School District), the Buffalo Municipal Housing Authority, the Joint Schools Construction Board, and other covered organizations as defined by the Act. Among BFSA's explicit powers is the power to issue bonds and notes for various City capital and operating purposes. The Act provides for the Authority to be in existence until its oversight, control or other responsibilities and its liabilities (including the payment in full of Authority bonds and notes) have been met or discharged, which in no event may be later than June 30, 2037. The Act provides the Authority different financial control and oversight powers depending upon whether the City's financial condition causes it to be in a "control period" (which, under the current Authority-approved financial plan, would end no earlier than the City's fiscal year ending June 30, 2011) or an "advisory period." During a control period the Authority possesses significantly expanded powers, including the power to impose a wage and/or hiring freeze. Under the Act, the Authority began its existence during a City control period, which means that the Authority commenced operation with its maximum authorized complement of financial control and oversight powers. In the event that the City's finances improve sufficiently in the future to cause the Authority to determine that an advisory period should be in effect, the Authority would operate with a reduced set of financial oversight powers and responsibilities.

The Act empowers BFSA to finance a declining percentage of the yearly deficits of the City and covered organizations which are part of an approved budget and 4-year financial plan. There was no deficit financing required for the fiscal year 2006 - 2007, the last year BFSA had this power. In its capacity to issue bonds and notes on behalf of the City, the Authority has funded deficits, capital projects and certain working capital needs of the City and has issued bonds to refund City debt. Revenues to pay Authority debt service and to fund Authority operations are provided by the City's State aid, and the City's and School District's share of Erie County sales tax, on which the Authority has a first lien. BFSA became entitled to the City's share of Erie County sales tax revenues and State aid on July 3, 2003, the effective date of the Act. BFSA became entitled to the School District's share of Erie County sales tax revenues on July 1, 2004 as provided in Chapter 86 of the Laws of 2004, which amended the Act. Pursuant to the Act, the City and the School District have no right, title or interest in these revenues

until transferred to the City and the School District by the Authority. The Authority has no independent operating income or taxing power.

Overview of the Financial Statements

The annual financial statements of the Authority consist of the following components: management's discussion and analysis (this section), financial statements, and notes to the financial statements.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2007. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

Government-wide financial statements of the Authority are in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The government-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of net assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

In addition to these two types of statements, the financial statements include a reconciliation between the government-wide and governmental fund statements. Accompanying notes to the financial statements are an integral part of the financial statements.

Financial Highlights and Overall Analysis

The most critical factors in the Authority's financial position are its revenues derived from the City's sales tax revenue, (since July 1, 2003), the School District's (beginning July 1, 2004) share of Erie County sales tax revenues, and the City State aid, which together provided 98% of the Authority's 2007 revenue. The Act granted the Authority a first lien and perfected security interest in net collections from sales and use taxes

authorized by the State and imposed by Erie County (the County). Sales taxes are imposed by the County, collected by the State and remitted to the Authority, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the City or the School District. The State legislation also provided that all State aid appropriated as local government assistance for the benefit of the City is payable to the Authority to use for debt service requirements and operating expenses, with the remaining funds to be remitted to the City.

The amount of BFSA sales tax revenues to be collected depends upon various factors, including the economic conditions within the County, which has experienced numerous cycles of growth and recession. In addition, in the past the State has enacted amendments to the Tax Law to exempt specific goods and services from the imposition of sales tax. The Act requires the County to impose the local sales tax at a rate of no less than 3.0 percent for the period ending June 30, 2037. Pursuant to State statutory authority, Erie County currently imposes sales tax at the rate of 4.75 percent. New York State has reauthorized the additional 1.0 percent sales tax rate, above the general State authorization, in Erie County every year since January 1978, but is under no obligation to continue to do so. However, during the period beginning January 1, 2007, and ending February 29, 2008, the County was required to allocate to the cities and towns within the County the first \$12.5 million of any net collections from the additional 1 percent of sales and compensating use taxes authorized by Section 1210(i)(4) of the State Tax Law. This allocation resulted in additional City Tax Revenues delivered to BFSA of approximately \$5.9 million during the 2007 fiscal year. Effective July 1, 2005, the County was authorized by the State to increase the local sales tax rate by an additional .25 percent, to 4.25 percent, and effective January 10, 2006, the County was authorized by the State to increase the local sales tax by another .50 percent, to 4.75 percent. None of these additional sales tax revenues accrued to the City or BFSA in the 2006-07 fiscal year.

Sales tax revenue for the year ended June 30, 2007 was \$105,654,023. The Authority also received State aid for the year ended June 30, 2007 in the amount of \$155,667,026. Investment income, which accounts for the remaining Authority revenue, totaled \$6,007,792 of which \$5,208,368 was derived from interest on the City's general obligation bonds described below.

The other significant element in the Authority's financial position is its long-term debt. From 2004 through 2006, the Authority issued a total of \$81,045,000 in long-term bonds (Series 2004A and 2005A and 2006A) to finance the City's cost of various City of Buffalo and School District capital projects. The City of Buffalo in return issued a series of its own general obligation long term bonds, privately placed with the Authority, evidencing the obligations of the City for the 2005A and 2006A bonds. In July 2005, the Authority refunded \$47,015,000 of City of Buffalo serial bonds by issuing \$46,705,000 in 14-year bonds, (the 2005B series), and \$360,000 in 2-year taxable bonds (the 2005C Series). The City of Buffalo issued its own 13.5-year premium bonds privately placed with the Authority in the amount \$48,157,000. The Authority issued its 2006A-1

premium Bond Anticipation Notes in the amount of \$60,000,000 on September 13, 2006 to finance cash flow needs of the City. A \$30,000,000 note matured on May 15, 2007 and a \$30,000,000 matured August 14, 2007. Both maturities were paid from the Authority's revenues from State aid to the City. Net interest cost of the issue was 3.72 percent and issuance costs were \$186,537. On April 24, 2007 the Authority issued \$28,470,000 long-term bonds (Series 2007A) to finance the cost of various City of Buffalo and School District capital projects. Net interest cost of the issue was 4.12 percent and issuance costs were \$375,510. The City of Buffalo in return issued a series of its own general obligation long term bonds, privately placed with the Authority evidencing the obligations of the City.

The statement of net assets shows a total net deficit of \$4,367,321. The deficit results largely from Authority debt issuance which is backed by securitization of future sales tax revenue and State aid to the City. The debt is reported as a long-term liability, but the future revenues are not reportable. In some instances, the City issues its own general obligation bonds and places them with the Authority. As of June 30, 2007, the Authority had bonds payable of \$159,754,995 and receivables from the City of \$127,160,477. In any year where the Authority issues more long-term debt than it retires without a corresponding issuance from the City, the deficit is likely to increase. The reconciliation on page 3 of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments were \$55,081,075 at June 30, 2007. This amount primarily includes monies set aside for debt and note repayment.

Operating expenses for the Authority totaled \$1,042,812 under the fund basis of accounting, which includes capital asset purchases of \$1,348 as expenditures. The Authority employed seven salaried staff members at June 30, 2007.

Staff Expenses

Wages	\$441,117
Other staff related expenses	7,681
Total Direct Staff expenses	\$448,798
Staff Benefits	
NYS Employees Retirement System contribution	\$54,189
Payroll taxes, workers' comp and NYS disability	\$35,480
Health Insurance (net of employee contributions)	\$56,934
Total Staff Benefits	\$146,603
Total Staff Expenses	\$595,401

The next largest category of expenses was for professional fees, of which \$241,543 was legal fees and \$75,666 was for other professional consultants and advisors. Legal fees included general counsel work as well as labor and litigation expenses. The Authority also contracted with an outside consultant to study the cost of charter schools to the Buffalo School District. Payments to the consultants were \$55,049. In fiscal year 2006 the Authority contracted an outside consultant to review the City of Buffalo's energy procurement process and was approved to receive a grant from NYSERDA to cover approximately 50 percent of the cost of the engagement. Payments to the consultant for the 2007 fiscal year totaled \$45,234 before application of the grant proceeds.

Directors of the Authority do not receive any compensation for their services. However, they are reimbursed for any Authority related expenses, primarily travel expense for those attending meetings from outside the Buffalo area. Lunch is provided for the Board and staff on meeting days. The following chart details expenses connected with Authority meetings and Directors' travel.

Meeting Expenses

Facilities Expenses – Public Board Meetings	\$9,591
Directors' travel reimbursements	2,911
Public Forum Expenses	2,126
Total Meeting Expenses	\$14,628

Other expenses include various items necessary for the running of the Authority's offices, as follows:

Other Expenses

Office services including postage and delivery	\$7,788
Rent	30,705
Telephone and data processing	17,703
Office Supplies	4,490
Staff travel	6,193
Other	1,962
Total Other Expenses	\$68,841

The Authority's rental payments are made to the Buffalo Economic Renaissance Corporation, the economic development arm of the City, where they can be used toward the City's economic development efforts.

Debt Service Fund

The Authority issued its 2007A 16-year serial premium bonds in the amount of \$28,470,000 for capital projects of the City and the School District in April 2007. Net interest cost of the issue was 4.12 percent. Issuance costs were \$375,510. The

Authority issued its 2006A-1 premium Bond Anticipation Notes in the amount of \$60,000,000 in September 2006 to finance cash flow needs of the City. A \$30,000,000 note matured on May 15, 2007 and \$30,000,000 matured on August 14, 2007. Both maturities were paid from the Authority's revenues from State aid to the City. Net interest cost of the issue was 3.72 percent. Issuance costs were \$186,537.

Contacting the Authority's Financial Management

This financial report is designed to provide, taxpayers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bertha H. Mitchell, Chief Financial Officer, Buffalo Fiscal Stability Authority, Market Arcade Building - Suite 400, Buffalo, New York 14203.

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Net Assets

June 30, 2007

(With comparative totals as of June 30, 2006)

	2007	2006
Assets		
Cash and cash equivalents	\$ 298,293	\$ 269,087
Investments	54,782,782	48,220,820
Notes receivable - City of Buffalo due within one year	9,230,586	5,507,623
Due from other governments	33,591,175	31,035,843
Prepaid expenses	13,587	7,633
Notes receivable - City of Buffalo	117,929,891	98,505,775
Bond issuance costs, net	2,578,316	2,413,020
Capital assets	76,981	75,633
Accumulated depreciation	(48,859)	(33,859)
Total assets	<u>218,452,752</u>	<u>186,001,575</u>
Liabilities		
Accounts payable	79,269	94,538
Accrued liabilities	3,292,836	3,406,620
Bond anticipation note payable	30,012,655	40,055,968
Due to the City of Buffalo		
Sales tax	10,514,439	8,846,524
General purpose aid	19,165,879	19,165,879
Bonds payable		
Bonds due within one year	7,225,000	3,460,000
Bonds due beyond one year	152,529,995	131,044,110
Total liabilities	<u>222,820,073</u>	<u>206,073,639</u>
Net Assets		
Invested in capital assets, net of related debt	28,122	41,774
Restricted for		
Debt service	10,773,546	6,494,039
State mandated initiatives	12,746,400	-
Unrestricted	(27,915,389)	(26,607,877)
Total net assets (deficit)	<u>\$ (4,367,321)</u>	<u>\$ (20,072,064)</u>

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2007

(With comparative totals for June 30, 2006)

	2007	2006
Expenses		
General and administrative	\$ 1,454,257	\$ 1,551,431
Distributions		
City of Buffalo - financeable costs	60,154,350	90,706,150
City of Buffalo - general operations	149,540,606	87,656,340
City of Buffalo School District	33,218,271	32,243,205
Interest expense	7,280,555	6,602,702
Total expenses	<u>251,648,039</u>	<u>218,759,828</u>
General revenues		
State aid	155,667,026	121,876,026
Sales tax	105,654,023	95,908,772
Interest and other income	6,031,733	4,604,338
Total general revenues	<u>267,352,782</u>	<u>222,389,136</u>
Change in net assets	15,704,743	3,629,308
Net assets (deficit) - beginning	<u>(20,072,064)</u>	<u>(23,701,372)</u>
Net assets (deficit) - ending	<u>\$ (4,367,321)</u>	<u>\$ (20,072,064)</u>

BUFFALO FISCAL STABILITY AUTHORITY

Balance Sheet - Governmental Funds

June 30, 2007

(With summarized comparative totals as of June 30, 2006)

			Total Governmental Funds	
	General	Debt Service	2007	2006
Assets				
Cash and cash equivalents	\$ 298,293	\$ -	\$ 298,293	\$ 269,087
Investments	44,009,236	10,773,546	54,782,782	48,220,820
Due from other governments	31,169,685	129,342,162	160,511,847	134,833,376
Prepaid expenses	13,587	-	13,587	7,633
Total assets	\$ 75,490,801	\$ 140,115,708	\$ 215,606,509	\$ 183,330,916
Liabilities and Fund Balances				
Accounts payable	\$ 79,269	\$ -	\$ 79,269	\$ 94,538
Accrued liabilities	1,033,291	2,259,545	3,292,836	3,406,620
Bond anticipation note payable	30,000,000	-	30,000,000	40,000,000
Due to the City of Buffalo	29,680,318	-	29,680,318	28,012,403
Total liabilities	60,792,878	2,259,545	63,052,423	71,513,561
Fund Balances				
Reserved by enabling legislation	12,746,400	-	12,746,400	-
Designated for debt service	-	10,773,546	10,773,546	6,494,039
Undesignated	1,951,523	127,082,617	129,034,140	105,323,316
Total fund balances	14,697,923	137,856,163	152,554,086	111,817,355
Total liabilities and fund balances	\$ 75,490,801	\$ 140,115,708	\$ 215,606,509	\$ 183,330,916

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2007

Total fund balances - governmental funds \$ 152,554,086

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$76,981 and accumulated depreciation is \$48,859.

28,122

Interest receivable is recognized when earned in the government-wide statements, but in the governmental fund statements income is accrued only if it will be received within sixty days of year end. This is the difference in interest receivable between the government-wide and funds statements.

239,805

In the government-wide statements, bond and BAN premiums are deferred and recognized ratably over the related terms of the debt. In the fund statements these amounts are recognized as revenue when received. This is the amount remaining at June 30, 2007.

(12,655)

Certain liabilities, including bonds payable, are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities consist of:

Bonds net of premiums

(159,754,995)

Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued. The costs amounted to \$3,240,542 net of accumulated amortization of \$662,226.

2,578,316

Net assets (deficit) - governmental activities

\$ (4,367,321)

BUFFALO FISCAL STABILITY AUTHORITY

**Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds**

For the year ended June 30, 2007
(With summarized comparative totals for June 30, 2006)

			Total	
	General	Debt Service	Governmental Funds 2007	2006
Revenues				
State aid	\$ 155,667,026	\$ -	\$ 155,667,026	\$ 121,876,026
Sales tax	105,654,023	-	105,654,023	95,908,772
Interest income	799,424	5,208,368	6,007,792	4,388,472
Total revenues	262,120,473	5,208,368	267,328,841	222,173,270
Expenditures				
General and administrative	896,209	-	896,209	937,610
Distributions				
City of Buffalo - financeable costs	60,154,350	-	60,154,350	90,706,150
City of Buffalo - general operations	149,382,006	158,600	149,540,606	87,656,340
City of Buffalo School District	33,218,271	-	33,218,271	32,243,205
Cost of bond issuance	186,537	375,510	562,047	1,528,635
Employee benefits	146,603	-	146,603	139,027
Debt service				
Principal	-	3,460,000	3,460,000	2,035,000
Interest	2,079,079	6,258,968	8,338,047	8,895,401
Total expenditures	246,063,055	10,253,078	256,316,133	224,141,368
Excess revenues (expenditures)	16,057,418	(5,044,710)	11,012,708	(1,968,098)
Other financing sources (uses)				
Operating transfers in (out), net	(3,301,044)	3,301,044	-	-
Proceeds from the issuance of bonds	-	28,470,000	28,470,000	74,335,000
Premiums on BAN/bond obligations	342,600	911,423	1,254,023	5,967,075
Other financing sources (uses)	(2,958,444)	32,682,467	29,724,023	80,302,075
Net change in fund balances	13,098,974	27,637,757	40,736,731	78,333,977
Fund balances - beginning	1,598,949	110,218,406	111,817,355	33,483,378
Fund balances - ending	\$ 14,697,923	\$ 137,856,163	\$ 152,554,086	\$ 111,817,355

BUFFALO FISCAL STABILITY AUTHORITY

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Change in Fund Balances to the Statement of Activities and Changes in Net Assets**

For year ended June 30, 2007

Total net change in fund balances - governmental funds \$ 40,736,731

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$15,000) exceeds equipment cost (\$1,348) in the period. (13,652)

Accrued interest income collected several months after fiscal year end are not considered "available" resources and not recognized in the governmental funds until received. This is the difference in interest income between the government-wide and funds statements. 23,941

Payments of long-term liabilities are reported as an expenditure in governmental funds, and reduce such liabilities in the statement of net assets. In the current year there were principal payments of the following amounts which are not on the statement of activities. 3,460,000

In the governmental fund statements, bond proceeds and premiums are reflected as other financing sources measured by the net cash flows received and bond issuance costs are expensed as paid. In the statement of activities, bonds are reflected as a liability, bond issuance costs are capitalized and bond premiums are deferred and recognized over the life of the bonds. The following summarizes these differences:

Bond proceeds	(28,470,000)	
Bond issuance costs	562,047	
Bond and BAN premiums received in the current period	(1,254,023)	
Amortization of bond and BAN premiums	1,056,450	
Amortization of bond issuance costs	(396,751)	(28,502,277)

Change in net assets - governmental activities \$ 15,704,743

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Fiduciary Net Assets

June 30, 2007

	<u>Agency</u>
Assets	
Cash and cash equivalents	<u>\$ 2,697,430</u>
 Liabilities	
Due to the City of Buffalo	<u>\$ 2,697,430</u>

BUFFALO FISCAL STABILITY AUTHORITY

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

Buffalo Fiscal Stability Authority (the Authority) is a corporate governmental agency and instrumentality of the State of New York (the State) constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the Act), Chapter 122 of the Laws of 2003, as amended from time to time. Although legally separate and independent of the City of Buffalo (the City), the Authority is a component unit of the City for financial reporting purposes and, accordingly, is included in the City's financial statements.

The Authority is governed by nine directors, with seven appointed by the Governor. One of the seven must be a resident of the City. One director is appointed following the recommendation of the State Comptroller; one director is appointed on the joint recommendation of the temporary president of the Senate and the Speaker of the Assembly. The Mayor of the City and the County Executive of Erie County, New York serve as ex-officio members. The Governor also designates the chairperson and vice-chairperson from among the directors.

The Authority has power under the Act to monitor and oversee the finances of the City and "covered organizations" - City of Buffalo School District (the District), the Joint Schools Construction Board, Buffalo Municipal Housing Authority, and any governmental agency, public authority, or public benefit corporation which receives or may receive money directly, indirectly, or contingently from the City. The Authority is empowered to issue bonds and notes for various City purposes, defined in the Act as "Financeable Costs." The Act authorizes the issuance of bonds, notes, or other obligations in amounts necessary to pay any financeable costs and to fund reserves to secure such bonds. The aggregate principal amounts of such bonds, notes, or other obligations outstanding at any one time excluding refunding bonds of the City or the Authority can not exceed \$175,000,000. The Authority may also issue bonds, notes or other obligations to pay the cost of issuance of such borrowings, to establish debt service reserves, to refund or advance refund any outstanding notes of the City. The Authority may issue cash flow borrowings which do not count toward the above limit, but are limited to \$145,000,000 of aggregate principal amounts outstanding at any one time.

A "control period," as defined in the Act became effective as of the date of the Act and will continue until conditions have been met regarding the stability of the City's finances, but, under the current financial plan, no sooner than the fiscal year ending June 30 2011. Thereafter an advisory period commences, and the Act permits a control period to be reestablished as determined by the Directors should conditions warrant. The Act provides for the continuing existence of the Authority through June 30, 2037.

The Act provides broad monitoring responsibility over the City's finances including the requirements for the City to provide an annual financial plan for four years to be approved by the Authority. The Act also allows the Authority to establish a maximum level of spending, impose a wage or hiring freeze, review and approve or disapprove any contracts, settlements, debt issuances or collective bargaining agreements entered into by the City or covered organization, and may require the City to explore certain actions regarding merger of services with the County of Erie.

The Authority receives all sales tax revenues designated for the City and the District, and State aid to be paid to the City. State aid includes all general purpose local government aid, emergency financial assistance to certain cities, emergency financial assistance to eligible municipalities, supplemental municipal aid, and any successor or new aid appropriated by the State as local government assistance for the benefit of the City. The Authority is also entitled to receive all other aid, rents, fees, charges, payments and other income to the extent such amounts are pledged to bondholders of the City. The Authority maintains amounts it deems necessary for its operations and debt service requirements with the excess transferred to the City as frequently as practicable. On occasion, the Authority has been directed by the State to retain certain State aid amounts for the City's future use.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities and changes in net assets display financial activities of the overall Authority. These statements are required to distinguish between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Authority does not maintain any business-type activities.

The statement of activities and changes in net assets is designed to present a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Given the specific nature of the Authority's purpose, its only function is displayed as monitoring of City finances.

Fund Financial Statements: The Fund financial statements provide information about the Authority's funds. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column.

The Authority reports the following major funds:

- *General fund.* This is the Authority's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- *Debt service fund.* This fund accounts for resources accumulated and payments made for principal and interest on long-term debt obligations of governmental activities on behalf of the City.

The Authority reports the following fiduciary fund:

- *Agency fund.* This fund accounts for assets held by the Authority as agent for others. The agency fund is custodial in nature and does not involve measurement of results of operations. The agency fund holds proceeds from State spin-up aid at request of the City to be used for debt service on the 2004 deficit bonds and the Authority's operating expenses.

The basic financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority receives value directly without giving equal value in exchange, include State aid and sales taxes. On an accrual basis, revenue is recognized in the fiscal year for which taxes and State aid are earned or designated. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end, with the exception of amounts determined by statute as state general purpose aid. By law, although designated for the current fiscal year the amount is paid by the State in December.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Capital asset purchases are reported as expenditures in governmental funds. Proceeds of long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Interest expense is recognized on the accrual basis in the government-wide financial statements. In the governmental fund statements, interest expenditures are recognized when funds are deposited in the debt service fund.

The Authority receives sales tax revenues several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis, the Authority also deducts, as necessary, amounts which in its judgment are required for operations and operating reserves. Residual sales tax revenues and investment earnings are then transferred to the City.

No revenues are generated from operating activities of the Authority; therefore, all revenues are defined by the Authority as non-operating revenues. Revenues are received in the general fund and debt service fund. Expenses of the Authority that arise in the course of providing the Authority's oversight and debt issuance

services, such as payroll and administrative expenses are considered operating expenses and are accounted for in the general fund. Expenditures related to debt issuance are considered non-operating expenses and are accounted for in the debt service fund.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and commercial paper with original maturities of three months or less.

Capital Assets

Assets are capitalized at historical cost if their value is greater than \$500 and have a useful benefit in excess of one year. Contributed assets are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives of five years using the straight-line method. Maintenance and repairs are expensed as incurred, significant improvements are capitalized.

Inventory and Prepaid Expenses

The Authority holds no inventory beyond small amounts of office supplies. Prepaid expense accruals are minor and are adjusted at the close of each fiscal year.

Other Assets

Bond issuance costs are expensed and recognized in the period issued in the governmental funds. Within the government-wide statements, bond issuance costs are capitalized and amortized over the life of the related debt issue.

Bond Premiums

In the government-wide statements, proceeds from the issuance of bonds received in excess of face value (premiums) are deferred and added to the bonded liability. These amounts are subsequently amortized on a straight-line basis as an offset of interest expense over the life of the bond. In the fund statements, these amounts are recognized currently as other financing sources.

Equity Classifications

Government-wide statements

- *Invested in capital assets, net of related debt* - consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – net assets are considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or buyer's of the Authority's bonds.
- *Unrestricted net assets* – consists of all other net assets that do not meet the definition of the above two components and are available for general use by the Authority.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy concerning which to apply first varies with the intended use, and with associated legal requirements. Debt service requirements are satisfied with resources restricted for that purpose.

Interfund Transfers

The operations of the Authority include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. Permanent transfers of funds include the transfer of expenditure and revenues to provide resources for required debt service payments.

In the government-wide statements, the amounts reported on the statement of net assets for interfund receivables and payables, if any, would represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations would be made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

Governmental fund statements

Designations of fund balances are established to preserve resources for future expenditures as required by bond instruments or as determined by the Authority's Board of Directors. The debt service designation is used to accumulate resources for a sinking fund in connection with the requirements of the related bond agreements.

The amount reserved by enabling legislation is money provided by the State through aid and incentives for municipalities that is held by the Authority on behalf of the City. These funds are required to be used by the City for maintaining, stabilizing or reducing the real property

tax burden; investing in technology or other efficiency and productivity initiatives that permanently minimize or reduce the City's operating expenses; supporting economic development or infrastructure investments that are necessary to achieve economic revitalization and generate growth in real property tax base; or minimizing or preventing reductions in City services. The money will be disbursed by the Authority when requested by the City for the aforementioned initiatives.

Contributed Services

No amounts have been reflected in the financial statements for donated services. The Board of Directors serves the Authority without compensation. Additionally, certain Directors utilize resources of their organizations to provide numerous hours of contributed services in the form of specialized public relations assistance and human resource matters.

Impact of Future Accounting Pronouncements

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 will require the Authority to measure and report changes in the unfunded actuarial benefit associated with future health and other post-employment benefits. GASB 45 is effective for the Authority's year ending June 30, 2008, as required for the City. At this time, the Authority is unable to disclose the impact that adopting GASB 45 will have on its financial position and results of operations when the statement is implemented.

2. Transactions with and on Behalf of the City

The Act and other legal documents of the Authority establish various financial relationships between the Authority, the City, and the District. The resulting financial transactions between the Authority, the City, and the District include the receipt and use of revenues as well as Authority debt issuances to fund financeable costs of the City.

The receipt and remittance of revenues in 2007 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$105,654,023 were received, of which \$57,790,788 was or will be paid to the City and \$33,218,271 was designated for the District. The balance was retained for Authority operations and to provide for a debt service sinking fund.

- The receipt of State aid for the City of \$155,667,026 with \$80,891,252 transferred to the City and \$74,775,774 was used to pay bond anticipation notes (BANs) including interest. Of this amount, \$19,165,879 was accrued as revenue in fiscal 2006 and transferred to the City when it is received in December 2006, with a similar amount for 2007.

The Authority issued the following debt to fund financeable costs of the City:

- The issuance of Series 2006A-1 BANs in the amount of \$60,000,000 with \$60,154,350 (including allocable BAN premium, net of issuance costs) distributed to the City. Of this amount, a \$30,000,000 BAN was repaid May 15 2007 with applicable State aid, and \$30,000,000 plus accrued interest was retained from State aid to the City received in June for the BAN payment due August 14, 2007.
- Series 2007A bond in the amount of \$28,470,000 by the Authority for \$22,854,850 in City and \$6,055,150 in District capital projects. The bond included a premium of \$911,423. The Authority received a mirror-note from the City in the amount of \$28,115,127 with \$885,064 allocated to the premium.

3. Cash and Investments

Investment policies are governed by New York State laws in accordance with the Act and as established in the Authority's written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Executive Director is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, obligations of State or its localities, and commercial paper of any bank or corporation provided it has the highest rating of two independent rating agencies.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. At June 30, 2007, the Authority's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's trust in the Authority's name.

The Authority's cash and investments at June 30, 2007 consist of the following:

	Carrying Value	Fair Value
Governmental activities:		
Cash	\$ 60,466	\$ 60,466
Certificates of deposit	250,000	250,000
U.S. Treasury Slugs	1,655,674	1,655,674
U. S. Treasury Bills	58,546	58,546
Fed'l Home Loan Mortg Corp. Disc. Paper	4,196,039	4,196,039
Fed'l National Mortg. Assn. Disc. Notes	34,592,553	34,592,553
GE Credit Corp. Commercial Paper	1,378,355	1,378,355
Citigroup Funding Commercial Paper	12,744,739	12,744,850
Accrued interest	144,703	144,703
	<u>\$ 55,081,075</u>	<u>\$ 55,081,186</u>
Fiduciary activities:		
Citigroup Funding Commercial Paper	2,687,505	2,687,505
Accrued interest	9,925	9,925
	<u>\$ 2,697,430</u>	<u>\$ 2,697,430</u>

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities are generally short term with certificates of deposits issued with 30 day maturities and U.S. Treasuries and commercial paper due within 45 days of purchase.

4. Due from Other Governments

Due from New York State:	
May and June sales tax receipts	\$ 12,003,806
June 2007 general purpose local aid	19,165,879
Due from the City:	
Mirror bond 2005A (1/15/2025) interest at 5.0% inclusive of premium of \$1,056,282	26,564,507
Mirror bond 2005B&C (1/15/2019) interest at 5.0% inclusive of unamortized premium of \$1,323,414	45,313,414
Mirror bond 2006A (1/15/2020) interest at 5.0% inclusive of premium of \$227,909	26,291,305
Mirror bond 2007A (1/15/2023) interest at 5.0% inclusive of premium of \$876,124	28,991,251
Accrued interest	2,421,490
	<u>\$ 160,751,652</u>

Amounts to be received from the City on the mirror bonds are as follows:

Year ending June 30,	Principal	Interest
2008	\$ 9,237,489	\$ 5,762,110
2009	9,063,007	5,721,963
2010	11,592,231	5,268,813
2011	12,639,442	4,689,202
2012	11,530,165	4,057,229
2013-2017	44,208,079	12,416,041
2018-2022	22,594,749	3,438,443
2023-2025	2,811,586	185,083
	<u>\$ 123,676,748</u>	<u>\$ 41,538,884</u>

5. Capital Assets

	2007	2006
Furniture, fixtures, and computers	\$ 76,981	\$ 75,633
Accumulated depreciation	(48,859)	(33,859)
	<u>\$ 28,122</u>	<u>\$ 41,774</u>

Capital assets increased by \$1,348 in fiscal 2007 and depreciation expense amounted to \$15,000.

6. Short-Term Debt

Aggregate BANs outstanding at June 30, 2007 amounted to \$30,000,000 and carry interest at 4.0% (\$40,000,000 at June 30, 2006 at 4.0%). In 2007, \$60,000,000 of BANs were issued and \$70,000,000 were redeemed. The BANs mature August 14, 2007. The carrying amount on the accompanying statement of net assets includes the unamortized portion of a premium on the BAN of \$12,655.

7. Long-Term Liabilities

	July 1, 2006	Increases	Decreases	June 30, 2007	Amounts Due in One Year
Series 2004A Bond, maturing \$ 23,710,000 August 2014 with interest ranging from 4.0% to 5.25% over the life of the bond.	\$ 23,710,000	\$ -	\$ 2,125,000	\$ 21,585,000	\$ 2,235,000
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	28,030,000	-	-	28,030,000	2,270,000
Series 2005B bond maturing September 2019 with interest at 5.0% over the life of the bond.	47,065,000	-	1,335,000	45,730,000	1,740,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	27,270,000	-	-	27,270,000	980,000
Series 2007A bond maturing September 2023 with interest ranging from 4.0% to 5.0% over the life of the bond.	-	28,470,000	-	28,470,000	-
Premiums:					
2004A	1,630,794	-	203,809	1,426,985	-
2005A	2,053,277	-	109,774	1,943,503	-
2005B	3,563,809	-	269,531	3,294,278	-
2006A	1,181,230	-	78,217	1,103,013	-
2007A	-	911,423	9,207	902,216	-
	\$ 134,504,110	\$ 29,381,423	\$ 4,130,538	\$ 159,754,995	\$ 7,225,000

Debt service requirements:

Year ending June 30,	Principal	Interest
2008	\$ 7,225,000	\$ 6,815,625
2009	11,010,000	6,643,668
2010	11,730,000	6,090,193
2011	14,360,000	5,562,843
2012	15,525,000	4,908,553
2013-2017	59,055,000	13,025,764
2018-2022	27,170,000	4,562,545
2023-2027	5,010,000	252,242
	\$ 151,085,000	\$ 47,861,433

Lease obligations:

The Authority leases its office space from a City related entity under the terms of an operating lease. Rental expense amounted to \$30,705 for the year ended June 30, 2007. The lease expires in May 2008 with the minimum future rentals expected to be paid of \$33,400.

8. Contributions to Pension Plans

The Authority participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing multiple employer, public employee retirement system. ERS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

ERS provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

ERS requires employee contributions of 3% of salary except for individuals joining prior to July 27, 1976 or with greater than 10 years of service. The Comptroller annually certifies the required contribution rate expressed as a percentage of participants' wages for employer contributions to the pension accumulation fund. The Authority made 100% of its required contributions. For the years ended June 30, 2007, 2006, and 2005 ERS expense amounted to \$54,189, \$51,068, and \$42,544, respectively.

9. Commitments and Contingencies

The Authority is involved in various legal proceedings, which, in the opinion of management, will not have a material adverse effect upon the financial position of the Authority. These proceedings result from the Authority being named as a party to various suits initiated by bargaining units representing many of the City's workers challenging articles of the Act relative to wage freeze. No damages have been specified.

BUFFALO FISCAL STABILITY AUTHORITY

Supplementary Information Schedule of Administrative Expenditures - General Fund

For the years ended June 30, 2007 and 2006

See Independent Auditors' Report

	2007	2006
General and Administrative		
Board functions		
Public meeting expenses	\$ 9,591	\$ 8,612
Public forums	2,126	4,085
Directors travel reimbursement	2,911	6,199
	<u>14,628</u>	<u>18,896</u>
Staff expenses		
Wages	441,117	491,438
Professional development	3,039	6,338
Parking	4,008	4,645
Payroll processing fees	634	615
	<u>448,798</u>	<u>503,036</u>
Central services		
Postage, printing and dues	7,788	7,735
Rent	30,705	32,946
Telephone and data processing	17,703	16,887
Repairs and maintenance	-	2,324
Insurance	614	645
Office supplies	4,490	5,470
	<u>61,300</u>	<u>66,007</u>
Administrative		
Travel	6,193	7,847
Professional fees and consultants	75,666	31,291
Legal fees	241,543	263,277
Equipment	1,348	2,766
	<u>324,750</u>	<u>305,181</u>
Grant expenditures		
Energy purchase process consultant	46,733	44,490
Total General and Administrative	<u>896,209</u>	<u>937,610</u>
Employee Benefits		
New York State Employees' Retirement System contributions	54,189	51,068
Social security and Medicare taxes	32,961	35,380
Workers' compensation and disability insurance	2,519	2,519
Medical insurance net of employee contributions	56,934	50,060
Total Employee Benefits	<u>146,603</u>	<u>139,027</u>
Total administrative expenditures - general fund	<u>\$ 1,042,812</u>	<u>\$ 1,076,637</u>

**Report on Internal Control over Financial Reporting and Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

The Board of Directors
Buffalo Fiscal Stability Authority
Buffalo, New York

We have audited the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority), as of and for the year then ended June 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described below to be a material weakness.

Financial accounting and external reporting

Among other valuable services, informative monthly financial reports are prepared by management for the Board of Directors to use in monitoring operations. As part of its due diligence, management proactively communicates with us to ensure it understands and applies new accounting pronouncements when they become effective.

Historically, management has requested that we provide feedback and assistance with closing entries identified in the audit process, as well as adjustments required by GASB 34, and in drafting the annual financial statements and footnote disclosures. While this is typical of an organization of the Authority's size, an auditor cannot technically be part of an entity's system of internal control.

Management's Response

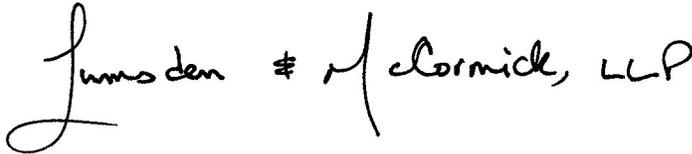
Based on an evaluation of resources and cost/benefit scenarios, management has elected to defer specific implementation and continue to use the services of its external auditing firm to ensure proper financial reporting and disclosure.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Authority's response to the finding identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, officials of the City of Buffalo, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "James J. McCormick, LLP". The signature is written in a cursive style with a large initial "J" and "M".

September 17, 2007

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH SECTION 2925(3)(f)
OF THE NEW YORK STATE PUBLIC AUTHORITIES LAW**

The Board of Directors
Buffalo Fiscal Stability Authority
Buffalo, New York

We have examined Buffalo Fiscal Stability Authority's (the Authority) compliance with Section 2925(3)(f) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations during the year ended June 30, 2007. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2007.

This report is intended solely for the information and use of management, the Board of Directors, officials of the City of Buffalo, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.



September 17, 2007