BUFFALO FISCAL STABILITY AUTHORITY
(A Component Unit of the City of Buffalo, New York)

FINANCIAL STATEMENTS

JUNE 30, 2016

BUFFALO FISCAL STABILITY AUTHORITY
(A Component Unit of the City of Buffalo, New York)

Table of Contents

June 30, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202

716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

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), a component unit of the City of Buffalo, New York, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information, as listed in the table of contents, 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 our 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.

Supplementary Information

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 Schedule of Administrative Expenditures – General Fund is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016 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* in considering the Authority's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

September 21, 2016

BUFFALO FISCAL STABILITY AUTHORITY
(A Component Unit of the City of Buffalo, New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016
(UNAUDITED)

Introduction

The Buffalo Fiscal Stability Authority (the "BFSA" or 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) and its non-exempted Covered Organizations including the Buffalo Public School District (the School District), the Buffalo Municipal Housing Authority, the Buffalo Urban Renewal Agency, the Joint Schools Construction Board, and other covered organizations as defined by the Act. 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 shall 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" 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. During an advisory period, the BFSA operates with a reduced set of financial oversight powers and responsibilities. The BFSA transitioned from a control period to an advisory period on July 1, 2012. An advisory period shall continue through June 30, 2037, unless a control period is reimposed. A control period may be reimposed in the event of the occurrence of certain events as outlined within the Act.

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 four-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, notes to financial statements, and supplementary information.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2016, 2015 and 2014. 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*, as amended, and subsequent pronouncements. The government-wide financial statements use the economic resources 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 Position presents information on all the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the net difference reported as net position. The Statement of Activities presents information showing how the Authority's net position changed during the fiscal year. All changes in net position 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. Government fund financial statements are the *Balance Sheet* and the S*tatement of Revenues, Expenditures, and Changes in Fund Balances*. Under the modified accrual basis, revenue is recognized 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.

Adoption of New Accounting Pronouncements

Effective July 1, 2014, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date*. These statements require the Authority to include in its statement of net position its proportionate share of the net pension liability and deferred outflows and deferred inflows of resources for the pension provided to Authority employees and administered by the New York State and Local Employees' Retirement System (ERS). The cumulative effect on prior year comparative statements is a decrease in beginning of year net position totaling $67,581.

Effective July 1, 2015, the Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which required the Authority to measure investments at fair value. As a result, investments have been reported at fair value for the year ended June 30, 2016.

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 share of Erie County sales tax revenues (beginning July 1, 2004), and the City's State aid, which together provided 99 percent of the Authority's revenue from 2014 to 2016. The Act granted the Authority a first lien and perfected security interest in net collections from sales and use taxes authorized by the State and imposed by Erie County (the County). Sales taxes are imposed by the County, collected by the State and remitted to the Authority, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the City or the School District. The State legislation also provided that all State aid appropriated as local government assistance for the benefit of the City is payable to the Authority to use for debt service requirements and operating expenses, with the remaining funds to be remitted to the City.

The amount of BFSA sales tax revenues to be collected depends upon various factors, including the economic conditions within the County, which has experienced numerous cycles of growth and recession. In addition, in the past the State has enacted amendments to the Tax Law to exempt specific goods and services from the imposition of sales tax. The Act requires the County to impose the local sales tax at a rate of no less than 3.0 percent through 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. The additional 1.0 percent sales tax currently expires on November 30, 2017, absent future reauthorization. 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 1.0 percent of sales and compensating use taxes authorized by Section 1210(i)(4) of the State Tax Law as long as the County maintains the 1.0 percent sales tax. This allocation resulted in additional City tax revenues delivered to BFSA of approximately $5.7 million annually in 2016, 2015 and 2014; the School District does not share in this additional sales tax revenue.

Sales tax revenue for the years ended June 30, 2016, 2015 and 2014 were $123,609,076, $120,524,217 and $119,578,002. The increase from 2015 to 2016 was $3,084,859, or 2.6%, while the increase from 2014 to 2015 was $946,215, or 0.8%. The increase in sales tax revenue is attributed to increased sales subject to such taxes within Erie County stemming from the overall economic recovery both locally as well as nationally. From 2014 to 2015 the rate of increase had slowed due to: 1) the harsh winter weather that year; 2) the significant drop in gasoline prices (there is currently no cap on Erie County sales tax collected on gasoline sales) over the past 2 years; and, 3) the negative impact from Canadian shoppers as the Canadian dollar dropped compared to the U.S. dollar over the past 2 years. The Authority also received State aid for the years ended June 30, 2016, 2015, and 2014 in the amounts of $162,199,039, $161,285,233, and $162,628,968, respectively. State aid increased $913,806 (0.6%) from 2015 to 2016 and decreased $1,343,735 (0.8%) from 2014 to 2015. The fluctuation in State aid is due solely to changes in the amounts of Efficiency Grant funds drawn down on behalf of the City of Buffalo; the recurring annual State aid allocation of New York State Aid and Incentives to Municipalities (AIM) remained the same each year at $161,285,233. Investment income, which accounts for the remaining Authority revenue, totaled $2,075,946, $2,335,723 and $2,933,770 for the years ended June 30, 2016, 2015 and 2014, respectively, which primarily is derived from interest on the City's general obligation bonds described below. As principal is repaid on the outstanding long-term debt, the amount of interest earnings decreases. Also, included in revenue in 2016 was $2,515,920 representing transfers from the City of Buffalo, the majority of which was $2,484,185 for unspent proceeds from the 2006A bond. The proceeds were used to reduce the amount of new bonds issued to refund BFSA's 2005A and 2006A bonds.

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 provide for deficit financing as well as to finance the City's cost of various City and School District capital projects. The City, 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 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 issued its own 13.5-year premium bonds privately placed with the Authority in the amount of $48,157,000. On December 21, 2015, the Authority refunded $7,200,000 of outstanding Series 2005A and $12,160,000 of outstanding 2006A bonds by issuing $14,170,000 in Series 2015A revenue bonds. The Authority did not issue any debt in 2015.

The statement of net position shows total net position of $4,328,604 at June 30, 2016, as compared to $84,676 at June 30, 2015 and a deficit of $68,439 at June 30, 2014. The increase of $4,243,928 from 2015 to 2016 represents changes due to the refunding of the 2005A and 2006A bonds which closed in December 2015, including the transfer of $2,515,920 from the City. The increase of $153,115 from 2014 to 2015 represents changes due the timing of sales tax and state aid receipts and distributions to the City and the District offset by recognition of the net pension liability. The differences in assets and liabilities are from a combination of several factors. The Authority made principal payments on outstanding bonds payable of $8,780,000 in 2016 and repaid an additional $5,190,000 in connection with the 2015 refunding bond as noted above. This resulted in a decrease in total liabilities of $14,391,118 from $66,120,624 in 2015 to $51,729,506 in 2016. The Authority made principal payments on bonds payable totaling $14,265,000 in 2015 resulting in a decrease in total liabilities of $15,099,539 from $81,220,163 in 2014 to $66,120,624 in 2015. Total assets decreased $10,352,096 from 2015 to 2016 as the Authority received principal payments from the City on outstanding notes receivable of $8,093,515 and investments decreased by $1,904,424 resulting from the overall decrease in bonds payable. Total assets decreased $14,953,967 from 2014 to 2015 as the Authority received principal payments from the City on outstanding notes receivable of $8,691,440, investments decreased $5,895,577 primarily due to using the funds to pay off the 2004A bonds which matured in 2015, and due from other governments decreased $503,992. In past years, the Authority received funds from the State which the City can only use for specified purposes; no such funds were received by the Authority during fiscal 2016, 2015, and 2014. The Authority retains those funds until the conditions have been met. The Authority did not release any such funds in 2016 or 2015; $12,000,000 was released in 2014.

Cash and investments totaled $8,817,426, $10,759,875, and $16,273,380 at June 30, 2016, 2015 and 2014, respectively. These amounts include funds for the future repayment of debt and restricted State aid in the amount of $8,107,107, $10,002,951 and $16,198,480 at June 30, 2016, 2015 and 2014 respectively. State aid was paid to BFSA in prior years for targeted purposes awaiting the City's request for disbursement. As of June 30, 2016, the majority of this restricted State Aid had been requested by the City, with a balance of $242,529 at June 30, 2016 and $242,519 at June 30, 2015. Additionally, cash and investments included $0, $1,997 and $74,900 of accrued interest to be paid to the City at June 30, 2016, 2015 and 2014, respectively, for the investment of such debt service reserves in accordance with outstanding agreements. Remaining cash and investments represents cash available for BFSA operating expenses.

Interest expense decreased from 2015 to 2016 by $1,703,413. This was primarily due to the premium amortization for the 2005A and 2006A bonds that were refunded. The premium amortization that was offset against interest expense for the refunded bonds in 2016 was $1,569,830.

Operating expenses reported in the governmental fund statements totaled $667,216, $667,587 and $661,569 for the years ended June 30, 2016, 2015 and 2014. Total operating expenses decreased $371, or 0.1%, from 2015 to 2016, and increased $6,018, or 0.9%, from 2014 to 2015. The changes year to year are minor and are discussed below.

Staff expenses for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015	Increase/ (Decrease)	Percentage Change
Wages	$ 383,206	$ 365,916	$ 17,290	4.7%
Other staff-related expenses	9,390	9,649	(259)	-2.7%
Total direct staff expenses	392,596	375,565	17,031	4.5%
Staff benefits:				
ERS contributions	63,973	63,693	280	0.4%
Payroll taxes	28,676	27,855	821	2.9%
Health insurance (net of employee contributions)	70,670	69,438	1,232	1.8%
Total staff benefits	163,319	160,986	2,333	1.4%
Total staff expenses	$ 555,915	$ 536,551	$ 19,364	3.6%

Staff expenses increased $19,364, or 3.6%, from 2015 to 2016. The primary reason for the increase is the change in personnel. The Authority had one position filled for a greater portion of 2016 as compared to 2015, one position was elevated in mid-2015 with the full salary increase reflected in 2016, and a general inflationary salary increase was granted to employees, resulting in the increase to direct staff expenses in 2016. The increase in health insurance expense is related to an increase in the premium. Other staff expenses have minor changes.

The Authority employed five salaried staff members during the year ended June 30, 2016 and between four to five salaried staff members during the year ended June 30, 2015.

Staff expenses for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014	Increase/ (Decrease)	Percentage Change
Wages	$ 365,916	$ 348,621	$ 17,295	5.0%
Other staff-related expenses	9,649	9,650	(1)	0.0%
Total direct staff expenses	375,565	358,271	17,294	4.8%
Staff benefits:				
ERS contributions	63,693	72,336	(8,643)	-11.9%
Payroll taxes	27,855	26,666	1,189	4.5%
Health insurance (net of employee contributions)	69,438	65,699	3,739	5.7%
Total staff benefits	160,986	164,701	(3,715)	-2.3%
Total staff expenses	$ 536,551	$ 522,972	$ 13,579	2.6%

Staff expenses increased $13,579, or 2.6%, from 2014 to 2015. The primary reason for the increase is the change in personnel: the Authority had one position filled for a greater portion of 2015 as compared to 2014, one position was elevated during mid-2015, and a general inflationary salary increase was granted to employees. The increase in health insurance expense is related to an increase in premiums. Other Staff Expenses have minor increases, with the exception of pension contributions to the NYS Employees' Retirement System (NYSERS) which decreased $8,643 or 11.9%. This decrease is a result of the decrease in required employer contributions as a percentage of payroll from 2014 to 2015.

The Authority employed a range of four to five salaried staff members during the years ended June 30, 2015 and 2014.

The next largest category of expenses was for professional fees. The following charts indicate the amount expended for professional fees for the years ended June 30, 2016, 2015 and 2014.

	2016	2015	Increase/ (Decrease)	Percentage Change
Legal fees	$ 5,673	$ 12,970	$ (7,297)	-56.3%
Other professional fees	46,520	54,776	(8,256)	-15.1%
Total professional fees	$ 52,193	$ 67,746	$ (15,553)	-23.0%

	2015	2014	Increase/ (Decrease)	Percentage Change
Legal fees	$ 12,970	$ 33,777	$ (20,807)	-61.6%
Other professional fees	54,776	35,334	19,442	55.0%
Total professional fees	$ 67,746	$ 69,111	$ (1,365)	-2.0%

Legal fees decreased $7,297, or 56.3%, from 2015 to 2016 due to the level of legal services required. Other professional fees decreased $8,256, or 15.1%, due to less expenditures in 2016 as the Authority incurred less expenditures in 2016 due to less needs and the 2015 expenditures were higher than the prior year.

Other professional fees decreased $8,256, or 15.1%, due to less expenditures in 2016 as the Authority had less need for additional consultants. In 2015 the Authority incurred $17,826 of expenses with its financial advisor pertaining to debt-related issues.

Legal fees decreased $20,807, or 61.6%, from 2014 to 2015 due to the level of legal services required. Other professional fees increased $19,442, or 55.0%, due to more expenditures in 2015 as the Authority incurred $17,826 of financial advisor fees as noted above and the 2014 expenditures were unusually low.

Directors of the Authority do not receive any compensation for their services but are reimbursed for any Authority-related expenses.

Meeting expenses are incurred in connection with holding public board and committee meetings throughout the year. Meeting expenses for the years ended June 30, 2016, 2015 and 2014 are as follows:

	2016	2015	Increase/ (Decrease)	Percentage Change
Facilities expenses - Public Board Meetings	$ 5,092	$ 5,284	$ (192)	-3.6%

	2015	2014	Increase/ (Decrease)	Percentage Change
Facilities expenses - Public Board Meetings	$ 5,284	$ 7,211	$ (1,927)	-26.7%

Meeting expenses decreased $192 or 3.6% from 2015 to 2016. This decrease is minor.

Meeting expenses decreased from 2014 to 2015 by $1,927 or 26.7%. This decrease is primarily due to the number of BFSA board meetings which decreased in 2015 compared to 2014.

Other expenses include various items necessary for the running of the Authority's offices, and are as follows for the fiscal years ended June 30, 2016, 2015 and 2014:

	2016	2015	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	$ 5,758	$ 3,657	$ 2,101	57.5%
Rent	38,865	42,063	(3,198)	-7.6%
Telephone and data processing	7,406	9,351	(1,945)	-20.8%
Office supplies	864	638	226	35.4%
Public notices	-	1,010	(1,010)	-100.0%
Equipment	1,123	1,287	(164)	-12.7%
Total Other Expenditures	$ 54,016	$ 58,006	$ (3,990)	-6.9%

	2015	2014	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	3,657	5,831	(2,174)	-37.3%
Rent	42,063	42,933	(870)	-2.0%
Telephone and data processing	9,351	8,745	606	6.9%
Office supplies	638	2,650	(2,012)	-75.9%
Public notices	1,010	1,095	(85)	-7.8%
Equipment	1,287	1,021	266	26.1%
Total Other Expenditures	58,006	62,275	(4,269)	-6.9%

In total, other expenses have remained relatively consistent over the last three fiscal years.

The Authority's rental payments prior to October 2014 were 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. In September 2014 the building where the Authority's offices are located was sold to an independent company and in October 2015 a five-year lease was signed which contained two 2-year option periods. As a part of signing the lease, the Authority received one month's free rent during 2016.

Debt Service Fund

The Authority issued $14,170,000 of Sales Tax and State Aid Secured Bonds, Series 2015A, in December 2015. The proceeds of this bond was used to refund BFSA's outstanding 2005A and 2006A Series bonds and to pay costs of issuance. Net interest cost of the issue was 1.5 percent. This resulted in a net present value savings of $1,348,700 on this transaction.

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 Jeanette M. Robe, Executive Director, Buffalo Fiscal Stability Authority, 617 Main Street, Market Arcade Building - Suite 400, Buffalo, New York 14203.

BUFFALO FISCAL STABILITY AUTHORITY
(A Component Unit of the City of Buffalo, New York)

Statement of Net Position

June 30, 2016
(With comparative totals as of June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	$ 806,933	$ 844,958
Investments	8,010,493	9,914,917
Notes receivable - City of Buffalo due within one year	6,293,597	7,852,712
Due from other governments	13,998,893	14,309,713
Prepaid expenses	10,049	13,869
Notes receivable - City of Buffalo	26,722,839	33,257,239
Capital assets, net (Note 5)	2,857	4,349
Total assets	55,845,661	66,197,757
Deferred Outflows of Resources		
Deferred outflows of resources from pensions	276,782	29,635
Liabilities		
Accounts payable	10,591	31,241
Accrued liabilities	547,852	793,688
Due to the City of Buffalo - sales tax	12,587,755	12,601,950
Long-term liabilities		
Due within one year:		
Bonds	7,150,000	8,780,000
Due beyond one year:		
Bonds and related premiums	30,495,315	43,283,172
Other postemployment benefits	634,751	568,375
Net pension liability	303,242	62,198
Total liabilities	51,729,506	66,120,624
Deferred Inflows of Resources		
Deferred inflows of resources from pensions	64,333	22,092
Net Position		
Net investment in capital assets	2,857	4,349
Restricted	8,286,424	9,977,111
Unrestricted	(3,960,677)	(9,896,784)
Total net position	$ 4,328,604	$ 84,676

See accompanying notes.

Statement of Activities

For the year ended June 30, 2016
(With comparative totals for June 30, 2015)

	2016	2015
Expenses		
General and administrative	$ 1,151,532	$ 752,929
Distributions		
City of Buffalo - general operations	242,418,093	241,076,476
City of Buffalo School District	42,362,699	40,167,930
Interest expense	223,729	1,927,142
Total expenses	286,156,053	283,924,477
General revenues		
State aid	162,199,039	161,285,233
Sales tax	123,609,076	120,524,217
Interest and other income	2,075,946	2,335,723
Total general revenues	287,884,061	284,145,173
Transfer from the City of Buffalo	2,515,920	-
Change in net position	4,243,928	220,696
Net position - beginning	84,676	(136,020)
Net position - ending	$ 4,328,604	$ 84,676

See accompanying notes.

Balance Sheet - Governmental Funds

June 30, 2016
(With summarized comparative totals as of June 30, 2015)

	General	Debt Service	Total Governmental Funds 2016	Total Governmental Funds 2015
Assets				
Cash and cash equivalents	$ 710,319	$ 96,614	$ 806,933	$ 844,958
Investments	-	8,010,493	8,010,493	9,914,917
Due from other governments	13,272,436	33,742,893	47,015,329	55,419,664
Prepaid expenses	10,049	-	10,049	13,869
Total assets	$ 13,992,804	$ 41,850,000	$ 55,842,804	$ 66,193,408
Liabilities and Fund Balances				
Accounts payable	$ 10,591	$ -	$ 10,591	$ 31,241
Accrued liabilities	32,651	515,201	547,852	793,688
Due to the City of Buffalo	12,571,954	15,801	12,587,755	12,601,950
Total liabilities	12,615,196	531,002	13,146,198	13,426,879
Fund Balances				
Nonspendable:				
Prepaid expenses	10,049	-	10,049	13,869
Restricted:				
Debt service	-	41,318,998	41,318,998	51,236,552
State-mandated initiatives	710,319	-	710,319	756,924
Unassigned	657,240	-	657,240	759,184
Total fund balances	1,377,608	41,318,998	42,696,606	52,766,529
Total liabilities and fund balances	$ 13,992,804	$ 41,850,000	$ 55,842,804	$ 66,193,408

See accompanying notes.

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

June 30, 2016

Total fund balances - governmental funds		$	42,696,606
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds.			2,857
The Authority's proportionate share of the net pension liability as well as pension-related deferred outflows and deferred inflows of resources are recognized on the government-wide statements and include:			
Deferred outflows of resources from pensions	276,782		
Net pension liability	(303,242)		
Deferred inflows of resources from pensions	(64,333)		(90,793)
Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:			
Bonds payable	(37,645,315)		
Other postemployment benefits	(634,751)		(38,280,066)
Net position - governmental activities		$	4,328,604

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

For the year ended June 30, 2016
(With summarized comparative totals for June 30, 2015)

	General	Debt Service	Total Governmental Funds 2016	Total Governmental Funds 2015
Revenues				
State aid	$ 162,199,039	$ -	$ 162,199,039	$ 161,285,233
Sales tax	123,609,076	-	123,609,076	120,524,217
Interest and other income	29,177	2,046,769	2,075,946	2,335,723
Total revenues	285,837,292	2,046,769	287,884,061	284,145,173
Expenditures				
Bond issuance costs	-	380,310	380,310	-
General and administrative	503,897	-	503,897	506,601
Distributions				
City of Buffalo - general operations	242,157,023	261,070	242,418,093	241,076,476
City of Buffalo School District	42,362,699	-	42,362,699	40,167,930
Employee benefits	163,319	-	163,319	160,986
Debt service				
Principal	-	8,780,000	8,780,000	14,265,000
Interest	-	2,207,953	2,207,953	2,436,826
Total expenditures	285,186,938	11,629,333	296,816,271	298,613,819
Excess revenues (expenditures)	650,354	(9,582,564)	(8,932,210)	(14,468,646)
Other financing sources (uses)				
Operating transfers	(802,723)	802,723	-	-
Transfers from the City of Buffalo	-	2,515,920	2,515,920	-
Proceeds from advance refunding	-	15,706,367	15,706,367	-
Payment to escrow agent	-	(19,360,000)	(19,360,000)	-
Other financing sources (uses)	(802,723)	(334,990)	(1,137,713)	-
Net change in fund balances	(152,369)	(9,917,554)	(10,069,923)	(14,468,646)
Fund balances - beginning	1,529,977	51,236,552	52,766,529	67,235,175
Fund balances - ending	$ 1,377,608	$ 41,318,998	$ 42,696,606	$ 52,766,529

See accompanying notes.

BUFFALO FISCAL STABILITY AUTHORITY
(A Component Unit of the City of Buffalo, New York)

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

For the year ended June 30, 2016

Total net change in fund balances - governmental funds		$ (10,069,923)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. In the statement of activities, the cost of the assets is allocated over estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays.		(1,492)
Net differences between pension system contributions recognized on the fund statement of revenues, expenditures, and changes in fund balances and the statement of activities.		
2016 contributions	67,365	
2016 accrued contribution	13,449	
2015 accrued contribution	(16,841)	
2016 net pension expense	(100,111)	(36,138)
Payments of long-term liabilities are reported as expenditures in the governmental funds, and as a reduction of debt in the statement of net position.		8,780,000
Net effect of bond refunding.		3,653,633
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported when paid. These differences are:		
Amortization of bond premiums	1,984,224	
Other postemployment benefits	(66,376)	1,917,848
Change in net position - governmental activities		$ 4,243,928

See accompanying notes.

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 Act provides for the existence of the Authority through June 30, 2037.

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 cannot 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, or 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.

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. The Act defined and established a control period to be in effect as of the date of the Act and continue until specific conditions were met regarding the stability of the City's finances. In May 2012, the Authority determined such conditions had been met and resolved to enter into an advisory period effective July 1, 2012. An advisory period shall continue through June 30, 2037, unless a control period is reimposed. A control period may be reimposed if the Authority determines at any time that a fiscal crisis is imminent or that any of the certain events, as outlined in the Act, have occurred or are likely to occur.

The Act provides broad monitoring responsibility over the City's finances during a control period, including the requirements for the City to provide annually a 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 position and the statement of activities 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 presents 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2015, 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. 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 typically 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 and 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. Expenditures 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.

Investments

The Authority's investment policy complies with the State Comptroller's guidelines for Public Authorities. Investments consist primarily of government obligations stated at fair value on a recurring basis as determined by quoted prices in active markets.

Capital Assets

Assets are capitalized at historical cost if their value is greater than $500 and has 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.

Bond Premiums

Premiums received upon the issuance of debt are included as other financing sources in the governmental fund statements when issued. In the government-wide statements, premiums are recognized with the related debt issue and amortized on a straight-line basis as a component of interest expense over the life of the related obligation.

Pensions

On the government-wide statements, the Authority recognizes the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the defined benefit pension plan. The Authority's participation in the New York State and Local Employees' Retirement System (ERS) is mandated by State law. ERS recognizes benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value.

Equity Classifications

Government-Wide Statements

- *Net investment in capital assets* - consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or by the terms of the Authority's bonds.
- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and, therefore, are available for general use by the Authority.

Interfund Balances

The operations of the Authority at times include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. Permanent transfers of funds include resources for required debt service payments.

In the government-wide statements, the amounts reported on the statement of net position for interfund receivables and payables, if any, represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds.

Governmental Fund Statements

The Authority considers restricted resources to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available.

Restricted fund balances result from reserves created primarily by enabling legislation to preserve resources for future expenditures as required by budgetary regulations or bond instruments. Earnings on invested resources are required to be added to the reserves. 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 restrictions consist of the following:

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. 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 2016 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of $123,609,076 were recorded, of which $70,156,993 was or will be paid to the City and $42,362,699 was designated for the District. The balance was retained for Authority operations and to provide for a debt service sinking fund.
- State aid of $162,199,039 was received during 2016. No amounts were accrued at June 30, 2016.
- Distributions paid or accrued to the City in 2016 totaled $242,418,093, which includes $70,156,993 of sales tax receipts, $171,999,365 of State aid and other revenue, and interest receipts of $261,735.

3. Cash and Investments

Investment management is 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. Policies permit the Executive Director 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, 2016, the Authority's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's trust department in the Authority's name.

The Authority's cash and investments at June 30, 2016 consist of the following:

	Cost	Fair Value
Cash	$ 106,580	$ 106,580
Money Market	700,353	700,353
U.S. Treasury SLGS	1,948,470	1,948,470
Federal National Mortgage Association Discount Notes	2,141,991	2,185,392
Federal Home Loan Mortgage Corporation Medium Term Notes	1,724,177	1,753,388
Federal Home Loan Banks	1,614,106	1,629,411
Federal Farms Credit Banks	486,148	493,832
	$ 8,721,825	$ 8,817,426

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.

4. Due from Other Governments

Due from Other Governments:		
New York State:		
May and June sales tax receipts	$	13,272,436
Accrued interest due from the City		726,457
	$	**13,998,893**
Due from the City:		
Mirror bond 2005A (1/15/2025), interest at 5.0% inclusive of premium of $508,530	$	6,581,998
Mirror bond 2005B&C (1/15/2019), interest at 5.0% inclusive of premium of $348,902		2,333,902
Mirror bond 2006A (1/15/2020), interest at 5.0% inclusive of premium of $65,709		10,025,709
Mirror bond 2007A (1/15/2023), interest at 5.0% inclusive of premium of $393,362		14,074,827
		33,016,436
Amount due within one year		6,293,597
	$	**26,722,839**

Amounts to be received from the City, net of bond premiums of $1,316,503 on the mirror bonds are as follows:

Years ending June 30,		Principal		Interest
2017	$	6,293,597	$	1,584,997
2018		6,509,277		1,270,316
2019		6,315,816		944,853
2020		5,628,181		629,062
2021		2,021,890		347,654
2022-2025		4,931,172		431,641
	$	**31,699,933**	**$**	**5,208,523**

5. Capital Assets

		Balance July 1, 2015		Increases		Retirements/ Reclassifications		Balance June 30, 2016
Furniture, fixtures, and computers	$	69,377	$	1,000	$	-	$	70,377
Accumulated depreciation		65,028		2,492		-		67,520
	$	**4,349**	**$**	**(1,492)**	**$**	**-**	**$**	**2,857**

Depreciation of $2,492 has been allocated to general and administrative expense.

6. Long-Term Liabilities

	July 1, 2015	Increases	Decreases	June 30, 2016	Amounts Due in One Year
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond, refunded in December 2015.	$ 9,340,000	$ -	$ 9,340,000	$ -	$ -
Series 2005B&C bonds maturing September 2019 with interest at 5.0% over the life of the bonds.	7,290,000	-	2,630,000	4,660,000	2,675,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond, refunded in December 2015.	14,255,000	-	14,255,000	-	-
Series 2007A bond maturing September 2023 with interest ranging from 4.5% to 5.5% over the life of the bond.	18,010,000	-	1,915,000	16,095,000	2,010,000
Series 2015A refunding bond maturing September 2025 with interest ranging from 3.0% to 5.0% over the life of the bond.	-	14,170,000	-	14,170,000	2,465,000
	48,895,000	14,170,000	28,140,000	34,925,000	7,150,000
Premiums:					
2005A	1,090,199	-	1,090,199	-	-
2005B	1,138,024	-	269,532	868,492	-
2006A	479,631	-	479,631	-	-
2007A	460,318	-	55,241	405,077	-
2015A	-	1,536,367	89,621	1,446,746	
	3,168,172	1,536,367	1,984,224	2,720,315	-
	$ 52,063,172	**$ 15,706,367**	**$ 30,124,224**	**$ 37,645,315**	**$ 7,150,000**

Debt Service Requirements

Years ending June 30,		Principal		Interest
2017	$	7,150,000	$	1,724,250
2018		5,520,000		1,140,900
2019		5,685,000		879,063
2020		5,440,000		612,262
2021		4,690,000		373,575
2022-2026		6,440,000		444,450
	$	**34,925,000**	**$**	**5,174,500**

Advance Refunding of Debt

In December 2015, the Authority issued $14,170,000 in sales tax and State aid secured bonds with a net interest cost of 1.50% to advance refund $7,200,000 and $12,160,000, respectively, of outstanding Series 2005A and Series 2006A serial bonds with interest rates ranging from 4.6% to 5.0%. Proceeds of $20,543,653 (including a premium of $1,536,367 and additional Authority and City contributions of $4,837,286) were used to purchase U.S. Government Securities of $20,062,352 and to fund estimated costs of issuance. The securities were placed in an irrevocable trust with an escrow agent to pay for all future debt service payments of the original bonds until their call dates of January 20, 2016 and September 1, 2016. As a result, the original bonds are considered to be defeased and the liability has been removed from the financial statements. The amount outstanding on the original bonds at June 30, 2016 was $12,160,000. The refunding, which includes the additional contributions by the Authority and the City, decreased the total debt service payment for the next 10 years by $6,349,756; after eliminating the impact from the contributions, the total estimated net economic impact is $1,348,694 at net present value.

Lease Obligation

The Authority has an operating lease agreement for office space. Rental expense totaled $38,865 for the year ended June 30, 2016. Future minimum annual rental payments required under the lease are:

2017	$	42,640
2018		43,615
2019		43,940
2020		43,940
2021		10,985
	$	**185,120**

7. Pension Plan

The Authority participates in ERS, which is a cost-sharing, multiple employer, public employee retirement system. ERS provides retirement benefits as well as death and disability benefits. 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 from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: ERS provides retirement, disability, and death benefits for eligible members, including automatic cost of living adjustments. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.
Contribution Requirements: No employee contribution is required for those hired prior to July 1976. ERS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Authority to the pension accumulation fund. For 2016, these rates ranged from 15.5% - 18.8%.

A liability to ERS of $13,449 is accrued based on the Authority's legally required contribution for employee services rendered from April 1, 2016 through June 30, 2016.

Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources

At June 30, 2016, the Authority reported a liability of $303,242 for its proportionate share of the net pension liability.

The net pension liability was measured as of March 31, 2016, and the total pension liability was determined by an actuarial valuation as of April 1, 2015. The Authority's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contributions for the fiscal year ended on the measurement date. At the March 31, 2016 measurement date, the Authority's proportion was 0.0018893%, an increase of 0.0000482% from its proportion measured as of March 31, 2015.

For the year ended June 30, 2016, the Authority recognized pension expense of $100,111. At June 30, 2016, the Authority reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,532	$ 35,944
Changes of assumptions	80,866	-
Net difference between projected and actual earnings on pension plan investments	179,900	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	1,035	28,389
Authority contributions subsequent to the measurement date	13,449	-
	$ 276,782	**$ 64,333**

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years ending June 30,	
2017	$ 49,106
2018	49,106
2019	49,106
2020	51,682
	$ 199,000

Actuarial Assumptions

The actuarial assumptions used in the April 1, 2015 valuation, with update procedures used to roll forward the total pension liability to March 31, 2016, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation - 2.5%
Salary increases - 3.8%
Cost of living adjustments – 1.3% annually
Investment rate of return - 7.0% compounded annually, net of investment expense, including inflation
Mortality - Based on ERS experience from April 1, 2010 - March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014
Discount rate - 7.0%

The long-term expected rate of return on ERS pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class and ERS's target asset allocations as of the applicable valuation dates are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	38%	7.3%
International equities	13%	8.5%
Private equities	10%	11.0%
Real estate	8%	8.3%
Domestic fixed income securities	2%	4.0%
Bonds and mortgages	18%	4.0%
Short-term	2%	2.3%
Other	9%	6.8%-8.7%
	100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Authority's proportionate share of its net pension asset (liability) calculated using the discount rate of 7.0% and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	At Current Discount Rate	1.0% Increase
Authority's proportionate share of the ERS net pension asset (liability)	$ (683,789)	$ (303,242)	$ 18,304

8. 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 whom are over age 55 and have a minimum of ten 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, 2016, 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 (ARC) of the Authority. 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 10 years.

The following table summarizes the Authority's annual OPEB for the year ended June 30, 2016:

Annual required contribution	
Normal cost	$ 88,394
Amortization of unfunded actuarial accrued liability	12,084
Interest on net OPEB obligation	22,736
ARC adjustment	(56,838)
	66,376
Contributions made	-
Increase in net OPEB obligation	66,376
Net OPEB obligation - beginning of year	568,375
Net OPEB obligation - end of year	**$ 634,751**

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 66,376	0%	$ 634,751
2015	96,613	0%	568,375
2014	43,845	0%	471,762

As of June 30, 2016, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was $568,375, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was $381,151, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 149%.

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 are 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 include 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 – Employees are expected to retire, on average, at age 62 and ten years of service
Marital status – 100% of future retirees will be married, with male spouses 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 – 4% payroll growth rate
Healthcare cost trend rate – Initial rate of 8%, reduced to an ultimate rate of 4.7% after ten years; dental plan 3.5% reduced to 3% after year 2; vision plan 3%
Health insurance premiums – 2015 health insurance premiums used as the basis for calculation of the present value of total benefits to be paid
Discount rate – 4%
Amortization method – 10 years, level percentage of payroll

Required Supplementary Information
Schedule of Funding Progress for Other Postemployment Benefits

June 30, 2016

Actuarial Valuation Date *	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	$ -	$ 116,194	$ (116,194)	0%	$ 319,377	36%
6/30/2015	$ -	$ 337,694	$ (337,694)	0%	$ 361,360	93%
6/30/2016	$ -	$ 568,375	$ (568,375)	0%	$ 381,151	149%

*Alternative Measurement Method

Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System

As of the measurement date of March 31,	**2016**	2015
Authority's proportion of the net pension liability	0.0018893%	0.0018411%
Authority's proportionate share of the net pension liability	$ 303,242	$ 62,198
Authority's covered payroll	$ 354,794	$ 334,762
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	85.47%	18.58%
Plan fiduciary net position as a percentage of the total pension liability	90.70%	97.90%

Data prior to 2015 is unavailable.

The following is a summary of changes of assumptions:

As of the measurement date of March 31,	**2016**	**2015**
Inflation	2.5%	2.7%
Salary increases	3.8%	4.9%
Cost of living adjustments	1.3%	1.4%
Investment rate of return	7.0%	7.5%
Discount rate	7.0%	7.5%

Required Supplementary Information
Schedule of Contributions
New York State and Local Employees' Retirement System

June 30,	2016	2015	2014	2013
Contractually required contribution	$ 67,365	$ 62,469	$ 75,625	$ 53,237
Contribution in relation to the contractually required contribution	(67,365)	(62,469)	(75,625)	(53,237)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Authority's covered payroll	$ 354,794	$ 334,762	$ 348,621	$ 306,554
Contributions as a percentage of covered payroll	18.99%	18.66%	21.69%	17.37%

Data prior to 2013 is unavailable.

Supplementary Information
Schedule of Administrative Expenditures - General Fund

For the years ended June 30,	2016	2015
General and Administrative		
Board functions		
Public meeting expenses	$ 5,092	$ 5,284
Staff expenses		
Wages	383,206	365,916
Professional development	3,714	4,796
Parking	4,861	4,039
Payroll processing fees	815	814
	392,596	375,565
Central services		
Postage, printing and dues	3,909	2,519
Rent	38,865	42,063
Telephone and data processing	7,406	9,351
Insurance	1,849	1,138
Office supplies	864	638
	52,893	55,709
Administrative		
Professional fees and consultants	46,520	54,776
Legal fees	5,673	12,970
Public notices	-	1,010
Equipment	1,123	1,287
	53,316	70,043
Total General and Administrative	503,897	506,601
Employee Benefits		
New York State and Local Employees' Retirement System contributions	63,973	63,693
Social security and medicare taxes	28,676	27,855
Medical insurance net of employee contributions	70,670	69,438
Total Employee Benefits	163,319	160,986
Total general and administrative expenditures and employee benefits - general fund	**$ 667,216**	**$ 667,587**

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202

716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority), a component unit of the City of Buffalo, New York, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

September 21, 2016

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

Cyclorama Building | 369 Franklin Street | Buffalo, New York 14202

716-856-3300 | Fax 716-856-2524 | www.LumsdenCPA.com

INDEPENDENT AUDITORS' 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 audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority), a component unit of the City of Buffalo, New York, as of June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated September 21, 2016.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with §2925(3)(f) of the New York State Public Authorities Law regarding investment guidelines during the year ended June 30, 2016. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above rules and regulations.

The purpose of this report is solely to describe the scope and results of our testing. This communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

September 21, 2016