

BUFFALO FISCAL STABILITY AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2011

BUFFALO FISCAL STABILITY AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Buffalo Fiscal Stability Authority

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, 2011, and for the year then ended, which collectively comprise the Authority's 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, 2011, 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 2 to the financial statements, the Authority adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011, on our consideration of the Authority's internal control over financial reporting and on 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis preceding the financial statements, and the schedule of funding progress for other postemployment benefits on page 16 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. 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. The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



September 23, 2011

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Net Assets

June 30, 2011

(With comparative totals as of June 30, 2010)

	2011	2010
Assets		
Cash and cash equivalents	\$ 18,148,307	\$ 17,807,470
Investments	18,438,067	17,567,578
Notes receivable - City of Buffalo due within one year	11,530,165	12,639,443
Due from other governments	32,646,672	32,490,822
Prepaid expenses	15,146	17,190
Notes receivable - City of Buffalo	72,134,932	83,905,899
Bond issuance costs, net	1,624,216	1,859,224
Capital assets	81,839	79,249
Accumulated depreciation	(78,541)	(77,179)
Total assets	154,540,803	166,289,696
Liabilities		
Accounts payable	25,827	29,077
Accrued liabilities	1,760,869	2,029,617
Due to the City of Buffalo		
Sales tax	10,217,093	9,301,384
General purpose aid	19,165,879	19,195,769
Bonds payable		
Bonds due within one year	15,525,000	14,360,000
Bonds due beyond one year	97,052,344	113,290,507
Other postemployment benefits	314,222	279,627
Total liabilities	144,061,234	158,485,981
Net Assets		
Invested in capital assets, net of related debt	3,298	2,070
Restricted	36,220,806	35,077,582
Unrestricted	(25,744,535)	(27,275,937)
Total net assets	\$ 10,479,569	\$ 7,803,715

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2011

(With comparative totals for June 30, 2010)

	2011	2010
Expenses		
General and administrative	\$ 764,712	\$ 810,767
Distributions		
City of Buffalo - general operations	236,791,780	242,212,615
City of Buffalo School District	34,296,665	32,754,438
Interest expense	4,805,345	5,476,100
Total expenses	<u>276,658,502</u>	<u>281,253,920</u>
General revenues		
State aid	165,865,551	167,126,353
Sales tax	108,771,463	106,454,206
Interest and other income	4,697,342	5,314,954
Total general revenues	<u>279,334,356</u>	<u>278,895,513</u>
Change in net assets	2,675,854	(2,358,407)
Net assets - beginning	<u>7,803,715</u>	<u>10,162,122</u>
Net assets - ending	<u>\$ 10,479,569</u>	<u>\$ 7,803,715</u>

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

Balance Sheet - Governmental Funds

June 30, 2011

(With summarized comparative totals as of June 30, 2010)

	General	Debt Service	Total Governmental Funds	
			2011	2010 (As Restated)
Assets				
Cash and cash equivalents	\$ 18,143,306	\$ 5,001	\$ 18,148,307	\$ 17,807,470
Investments	-	18,438,067	18,438,067	17,567,578
Due from other governments	30,792,606	85,519,163	116,311,769	128,796,359
Prepaid expenses	15,146	-	15,146	17,190
Total assets	\$ 48,951,058	\$ 103,962,231	\$ 152,913,289	\$ 164,188,597
Liabilities and Fund Balances				
Accounts payable	\$ 25,827	\$ -	\$ 25,827	\$ 29,077
Accrued liabilities	17,993	1,742,876	1,760,869	2,029,617
Due to the City of Buffalo	29,172,708	210,264	29,382,972	28,497,153
Total liabilities	29,216,528	1,953,140	31,169,668	30,555,847
Fund Balances				
Nonspendable:				
Prepaid expenses	15,146	-	15,146	17,190
Restricted:				
Debt service	-	102,009,091	102,009,091	113,801,784
State mandated initiatives	17,993,004	-	17,993,004	17,699,013
Unassigned	1,726,380	-	1,726,380	2,114,763
Total fund balances	19,734,530	102,009,091	121,743,621	133,632,750
Total liabilities and fund balances	\$ 48,951,058	\$ 103,962,231	\$ 152,913,289	\$ 164,188,597

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY

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

June 30, 2011

Total fund balances - governmental funds \$ 121,743,621

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

Capital assets net of accumulated depreciation used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds. 3,298

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

Bonds payable, net	(112,577,344)	
Other postemployment benefits	<u>(314,222)</u>	(112,891,566)

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. 1,624,216

Net assets - governmental activities **\$ 10,479,569**

BUFFALO FISCAL STABILITY AUTHORITY

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

For the year ended June 30, 2011
(With summarized comparative totals for June 30, 2010)

			Total	
	General	Debt Service	Governmental Funds 2011	2010
Revenues				
State aid	\$ 165,865,551	\$ -	\$ 165,865,551	\$ 167,126,353
Sales tax	108,771,463	-	108,771,463	106,454,206
Interest income	73,810	4,863,337	4,937,147	5,402,129
Total revenues	274,710,824	4,863,337	279,574,161	278,982,688
Expenditures				
General and administrative	641,311	-	641,311	604,664
Distributions				
City of Buffalo - general operations	236,403,713	388,067	236,791,780	242,212,615
City of Buffalo School District	34,296,665	-	34,296,665	32,754,438
Employee benefits	90,034	-	90,034	106,133
Debt service				
Principal	-	14,360,000	14,360,000	11,730,000
Interest	-	5,283,500	5,283,500	5,954,255
Total expenditures	271,431,723	20,031,567	291,463,290	293,362,105
Excess revenues (expenditures)	3,279,101	(15,168,230)	(11,889,129)	(14,379,417)
Other financing sources (uses)				
Operating transfers in (out), net	(3,375,537)	3,375,537	-	-
Net change in fund balances	(96,436)	(11,792,693)	(11,889,129)	(14,379,417)
Fund balances - beginning	19,830,966	113,801,784	133,632,750	148,012,167
Fund balances - ending	\$ 19,734,530	\$ 102,009,091	\$ 121,743,621	\$ 133,632,750

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, 2011

Total net change in fund balances - governmental funds \$ (11,889,129)

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 capital outlays exceed depreciation expense. 1,228

Accrued interest income collected several months after fiscal year end are not considered "available" resources and not recognized in the governmental funds until received. This is the difference in interest income between the government-wide and funds statements. (239,805)

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 bond principal payments amounted to: 14,360,000

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: (34,595)

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 premiums	713,163	
Amortization of bond issuance costs	(235,008)	<u>478,155</u>

Change in net assets - governmental activities \$ 2,675,854

BUFFALO FISCAL STABILITY AUTHORITY

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

The 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 Urban Renewal Agency, 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 will continue 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 or an advisory period. After an advisory period commences, 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, during a control period, 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. Under an advisory period, the Authority's monitoring responsibilities continue to exist, however the Authority is not required to approve the various items as noted above, but will publicly comment on such items.

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 is used to account for resources that are restricted, committed or assigned to expenditure for principal and interest payments on long-term debt obligations of governmental activities on behalf of the City. Financial resources that are being accumulated for principal and interest payments maturing in future years are also included in this fund.

The 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, 2010, 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 equipment or property purchased 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 withholds, 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.

Bond Issuance Costs

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 on a straight-line basis 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.

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

Restricted fund balances and net assets result from reserves created primarily by enabling legislation to preserve resources for future expenditures as required by budgetary regulations or bond instruments. Assigned fund balances consist of the planned use of existing debt service fund balances for future debt service as determined by the Authority's Board of Directors. The Authority considers restricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Nonspendable fund balances represent resources that cannot be spent because they are not expected to be converted to cash and include prepaid expenses.

Fund balance and net asset restrictions consist of the following reserves:

Debt service - used to accumulate resources for a sinking fund in connection with the requirements of the related bond agreements.

State mandated initiatives – used to accumulate 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.

2. Change in Accounting Principle

For the fiscal year ended June 30, 2011, the Authority adopted GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This pronouncement requires the Authority to classify fund balance into five distinctive categories: nonspendable, restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent including policy disclosure on how amounts in these categories are considered spent. Prior year amounts of restricted net assets and fund balance classifications within each fund have been restated to conform with the requirements of GASB 54.

3. 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 2011 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$108,771,463 were recorded, of which \$53,135,670 was or will be paid to the City and \$34,296,665 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 \$165,654,726 was transferred to the City. Of this amount, \$18,955,054 was accrued as revenue in fiscal 2010. The Authority has accrued \$19,165,879 at June 30, 2011, to be remitted to the City in December 2011. In addition, the Authority transfers interest earned on funds held on behalf of the City. Total interest earnings distributed to the City for the year ended June 30, 2011 was \$461,915.

4. 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, 2011, 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, 2011 consist of the following:

	Carrying Value	Fair Value
Cash	\$ 10,982	\$ 10,982
Money Market	18,137,325	18,137,325
U.S. Treasury SLGS	3,005,697	3,028,559
U. S. Treasury Bills	138,950	138,950
Fed'l Home Loan Mortgage Corp. Disc. Paper	5,450,003	5,455,737
Fed'l National Mortgage Assn. Disc. Notes	9,633,152	9,646,554
Accrued interest	210,265	210,265
	<u>\$ 36,586,374</u>	<u>\$ 36,628,372</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 commercial paper due within 45 days of purchase.

5. Due from Other Governments

Due from New York State:		
May and June sales tax receipts	\$	11,626,727
June 2011 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 \$812,837		16,132,322
Mirror bond 2005B&C (1/15/2019), interest at 5.0% inclusive of premium of \$890,298		24,270,297
Mirror bond 2006A (1/15/2020), interest at 5.0% inclusive of premium of \$155,820		20,118,392
Mirror bond 2007A (1/15/2023), interest at 5.0% inclusive of premium of \$661,563		23,144,086
Accrued interest		1,854,066
		<u>\$ 116,311,769</u>

Amounts to be received from the City, net of bond premiums of \$2,520,518, on the mirror bonds are as follows:

Year ending June 30,	Principal	Interest
2012	\$ 11,530,165	\$ 4,057,229
2013	10,404,673	3,480,720
2014	10,965,657	2,960,488
2015	8,691,439	2,412,204
2016	7,852,712	1,977,632
2017-2021	26,768,761	4,776,882
2022-2025	4,931,172	431,641
	<u>\$ 81,144,579</u>	<u>\$ 20,096,796</u>

6. Capital Assets

	2010	2009
Furniture, fixtures, and computers	\$ 81,839	\$ 79,249
Accumulated depreciation	(78,541)	(77,179)
	<u>\$ 3,298</u>	<u>\$ 2,070</u>

Capital assets increased by \$2,590 in fiscal 2011 and depreciation expense amounted to \$1,362.

7. Long-Term Liabilities

	July 1, 2010	Increases	Decreases	June 30, 2011	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.	\$ 14,525,000	\$ -	\$ 2,610,000	\$ 11,915,000	\$ 2,750,000
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	20,465,000	-	3,030,000	17,435,000	1,960,000
Series 2005B&C bond maturing September 2019 with interest at 5.0% over the life of the bond.	36,655,000	-	5,710,000	30,945,000	7,565,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	23,315,000	-	1,575,000	21,740,000	1,760,000
Series 2007A bond maturing September 2023 with interest ranging from 4.0% to 5.0% over the life of the bond.	26,160,000	-	1,435,000	24,725,000	1,490,000
Premiums:					
2004A	815,561	-	203,808	611,753	-
2005A	1,623,514	-	106,663	1,516,851	-
2005B	2,485,682	-	269,532	2,216,150	-
2006A	869,245	-	77,923	791,322	-
2007A	736,505	-	55,237	681,268	-
	<u>\$ 127,650,507</u>	<u>\$ -</u>	<u>\$ 15,073,163</u>	<u>\$ 112,577,344</u>	<u>\$ 15,525,000</u>

Debt service requirements:

Year ending June 30,	Principal	Interest
2012	\$ 15,525,000	\$ 5,007,552
2013	14,535,000	4,244,397
2014	13,540,000	3,513,517
2015	14,265,000	2,814,503
2016	8,780,000	2,175,244
2017-2021	33,020,000	5,297,544
2022-2026	7,095,000	492,084
	<u>\$ 106,760,000</u>	<u>\$ 23,544,841</u>

Lease obligations:

The Authority lease office space from a City related entity under the terms of an operating lease which expired May 31, 2011, and continues under a month to month arrangement. Rental expense amounted to \$41,035 for the year ended June 30, 2011.

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.

The New York State Retirement and Social Security Law governs 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, 110 State Street, Albany, NY 12244-0001.

ERS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined between July 1976 and December 2009. Participants hired after January 1, 2010 are required to contribute 3% of compensation throughout their active membership. No employee contribution is required for those hired prior to July 1976. The Comptroller annually certifies the required contribution rate expressed as a percentage of participants' wages for employer contributions to the pension accumulation fund. The required contributions and rates over the past three years were:

	<u>Amounts</u>	<u>Rates</u>
2011	\$ 37,579	11.3%
2010	18,526	7%
2009	39,842	8.1-10.8%

The Authority's payments made to the System were equal to 100% of the required amount for each year.

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 55 and 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, 2011, 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 the year ended June 30, 2011:

	<u>2011</u>
Annual required contribution	
Normal cost	\$ 28,044
Amortization of unfunded actuarial accrued liability	3,344
Interest on net OPEB obligation	13,981
ARC adjustment	<u>(10,774)</u>
Annual OPEB cost	34,595
Contributions made	-
Increase in net OPEB obligation	34,595
Net OPEB obligation - beginning of year	279,627
Net OPEB obligation - end of year	<u>\$ 314,222</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for the past three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2011	\$ 34,595	0%	\$ 314,222
2010	\$ 97,792	0%	\$ 279,627
2009	\$ 93,135	0%	\$ 181,835

As of June 30, 2011, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was \$83,458, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$228,327, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37%.

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.

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 assumptions were made:

Retirement age for active employees – assumed employees will not retire before age 55 and ten years of service.

Marital status – Assumed 67% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

Mortality – RP2000, mortality table for males and females projected 10 years.

Turnover – Standard turnover assumptions- GASB 45 Paragraph 35b.

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 8%, reduced to an ultimate rate of 4.7% after ten years was used. The vision plan was based on a rate of 3.5% reduced to 3% after year 2, and the dental plan was based on a rate of 3%.

Health insurance premiums – 2011 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.

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

**Required Supplementary Information (Unaudited)
Schedule of Funding Progress for Other Postemployment Benefits**

June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (UAAL) (b)	Deficiency of Assets over UAAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b- a)/c)
1/1/2008	\$ -	\$ 225,100	\$ (225,100)	0%	\$ 360,000	63%
6/30/2011	\$ -	\$ 83,458	\$ (83,458)	0%	\$ 228,327	37%

BUFFALO FISCAL STABILITY AUTHORITY

Supplementary Information Schedule of Administrative Expenditures - General Fund

For the years ended June 30, 2011 and 2010	2011	2010
General and Administrative		
Board functions		
Public meeting expenses	\$ 9,069	\$ 9,245
Public forums	2,021	2,253
Directors' travel reimbursement	1,305	2,367
	<u>12,395</u>	<u>13,865</u>
Staff expenses		
Wages	313,484	370,849
Professional development	3,986	5,034
Parking	3,426	3,973
Payroll processing fees	725	725
	<u>321,621</u>	<u>380,581</u>
Central services		
Postage, printing and dues	3,598	2,831
Rent	41,035	39,163
Telephone and data processing	12,113	15,966
Insurance	2,138	515
Repairs and maintenance	-	274
Office supplies	3,534	5,342
	<u>62,418</u>	<u>64,091</u>
Administrative		
Professional fees and consultants	69,322	30,812
Legal fees	167,357	113,687
Public notices	5,478	-
Equipment	2,720	1,628
	<u>244,877</u>	<u>146,127</u>
Total General and Administrative	<u>641,311</u>	<u>604,664</u>
Employee Benefits		
New York State Employees' Retirement System contributions	35,064	27,922
Social Security and Medicare taxes	23,082	28,348
Medical insurance net of employee contributions	31,888	49,863
Total Employee Benefits	<u>90,034</u>	<u>106,133</u>
Total administrative expenditures - general fund	<u>\$ 731,345</u>	<u>\$ 710,797</u>

**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

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 ended June 30, 2011, which collectively comprise the Authority's financial statements and have issued our report thereon dated September 23, 2011. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.



September 23, 2011

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

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, 2011. 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, 2011.

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 23, 2011