

BUFFALO FISCAL STABILITY AUTHORITY

FINANCIAL STATEMENTS

June 30, 2004

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 the Buffalo Fiscal Stability Authority (the Authority) as of June 30, 2004, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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, 2004, 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 29, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 29, 2004

BUFFALO FISCAL STABILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2004 (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. Deficit financing is restricted to a maximum of 65% of the projected budgetary gap for fiscal year 2004, declining to a maximum of 20% of the gap in fiscal year 2007. This power expires in fiscal year 2008.

In its capacity to issue bonds and notes on behalf of the City, the Authority has funded deficits and certain working capital needs of the City. 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 beginning July 1, 2004) 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, 2004. 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) and the School District's (beginning July 1, 2004) share of Erie County sales tax revenues and the City state aid, which together provided close to 100% of the Authority's 2004 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 BFSAs sales tax revenues to be collected depends upon various factors, including the economic conditions in 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% for the period ending June 30, 2037. Pursuant to State statutory authority, Erie County currently imposes sales tax at the rate of 4%. New York State has reauthorized the additional 1% sales tax rate in Erie County every year since January 1984, but is under no obligation to continue to do so. Currently neither the City nor the School District shares in the additional 1% sales tax. The Authority does not make projections of sales tax revenues.

Sales tax revenue for the year ended June 30, 2004 was \$62,875,280. The Authority also received state aid for the year ended June 30, 2004 in the amount of \$79,772,529. Investment income, which accounts for the remaining Authority revenue, totaled \$11,020.

The other significant element in the Authority's financial position is its long-term debt. During 2004, the Authority issued \$25,745,000 long-term bonds (Series 2004A). The bonding was intended to finance deficit funding of the City, with \$7,811,000 transferred to the City before the end of the fiscal year and the remaining amount, which included a premium on the bonds, net of debt issuance costs, transferred shortly after year end.

The statement of net assets shows a total net deficit of \$26,398,000. The deficit results largely from Authority debt issuance that 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. As of June 30, 2004, the Authority had bonds payable of \$25,745,000. In any year where the Authority issues more long-term debt than it retires, the deficit is likely to increase. The reconciliation on page 7 of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments were \$19,189,000 at June 30, 2004. The amount primarily represents proceeds from the series 2004A bond issuance that was remitted to the City on July 1, 2004.

Operating expenses for the Authority totaled \$986,356 under the fund basis of accounting, which includes capital asset purchases (\$57,392) as expenditures. The Authority currently employs 6 salaried staff members. Staff members worked an extensive amount of overtime totaling 2,175 uncompensated hours during the fiscal year.

Staff Expenses

Wages (inc Executive Director relocation)	\$345,601
Other staff related expenses	5,894
Temporary services and related fees	8,607
Total Direct Staff expenses	\$360,102
Staff Benefits	
NYS Employees Retirement System contribution	\$ 31,419
Payroll taxes, workers' comp and NYS disability	32,060
Health Insurance (net of employee contributions)	22,020
Total Staff Benefits	\$ 85,499
Total Staff Expenses	\$445,601

The next largest category of expenses was for professional fees, of which \$321,088 was legal fees and \$67,546 was for other professional consultants and advisors. Legal fees included general counsel work as well as labor and litigation expenses.

Directors of the Authority do not receive any compensation for their services but 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 (15)	\$13,055
Directors' travel reimbursements	12,227
Public Forum Expenses (2)	14,132
Total Meeting Expenses	\$39,414

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

Other Expenses

Office services including postage and delivery	\$ 3,459
Rent	22,140
Telephone and data processing	13,025
Insurance	415
Office Supplies	5,246
Staff travel	9,390
Bank fees	1,640
Total Other Expenses	\$55,315

Staff travel includes trips to Albany related to the amendments to the BFS Act and trips to New York City related to presentations to the rating agencies and to the issuance of debt.

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. As stated before, the Authority also purchased \$57,392 in capital assets, primarily telecommunications and computing equipment. Furniture of the Authority was primarily donated by New York State from used surplus furniture.

Debt Service Fund

The Authority issued its 2004A 10-year serial premium bonds in the amount of \$25,745,000 for financeable costs of the City on June 29, 2004. Net interest cost of the issue was 4.17%. Issuance costs were \$918,889 of which approximately 50% are attributable to non-recurring first-time issuer expenses. Included in these expenses were those related to an intensive process required to amend the Act to enhance the Authority's creditworthiness. The changes to the Act enabled the highest possible ratings for the Authority's debt, lower interest costs and savings for the City going forward.

Subsequent Event

The Authority issued its 2004A-1 premium Bond Anticipation Notes in the amount of \$84,000,000 on September 23, 2004 to finance cash flow needs of the City. A \$50,000,000 note matures on May 15, 2004 and a \$34,000,000 matures September 1, 2004. The May maturity is expected to be paid from the Authority's revenues from state aid to the City, while the \$34,000,000 is expected to be paid from the proceeds of a Revenue Anticipation Note issued by the City and placed with the Authority. Net interest cost of the issue was 1.75% and issuance costs were \$273,500. BFSA estimates that using the Authority as the conduit for debt issuance saved the City close to \$800,000 in debt issuance costs.

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, 2004

Assets

Cash and cash equivalents	\$ 19,189,081
Sales tax receivable	4,452,162
Due from other governments	6,137
Prepaid expenses	5,924
Bond issuance costs	918,889
Capital assets	57,150
Accumulated depreciation	(5,715)
Total assets	<u>24,623,628</u>

Liabilities

Accounts payable	65,494
Accrued liabilities	67,948
Due to the City of Buffalo	
Sales tax	4,045,577
Financeable costs	19,054,056
Retirement system payments	5,219
Bonds payable	
Due in more than one year	27,783,045
Total liabilities	<u>51,021,339</u>

Net Assets

Invested in capital assets, net of related debt	51,435
Unrestricted	(26,449,146)
Total net assets (deficit)	<u>\$ (26,397,711)</u>

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2004

Expenses

General and administrative	\$ 940,140
Distributions to City of Buffalo - financeable costs	26,865,056
Distributions to City of Buffalo - general operations	141,251,344
Total expenses	<u>169,056,540</u>

General revenues

Sales tax	62,875,280
State aid	79,772,529
Interest income	11,020
Total general revenues	<u>142,658,829</u>

Change in net assets (26,397,711)

Net assets - beginning -

Net assets (deficit) - ending \$ (26,397,711)

BUFFALO FISCAL STABILITY AUTHORITY

Balance Sheet - Governmental Funds

June 30, 2004

	General	Debt Service	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 126,925	\$ 19,062,156	\$ 19,189,081
Sales tax receivable	4,452,162	-	4,452,162
Due from other governments	6,137	-	6,137
Prepaid expenses	5,924	-	5,924
Total assets	\$ 4,591,148	\$ 19,062,156	\$ 23,653,304
Liabilities and Fund Balances			
Accounts payable	\$ 65,494	\$ -	\$ 65,494
Accrued liabilities	59,848	8,100	67,948
Due to the City of Buffalo	4,045,577	19,054,056	23,099,633
Total liabilities	4,170,919	19,062,156	23,233,075
Fund Balances			
Total undesignated fund balances	420,229	-	420,229
Total liabilities and fund balances	\$ 4,591,148	\$ 19,062,156	\$ 23,653,304

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

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

June 30, 2004

Total fund balances - governmental funds	\$ 420,229
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 \$57,150 and accumulated depreciation is \$5,715	51,435
Long-term 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	27,783,045
Accrued retirement contributions	<u>5,219</u>
	(27,788,264)
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:	<u>918,889</u>
Net assets (deficit)- governmental activities	\$ (26,397,711)

BUFFALO FISCAL STABILITY AUTHORITY

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

For the year ended June 30, 2004

	General	Debt Service	Total Governmental Funds
Revenues			
State aid	\$ 79,772,529	\$ -	\$ 79,772,529
Sales tax	62,875,280	-	62,875,280
Interest income	10,120	900	11,020
Total revenues	142,657,929	900	142,658,829
Expenditures			
General and administrative	900,857	-	900,857
Distributions to City of Buffalo - financeable costs	-	26,865,056	26,865,056
Distributions to City of Buffalo - general operations	141,251,344	-	141,251,344
Cost of bond issuance	-	918,889	918,889
Employee benefits	85,499	-	85,499
Total expenditures	142,237,700	27,783,945	170,021,645
Excess revenues (expenditures)	420,229	(27,783,045)	(27,362,816)
Other financing sources (uses)			
Proceeds from the issuance of bonds	-	25,745,000	25,745,000
Premium on bond obligations	-	2,038,045	2,038,045
Other financing sources	-	27,783,045	27,783,045
Net change in fund balances	420,229	-	420,229
Fund balances - beginning	-	-	-
Fund balances - ending	\$ 420,229	\$ -	\$ 420,229

See accompanying notes.

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, 2004

Total net change in fund balances - governmental funds **\$ 420,229**

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 equipment costs \$57,150 exceeds depreciation in the period \$5,715. 51,435

In the statement of activities, certain operating expenses- employees' retirement systems benefits -are measured by the amounts earned during the year. In the government funds these expenditures are reported as the amount of financial resources paid. This is the difference. (5,219)

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	(25,745,000)	
Bond issuance costs	918,889	
Bond premiums	(2,038,045)	<u>(26,864,156)</u>

Change in net assets - governmental activities **\$ (26,397,711)**

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 supplemented by Chapter 86 of the Laws of 2004 and as may be amended from time to time. The Act became effective July 3, 2003, when signed by the Governor. 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. Of the seven, one shall be a resident of the City and one shall be appointed following the recommendation of the State Comptroller; one such director shall be 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. 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 Joint Schools Construction Board, Buffalo Municipal Housing Authority, and any governmental agency, public authority, or public benefit corporation which receives money 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 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 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 the next 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 collective bargaining agreement 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 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.

Beginning July 1, 2004, as a result of Chapter 86 of the Laws of 2004, which amended the Act that created the Authority, all sales tax revenues designated for the City of Buffalo School District are paid directly by the State Comptroller to the Authority.

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 the monitoring of the City's 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.

Basis of Accounting and Measurement Focus

The government-wide 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. 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. 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, and the Authority also deducts, as necessary, amounts which in its judgment are required for Authority 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. Overhead expenses of the Authority that arise in the course of providing the Authority's oversight and debt issuance services, such as payroll and office 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 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 current period in the governmental funds. Within the government-wide statements, bond issuance costs are capitalized and amortized over the life of the 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 displayed together with the bonded liability. These amounts are subsequently amortized as a component 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 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.
- *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.

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 Board members have used resources of their businesses to provide numerous hours of contributed services in the form of specialized public relations assistance and human resource searches.

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 and the City. The resulting financial transactions between the Authority and the City 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 2004 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$62,875,280 were received, of which \$61,885,400 was or will be paid to the City. The balance was retained for Authority operations.
- The receipt of State aid for the City of \$79,772,500, with all amounts transferred to the City.

Authority debt issuance to fund financeable costs of the City encompassed the following:

- The sale of \$25,745,000 Series 2004A bonds by the Authority for financeable costs of the City. The amount of \$7,811,000 was transferred before year end, with the remaining amount, including the bond premium net of issuance costs, was remitted shortly after year end.

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. As of June 30, 2004 the Authority held cash and commercial paper of the General Electric Capital Corporation. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of State or its localities.

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.

Deposits at year end were covered by Federal Deposit Insurance and collateral held by the Authority's custodial banks in the Authority's name based upon the average daily funds available as determined by the banks.

4. Capital Assets:

Capital assets increased during the current year through the purchase of computers, telephonic, and office equipment amounting to \$57,150. Depreciation expense was recognized on the government-wide statements resulting in \$5,715 of accumulated depreciation.

5. Long-Term Liabilities

	July 1, 2003	Increases	Decreases	June 30, 2004	Due in One Year
Series 2004A Bond, maturing August 2014 with interest ranging from 4.0% to 5.25% over the life of the bond.	\$ -	\$ 25,745,000	\$ -	\$ 25,745,000	\$ -

The amount reflected for the bond included on the accompanying statement of net assets includes the premium received upon issuance. This difference will be amortized against interest expense over the life of the bond on a straight-line method (ten years). The difference at June 30, 2004 is \$2,038,045.

Debt service requirements:

Year ending June 30,	Principal	Interest
2005	\$ -	\$ 822,012
2006	2,035,000	1,268,700
2007	2,125,000	1,174,875
2008	2,235,000	1,065,875
2009	2,350,000	951,250
2010-2014	13,785,000	2,729,081
2015	3,215,000	84,394
	\$ 25,745,000	\$ 8,096,187

Lease obligations:

The Authority leases its office space from a City related entity under the terms of an operating lease. Rental expense amounted to \$22,140 for the year ended June 30, 2004. Future minimum rentals to be paid for all noncancelable operating leases are:

Years ending June 30,	
2005	\$ 31,200
2006	31,200
2007	28,600
	\$ 91,000

7. 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. All benefits generally vest after ten years of service.

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 contributions of 3% of salary except for employees who joined prior to July 27, 1976 or have greater than 10 years of service. The Comptroller annually certifies the required contribution rate expressed as a percentage of participants' wages for contributions to the pension accumulation fund. The authority made 100% of its required contributions for the year ended June 30, 2004 which amounted to \$31,419.

8. 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 and/or hiring freezes. No damages have been specified.

9. Subsequent Event:

The Authority sold \$84,000,000 par value premium Bond Anticipation Notes (BANs) on September 23, 2004 at a coupon rate of 3%. Proceeds will be used to finance the City's cash flow needs for the 2004-2005 fiscal year. The notes were structured to mature as follows: \$50 million plus interest on May 15, 2005 and \$34 million on September 1, 2005. The BANs rely on the Authority's authorization to renew the notes or issue long-term bonds to refund these obligations. However, repayment of the BANs is expected to be made from proceeds of the Authority's state aid for the May maturity and from proceeds of repayment of a RAN obligation in the amount of \$34 million plus interest issued by the City and placed privately with the Authority maturing July 15, 2005.

BUFFALO FISCAL STABILITY AUTHORITY

Supplementary Information Schedule of Administrative Expenditures - General Fund

For the year ended June 30, 2004

See Independent Auditors' Report

General and Administrative

Board Functions	
Public meeting expenses	\$ 13,054
Public forums	14,133
Directors travel reimbursement	12,227
	<hr/>
	39,414
Staff expenses	
Wages	345,601
Professional development	3,403
Parking	2,491
Temporary services and related fees	8,607
	<hr/>
	360,102
Central services	
Postage and dues	3,459
Rent	22,140
Telephone and data processing	13,025
Insurance	415
Office supplies	5,246
	<hr/>
	44,285
Administrative	
Travel	9,390
Bank fees	1,640
Professional fees and consultants	67,546
Legal fees	321,088
Equipment	57,392
	<hr/>
	457,056
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Total General and Administrative	900,857

Employee Benefits

New York State Employees' Retirement System contributions	31,419
Social security and Medicare taxes	29,487
Workers' compensation and disability insurance	2,573
Medical insurance net of employee contributions	22,020
	<hr/>
Total Employee Benefits	85,499

Total administrative expenditures - general fund	\$ 986,356
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Report on Compliance and on Internal Control over Financial Reporting 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 basic financial statements of the Buffalo Fiscal Stability Authority (the Authority), as of June 30, 2004 and for the year then ended, and have issued our report thereon dated September 29, 2004. 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.

Compliance

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 grants, 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and the Office of the State Comptroller, 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 blue ink that reads "Lumsden & McCormick, LLP".

September 29, 2004

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Lumsden & McCormick, LLP
Certified Public Accountants

Independent Auditors' Report on Compliance with Investment Guidelines for Public Authorities

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

We have audited the basic financial statements of Buffalo Fiscal Stability Authority (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 29, 2004. 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 basic financial statements are free from material misstatement.

Compliance with the *Investment Guidelines for Public Authorities* (the Guidelines) issued by the Office of the State Comptroller, State of New York and investment guidelines established by the Authority are the responsibility of the management of the Authority. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Authority's compliance with the Guidelines and the Authority's own investment guidelines. However, our objective was not to provide an opinion on overall compliance with such provisions. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

September 29, 2004