

**BUFFALO FISCAL STABILITY AUTHORITY
ANNUAL INVESTMENT REPORT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Requirements

Section 2925.6 of the New York State Public Authorities Law requires public authorities to “annually prepare and approve an investment report which shall include the investment guidelines..., amendments to such 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.”

The Investment Guidelines were approved by the BFSA Board of Directors on August 1, 2012 via Resolution No. 12 - 21. There were no revisions made to the Investment Guidelines in the current year.

Investment Activity

The Authority's cash and investments at June 30, 2012 consisted of the following:

	Carrying Value	Fair Value
Checking	\$ 9,367	\$ 9,367
Money Market	14,703,957	14,703,957
U.S. Treasury SLGs	1,044,052	1,044,052
U.S. Treasury Bills	1,587,852	1,587,853
Federal Home Loan Mortgage Corp. Discount Paper	10,339,267	10,367,338
Federal National Mortgage Association Discount Notes	3,436,596	3,446,720
Commercial Paper	422,794	422,794
Accrued Interest	171,779	171,779
Total cash and investments at June 30, 2012	<u>\$ 31,715,664</u>	<u>\$ 31,753,860</u>

All investments mature no later than September 4, 2012.

The BFSA recorded total investment earnings of \$495,986 for the year ended June 30, 2012, consisting of investment earnings on bond funds, state aid held on behalf of the City (representing New York State Aid to Municipalities ("AIM") as discussed 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	\$ 441,458
AIM funds	54,318
Operating funds	210
Total investment earnings	
for the year ending June 30, 2012	<u>\$ 495,986</u>

During the year ended June 30, 2012, 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) a money market account for restricted State Aid held by the BFSA which represents AIM funds that the BFSA holds pending the City's notification of intended use of such funds, which must be approved by the BFSA's Board of Directors. Deposits of the Operating funds and AIM funds are held at First Niagara Bank (HSBC prior to May 31, 2012) 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 by 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 issues in accordance with the tax-exempt status of the bonds, certain 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 \$250,000. 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, 2012.

Fees

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

BFSA pays the Trustee an annual fee of \$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, 2012 for trustee fees were \$12,378.

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.