

**BUFFALO FISCAL STABILITY AUTHORITY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2008**

# BUFFALO FISCAL STABILITY AUTHORITY

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June 30, 2008

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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, 2008, 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.

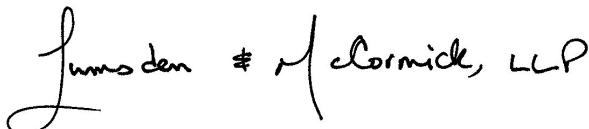
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, during the fiscal year ended June 30, 2008, the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008, 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, 2008

## **BUFFALO FISCAL STABILITY AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2008 (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, in the Authority's view under the current Authority-approved financial plan, would end no earlier than during 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 empowered BFSA in the earlier years of its existence 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, 2008. 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 and changes in net assets 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 percent of the Authority’s 2008 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 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, and renewed for a subsequent period, the County is 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 BFSAs of approximately \$5.9 million during the 2008 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 BFSAs in the 2007-08 fiscal year.

Sales tax revenue for the year ended June 30, 2008 was \$110,115,590. The Authority also received State aid for the year ended June 30, 2008 in the amount of \$160,071,058. Investment income, which accounts for the remaining Authority revenue, totaled \$6,665,493 of which \$6,091,183 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 2007, the Authority issued a total of \$109,515,000 in long-term bonds (Series 2004A , 2005A, 2006A and 2007A) 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, 2006A and 2007A bonds. On July 7, 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 statement of net assets shows a total net deficit of \$708,567. The deficit is the result of two factors: Firstly, the 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, 2008, the Authority had bonds payable of \$151,816,832, while long term receivables from the City were \$117,682,185. 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. Secondly, the Authority receives funds from the State which the City can only use for specified purposes. The Authority retains those funds until the conditions have been met. This results in a temporary increase in assets that counteracts the above described effect of the debt issuance. Should this situation not recur in future years the deficit is likely to increase. The statement on page 3 of these financial statements provides additional detail on the determination of the net deficit amount.

Cash and investments were \$29,527,366 at June 30, 2008. This amount includes monies set aside for debt repayment as well as State Aid in the amount of \$14,673,611 paid to BFSa for targeted purposes awaiting the City's request for disbursement.

Operating expenses for the Authority totaled \$919,541 - under the fund basis of accounting. The Authority employed five salaried staff members at June 30, 2008.

#### Staff Expenses

Wages	\$426,533
Other staff related expenses	\$ 7,343
<b>Total Direct Staff expenses</b>	<b>\$433,876</b>
Staff Benefits	
NYS Employees Retirement System contribution	\$ 35,567
Payroll taxes, workers' comp and NYS disability	\$ 36,262
Health Insurance (net of employee contributions)	\$ 68,430
<b>Total Staff Benefits</b>	<b>\$140,259</b>
<b>Total Staff Expenses</b>	<b>\$574,135</b>

The next largest category of expenses was for professional fees, of which \$231,797 was legal fees and \$32,908 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	\$ 9,559
Directors' travel reimbursements	5,137
Public Forum and public notices Expense	5,556
<b>Total Meeting Expenses</b>	<b>\$20,252</b>

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

Other Expenses

Office services including postage and delivery	\$ 3,976
Rent	36,543
Telephone and data processing	13,303
Office Supplies	4,161
Staff travel	153
Other	2,313
<b>Total Other Expenses</b>	<b>\$60,449</b>

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 did not enter into any new debt transactions during this fiscal year.

**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, Executive Director, Buffalo Fiscal Stability Authority, Market Arcade Building - Suite 400, Buffalo, New York 14203.

## BUFFALO FISCAL STABILITY AUTHORITY

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### Statement of Net Assets

June 30, 2008

(With comparative totals as of June 30, 2007)

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 325,412	\$ 298,293
Investments	29,201,954	54,782,782
Notes receivable - City of Buffalo due within one year	9,063,006	9,230,586
Due from other governments	33,767,378	33,591,175
Prepaid expenses	16,194	13,587
Notes receivable - City of Buffalo	108,619,179	117,929,891
Bond issuance costs, net	2,329,240	2,578,316
Capital assets	77,893	76,981
Accumulated depreciation	(64,450)	(48,859)
<b>Total assets</b>	<b>183,335,806</b>	<b>218,452,752</b>
<b>Liabilities</b>		
Accounts payable	26,090	79,269
Accrued liabilities	2,373,571	3,292,836
Bond anticipation note payable	-	30,012,655
Due to the City of Buffalo		
Sales tax	10,485,349	10,514,439
General purpose aid	19,253,831	19,165,879
Bonds payable		
Bonds due within one year	11,010,000	7,225,000
Bonds due beyond one year	140,806,832	152,529,995
Other postemployment benefits	88,700	-
<b>Total liabilities</b>	<b>184,044,373</b>	<b>222,820,073</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	13,443	28,122
Restricted for		
Debt service	14,673,611	10,773,546
State mandated initiatives	14,683,659	12,746,400
Unrestricted	(30,079,280)	(27,915,389)
<b>Total net assets (deficit)</b>	<b>\$ (708,567)</b>	<b>\$ (4,367,321)</b>

See accompanying notes.



## BUFFALO FISCAL STABILITY AUTHORITY

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### Statement of Activities and Changes in Net Assets

For the year ended June 30, 2008

(With comparative totals for June 30, 2007)

	2008	2007
<b>Expenses</b>		
General and administrative	\$ 1,271,997	\$ 1,454,257
Distributions		
City of Buffalo - financeable costs	-	60,154,350
City of Buffalo - general operations	231,066,550	149,540,606
City of Buffalo School District	34,434,796	33,218,271
Interest expense	6,420,044	7,280,555
<b>Total expenses</b>	<u>273,193,387</u>	<u>251,648,039</u>
<b>General revenues</b>		
State aid	160,071,058	155,667,026
Sales tax	110,115,590	105,654,023
Interest and other income	6,665,493	6,031,733
<b>Total general revenues</b>	<u>276,852,141</u>	<u>267,352,782</u>
<b>Change in net assets</b>	3,658,754	15,704,743
<b>Net assets (deficit) - beginning</b>	<u>(4,367,321)</u>	<u>(20,072,064)</u>
<b>Net assets (deficit) - ending</b>	<u>\$ (708,567)</u>	<u>\$ (4,367,321)</u>

See accompanying notes.

**BUFFALO FISCAL STABILITY AUTHORITY**

**Balance Sheet - Governmental Funds**

**June 30, 2008**

(With summarized comparative totals as of June 30, 2007)

			Total	
			Governmental Funds	
	General	Debt Service	2008	2007
<b>Assets</b>				
Cash and cash equivalents	\$ 325,412	\$ -	\$ 325,412	\$ 298,293
Investments	14,528,343	14,673,611	29,201,954	54,782,782
Due from other governments	31,144,812	120,064,946	151,209,758	160,511,847
Prepaid expenses	16,194	-	16,194	13,587
<b>Total assets</b>	<b>\$ 46,014,761</b>	<b>\$ 134,738,557</b>	<b>\$ 180,753,318</b>	<b>\$ 215,606,509</b>
<b>Liabilities and Fund Balances</b>				
Accounts payable	\$ 26,090	\$ -	\$ 26,090	\$ 79,269
Accrued liabilities	18,998	2,354,573	2,373,571	3,292,836
Bond anticipation note payable	-	-	-	30,000,000
Due to the City of Buffalo	29,651,228	87,952	29,739,180	29,680,318
<b>Total liabilities</b>	<b>29,696,316</b>	<b>2,442,525</b>	<b>32,138,841</b>	<b>63,052,423</b>
<b>Fund Balances</b>				
Reserved by enabling legislation	14,683,659	-	14,683,659	12,746,400
Designated for debt service	-	14,673,611	14,673,611	10,773,546
Undesignated	1,634,786	117,622,421	119,257,207	129,034,140
<b>Total fund balances</b>	<b>16,318,445</b>	<b>132,296,032</b>	<b>148,614,477</b>	<b>152,554,086</b>
<b>Total liabilities and fund balances</b>	<b>\$ 46,014,761</b>	<b>\$ 134,738,557</b>	<b>\$ 180,753,318</b>	<b>\$ 215,606,509</b>

**BUFFALO FISCAL STABILITY AUTHORITY**

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

**June 30, 2008**

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**Total fund balances - governmental funds** \$ 148,614,477

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 \$77,893 and accumulated depreciation is \$64,450. 13,443

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

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 (151,816,832)
- Other postemployment benefits (88,700)

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 \$911,302. 2,329,240

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**Net assets (deficit) - governmental activities** \$ (708,567)

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## BUFFALO FISCAL STABILITY AUTHORITY

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

For the year ended June 30, 2008

(With summarized comparative totals for June 30, 2007)

	General	Debt Service	Total Governmental Funds	
			2008	2007
<b>Revenues</b>				
State aid	\$ 160,071,058	\$ -	\$ 160,071,058	\$ 155,667,026
Sales tax	110,115,590	-	110,115,590	105,654,023
Interest income	574,310	6,091,183	6,665,493	6,007,792
<b>Total revenues</b>	<b>270,760,958</b>	<b>6,091,183</b>	<b>276,852,141</b>	<b>267,328,841</b>
<b>Expenditures</b>				
General and administrative	779,282	-	779,282	896,209
Distributions				
City of Buffalo - financeable costs	-	-	-	60,154,350
City of Buffalo - general operations	230,702,967	363,583	231,066,550	149,540,606
City of Buffalo School District	34,434,796	-	34,434,796	33,218,271
Cost of bond issuance	-	-	-	562,047
Employee benefits	140,259	-	140,259	146,603
Debt service				
Principal	-	7,225,000	7,225,000	3,460,000
Interest	159,860	6,986,003	7,145,863	8,338,047
<b>Total expenditures</b>	<b>266,217,164</b>	<b>14,574,586</b>	<b>280,791,750</b>	<b>256,316,133</b>
<b>Excess revenues (expenditures)</b>	<b>4,543,794</b>	<b>(8,483,403)</b>	<b>(3,939,609)</b>	<b>11,012,708</b>
<b>Other financing sources (uses)</b>				
Operating transfers in (out), net	(2,923,272)	2,923,272	-	-
Proceeds from the issuance of bonds	-	-	-	28,470,000
Premiums on BAN/bond obligations	-	-	-	1,254,023
<b>Other financing sources (uses)</b>	<b>(2,923,272)</b>	<b>2,923,272</b>	<b>-</b>	<b>29,724,023</b>
<b>Net change in fund balances</b>	<b>1,620,522</b>	<b>(5,560,131)</b>	<b>(3,939,609)</b>	<b>40,736,731</b>
<b>Fund balances - beginning</b>	<b>14,697,923</b>	<b>137,856,163</b>	<b>152,554,086</b>	<b>111,817,355</b>
<b>Fund balances - ending</b>	<b>\$ 16,318,445</b>	<b>\$ 132,296,032</b>	<b>\$ 148,614,477</b>	<b>\$ 152,554,086</b>

See accompanying notes.

**BUFFALO FISCAL STABILITY AUTHORITY**

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**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, 2008**

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**Total net change in fund balances - governmental funds** \$ (3,939,609)

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 (\$15,591) exceeds equipment cost (\$912) in the period. (14,679)

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. 7,225,000

In the statement of activities and changes in net assets, certain operating expenses - other post employment benefits - are measured by the amounts earned during the year. In the governmental funds these expenditures are reported as paid. In the current year, differences in the amount earned versus the amount paid is: (88,700)

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:

Amortization of bond and BAN premiums	725,818	
Amortization of bond issuance costs	(249,076)	476,742
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**Change in net assets - governmental activities** \$ 3,658,754

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# BUFFALO FISCAL STABILITY AUTHORITY

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## Notes to Basic Financial Statements

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### 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, is effective as of the date of the Act and continues until conditions are met regarding the stability of the City's finances. 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, in the Authority's view under the current Authority-approved financial plan, would end no earlier than during the City's 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 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, 2007, from which the summarized information was derived.

## Basis of Accounting and Measurement Focus

The government-wide 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 revenue 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 revenue 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 and debt service funds. 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 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, if any.



## 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.

## 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 2008 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$110,115,590 were received, of which \$56,739,580 was or will be paid to the City and \$34,434,796 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 \$160,071,058 with \$158,308,276 was transferred to the City and the remaining amount retained by the Authority for debt service payments. Of this amount, \$19,165,879 was accrued as revenue in fiscal 2007, and transferred to the City when it is received in December 2007, with a similar amount for 2008.

## 3. Cash and Investments

Investment policies are governed by 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 the 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, 2008, 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, 2008 consist of the following:

	Carrying Value	Fair Value
Cash	\$ 59,126	\$ 59,126
Certificates of deposit	2,604,500	2,604,500
U.S. Treasury Slugs	2,658,955	2,658,955
U. S. Treasury Bills	140,362	104,572
Fed'l Home Loan Mortg Corp. Disc. Paper	3,855,309	3,855,309
Fed'l National Mortg. Assn. Disc. Notes	20,102,040	20,102,040
Accrued interest	107,074	107,074
	<u>\$ 29,527,366</u>	<u>\$ 29,491,576</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	\$ 11,978,933
June 2008 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 \$995,421	24,221,539
Mirror bond 2005B&C (1/15/2019) interest at 5.0% inclusive of premium of \$1,215,135	41,255,135
Mirror bond 2006A (1/15/2020) interest at 5.0% inclusive of premium of \$209,887	24,883,352
Mirror bond 2007A (1/15/2023) interest at 5.0% inclusive of premium of \$822,484	27,322,159
Accrued interest	2,622,566
	<u>\$ 151,449,563</u>

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

Year ending	Principal	Interest
June 30,		
2009	\$ 9,063,006	\$ 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	10,404,673	3,480,720
2014-2018	40,312,683	10,205,637
2019-2023	18,309,436	2,308,706
2024-2025	587,622	44,504
	<u>\$ 114,439,258</u>	<u>\$ 35,776,774</u>

#### 5. Capital Assets

	2008	2007
Furniture, fixtures, and computers	\$ 77,893	\$ 76,981
Accumulated depreciation	(64,450)	(48,859)
	<u>\$ 13,443</u>	<u>\$ 28,122</u>

Capital assets increased by \$912 in fiscal 2008 and depreciation expense amounted to \$15,591.

#### 6. Short-Term Debt

There were no outstanding bond anticipation notes (BANs) as of June 30, 2008. No new BANs were issued and the Authority redeemed \$30,000,000 in BANs payable existing as of June 30, 2007, which carried interest at 4.0% and matured August 2007. The carrying amount on the accompanying statement of net assets as of June 30, 2007 included the unamortized premium on the BAN of \$12,655.

## 7. Long-Term Liabilities

	July 1, 2007	Increases	Decreases	June 30, 2008	Amounts 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.	21,585,000	\$ -	\$ 2,235,000	\$ 19,350,000	\$ 2,350,000
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	28,030,000	-	2,270,000	25,760,000	2,320,000
Series 2005B bond maturing September 2019 with interest at 5.0% over the life of the bond.	45,730,000	-	1,740,000	43,990,000	3,950,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	27,270,000	-	980,000	26,290,000	1,460,000
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	930,000
Premiums:					
2004A	1,426,985	-	203,808	1,223,177	-
2005A	1,943,503	-	106,663	1,836,840	-
2005B	3,294,278	-	269,532	3,024,746	-
2006A	1,103,013	-	77,922	1,025,091	-
2007A	902,216	-	55,238	846,978	-
	<b>\$ 159,754,995</b>	<b>\$ -</b>	<b>\$ 7,938,163</b>	<b>\$ 151,816,832</b>	<b>\$ 11,010,000</b>

### Debt service requirements:

Year ending June 30,	Principal	Interest
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	14,535,000	4,244,397
2014-2018	50,900,000	11,471,705
2019-2023	22,955,000	2,591,667
2024-2026	2,845,000	969,398
	<b>\$ 143,860,000</b>	<b>\$ 42,482,424</b>

### Lease obligations:

The Authority leases its office space from a City related entity under the terms of an operating lease which includes renewal options through May 31, 2010. Rental expense amounted to \$36,543 for the year ended June 30, 2008. Future minimum rental requirements for the years ending June 30, 2009 and 2010 are \$37,800 and \$35,780.

### 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 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, 2008, 2007, and 2006 and amounted to \$35,567; \$54,189; and \$51,068, respectively.

### 9. Postemployment Healthcare Benefits

The Authority maintains a single-employer defined benefit healthcare plan (the Plan) providing for lifetime cost sharing of medical, dental, and vision premiums to eligible retirees and spouses.

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the Authority over age 65 with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended June 30, 2008, there were no retirees of the Authority receiving benefits.

The Authority's annual other postemployment benefit (OPEB) expense is calculated based on the annual required contribution of the Authority (ARC). The Authority has elected to calculate the ARC and related information using the projected unit credit cost method permitted by GASB. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize the unfunded actuarial liability over 30 years.

The following table summarizes the Authority's annual OPEB for fiscal year ended June 30, 2008, the amount actually contributed to the Plan, and changes in the Authority's OPEB obligation:

Annual required contribution	
Normal cost	\$ 80,300
Amortization of unfunded actuarial accrued liability	8,400
Interest adjustment	-
	<hr/>
	88,700
Contributions made	-
	<hr/>
	88,700
Increase in net OPEB obligation	88,700
Net OPEB obligation - beginning of year	-
	<hr/>
Net OPEB obligation - end of year	\$ 88,700

As indicated above, the Authority's annual OPEB cost amounted to \$88,700, the percentage of annual OPEB cost contributed to the Plan was 0%, and the net OPEB obligation for 2008 was \$225,100. In subsequent periods, these indicators will be disclosed for three fiscal years.

As of June 30, 2008, the actuarial accrued liability for benefits was \$225,100, all of which is unfunded. The annual payroll of employees covered by the Plan was \$426,533, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 53.8%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of the Authority are subject to continual revision as actual results compared with past expectations and new estimates are made about the future. A schedule of funding progress will be presented in future years, as required supplementary information. This schedule will display multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the Authority and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the Authority and Plan members. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Retirement age for active employees* – assumed employees will not retire before age 65 and ten years of service.

*Marital status* – Assumed 60% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

*Mortality* – RP2000, sex distinct with full generational projections using scale AA for active employees and retirees.

*Turnover* – None assumed.

*Payroll growth* – A 4% payroll growth rate was used.

*Healthcare cost trend rate* – The expected rate of increase in healthcare premiums was based on projections developed by the actuary's healthcare specialists. An initial inflation rate of 9.5%, reduced to an ultimate rate of 5.0% after nine years was used. Vision and dental plans were based on a 5% constant rate.

*Health insurance premiums* – 2008 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the Authority's general assets, a discount rate of 5.0% was used. The level percentage of projected payroll of active plan members method is used to amortize the unfunded actuarial liability. The remaining amortization period at June 30, 2008 was 29 years.

## **10. 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 freezes. No damages have been specified.

## BUFFALO FISCAL STABILITY AUTHORITY

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### Supplementary Information Schedule of Administrative Expenditures - General Fund

For the years ended June 30, 2008 and 2007

See Independent Auditors' Report

	2008	2007
<b>General and Administrative</b>		
Board functions		
Public meeting expenses	\$ 9,559	\$ 9,591
Public forums	5,556	2,126
Directors travel reimbursement	5,137	2,911
	20,252	14,628
Staff expenses		
Wages	426,533	441,117
Professional development	3,236	3,039
Parking	3,561	4,008
Payroll processing fees	546	634
	433,876	448,798
Central services		
Postage, printing and dues	3,976	7,788
Rent	36,543	30,705
Telephone and data processing	13,303	17,703
Repairs and maintenance	164	-
Insurance	203	614
Office supplies	4,161	4,490
	58,350	61,300
Administrative		
Travel	153	6,193
Professional fees and consultants	32,908	75,666
Legal fees	231,797	241,543
Equipment	1,946	1,348
	266,804	324,750
Grant expenditures		
Energy purchase process consultant	-	46,733
<b>Total General and Administrative</b>	779,282	896,209
<b>Employee Benefits</b>		
New York State Employees' Retirement System contributions	35,567	54,189
Social Security and Medicare taxes	33,743	32,961
Workers' compensation and disability insurance	2,519	2,519
Medical insurance net of employee contributions	68,430	56,934
<b>Total Employee Benefits</b>	140,259	146,603
<b>Total administrative expenditures - general fund</b>	<b>\$ 919,541</b>	<b>\$ 1,042,812</b>

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

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, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 17, 2008. 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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

Junsden & McCormick, LLP

September 17, 2008



**Independent Accountants' Report on Compliance with Section 2925(3)(f)  
of the New York State Public Authorities Law**

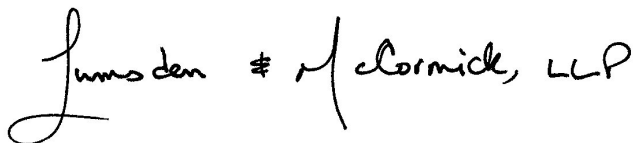
The Board of Directors  
Buffalo Fiscal Stability Authority  
Buffalo, New York

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, 2008. 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, 2008.

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, 2008