BUFFALO FISCAL STABILITY AUTHORITY
ANNUAL INVESTMENT REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Requirements

Section 2925(6) of the New York State Public Authorities Law requires State Authorities to:

“annually prepare and approve an investment report which shall include the investment guidelines, amendments to the guidelines since the last investment report, an explanation of the investment guidelines and amendments, the results of the annual independent audit, the investment income record of the corporation and a list of the total fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to the corporation since the last investment report.”

Investment Guidelines

The Buffalo Fiscal Stability Authority’s (BFSA) Investment Guidelines reflect the principles and precepts of investment safety and control contained in the BFSA Act Article 3854(11), as well as the New York State Office of the State Comptroller’s Public Authorities Regulation Part 201.3, *Accounting, Reporting, and Supervision Requirements for Public Authorities – Investment Guidelines for Public Authorities.* The BFSA ‘s Investment Guidelines set forth the BFSA’s policies and objectives regarding the investment of BFSA funds, in accordance with the BFSA statute and the bond indenture executed by BFSA and its trustee for debt issuances, the Bank of New York-Mellon (Trustee).

The investment objectives of the Authority are set in the guidelines as follows:

“The Authority’s investment activities shall have as their first and foremost objective the safeguarding of the principal amount of the investment funds. Additional considerations regarding the Authority’s investment activities shall be liquidity of investments, realization of a reasonable return on investments and diversification of investments.”

Certain amendments to the previous policy were made, and the revised Investment Guidelines were approved by the BFSA Board of Directors on July 21, 2010 via resolution No. 10-34. The amendments to the Investment Guidelines were considered minor, and were necessary to delete obsolete references, update to current information, clarify phrases, and provide continuity among policy directives. Specifically, such amendments included edits to delete obsolete references, update to current information, clarify phrases, and provide continuity among policy objectives; none of these amendments changed the context or subject matter of the Investment Guidelines.

Investment Activity

At June 30, 2010, the fair value, representing the market value, of investments held by the BFSA was $35,188,813 and consisted of the following:

Checking / Money Market Accounts	$	17,808,712
U.S. Treasury SLGS		2,235,659
U.S. Treasry Bills		353,648
Federal Home Loan Bank		558,588
Federal National Mortgage Association		8,686,364
Federal Home Loan Mortgage Association		5,545,842
Tota fair value of investments as of June 30, 2010	$	35,188,813

Aid to Municipalities (AIM) funds are held in a money market account at HSBC. All remaining investments mature no later than September 1, 2010.

The BFSA recorded total investment earnings of $734,706 for the year ended June 30, 2010, consisting of investment earnings on bond funds, state aid held on behalf of the City (representing AIM as defined below), and the BFSA's operating funds. Additional information on the sources of the investments of the BFSA is below. Actual investment earnings, according to investment type, are as follows:

Bond funds, held by Trustee	$	434,778
AIM funds		299,365
Operating funds		563
Total investment earnings for the year ending June 30, 2009	$	734,706

During the year ended June 30, 2010, the BFSA had three principal types of investment accounts: 1) accounts held by the Bank of New York as trustee under the BFSA's Bond Indenture, which contained debt service set-asides, 2) BFSA operating funds accounts and 3) an account for state aid, representing aid to municipalities (AIM) funds which the BFSA holds pending the City's notification of intended use of such funds, which must be approved by the BFSA Board. Funds in 2) and 3) are held at HSBC in BFSA owned money market accounts.

The BFSA Trust Indenture requires the Authority to retain out of the first payment of sales taxes each month an amount equal to 1/6 of the next interest payment and 1/12 of the next principal payment. The full amount of the next payment must be fully funded two months in advance of the maturity. These set asides are deposited into each bond account upon receipt of the funds (usually the 6th or 7th of each month) and invested in A1/P1 commercial paper until the 15th of the same month. After a bidding process, the Authority entered into various Forward Delivery Agreements for delivery of securities against the cash set-asides. These agreements are structured to yield investment earnings within the parameters of the yield restrictions imposed by the federal government's requirements for tax-exempt bonds. In order to avoid potential yield problems, some set asides are invested in 0% state and local governments series securities – U.S. Treasury (SLGS). All securities mature before or on the next required payment date, so the longest maturity possible (although not common) is approximately 13 months. All transactions take place within the trustee accounts.

All bank deposits of Authority funds are required to be fully collateralized. Bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to $200,000. Additional collateral is obtained to collateralize the remaining balances, and is held by a custodian in the Authority's name. Such collateral consists of U.S. Government and agency obligations. Investments were fully collateralized at June 30, 2010.

Fees

No fees were paid in connection with the investment portfolio during the fiscal year.

BFSA pays the Trustee an annual fee or $2,000 for each bond transaction covering all trustee services, including the operational aspects of the investments in each bond account. The trustee also charges a $250 dissemination fee and a $1,600 custodial fee each year. Total expenditures for the year ended June 30, 2010 for trustee fees were $4,755.

The cost of operating funds bank accounts are covered through compensating balances.

Independent Audit

Please see separate documents for a copy of the independent auditors' report.