

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

FINANCIAL STATEMENTS

JUNE 30, 2012

BUFFALO FISCAL STABILITY AUTHORITY

(A Component Unit of the City of Buffalo, New York)

Table of Contents

June 30, 2012

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

Statement of Net Assets

Statement of Activities and Changes in Net Assets

Balance Sheet – Governmental Funds

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

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

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

Notes to Financial Statements

Required Supplementary Information (Unaudited)

Schedule of Funding Progress Other Postemployment Benefits

Supplementary Information

Schedule of Administrative Expenditures – General Fund

Compliance Reports

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*

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

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, 2012, which collectively comprise the Authority's financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

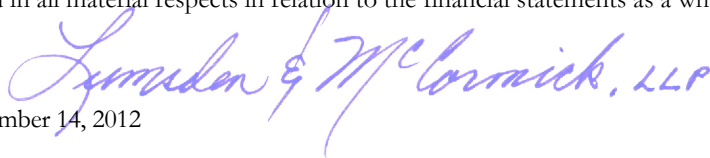
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

September 14, 2012



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012
(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, and notes to the financial statements.

Management’s discussion and analysis of the Authority’s financial performance provides an overview of the Authority’s financial activities for the fiscal years ended June 30, 2012, 2011 and 2010. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority’s financial statements, including the notes to the financial statements.

Government-wide financial statements of the Authority are in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34, “Basic Financial Statements – and Management’s Discussion

and Analysis – for State and Local Governments.” The government-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of net assets presents information on all the Authority’s assets and liabilities, with the difference between the two reported as net assets. The statement of activities and changes in net assets presents information showing how the Authority’s net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the *balance sheet* and the *statement of revenues, expenditures and changes in fund balance*. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

In addition to these two types of statements, the financial statements include a reconciliation between the government-wide and governmental fund statements. Accompanying notes to the financial statements are an integral part of the financial statements.

Financial Highlights and Overall Analysis

The most critical factors in the Authority’s financial position are its revenues derived from the City’s sales tax revenue (since July 1, 2003), the School District’s share of Erie County sales tax revenues (beginning July 1, 2004), and the City’s State aid, which together provided 98 percent of the Authority’s revenue from 2010 to 2012. The Act granted the Authority a first lien and perfected security interest in net collections from sales and use taxes authorized by the State and imposed by Erie County (the County). Sales taxes are imposed by the County, collected by the State and remitted to the Authority, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the City or the School District. The State legislation also provided that all State aid appropriated as local government assistance for the benefit of the City is payable to the Authority to use for debt service requirements and operating expenses, with the remaining funds to be remitted to the City.

The amount of BFSAs sales tax revenues to be collected depends upon various factors, including the economic conditions within the County, which has experienced numerous cycles of growth and recession. In addition, in the past, the State has enacted amendments to the Tax Law to exempt specific goods and services from the imposition of sales tax. The Act requires the County to impose the local sales tax at a rate of no less than 3.0 percent for the period ending June 30, 2037. Pursuant to State statutory authority, Erie County currently imposes sales tax at the rate of 4.75 percent. New York State has reauthorized the additional 1.0 percent sales tax rate, above the general State authorization, in Erie County every year since January 1978, but is under no obligation to continue to do so. The additional 1.0 percent sales tax currently expires on November 30, 2013, 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 BFSAs of approximately \$5.7 million in 2012 and 2011 and \$5.9 million in 2010; the School District does not share in this additional sales tax revenue. This allocation decreased from 2010 to 2011 due to the published results of the 2010 census, which indicated a disproportionately larger population decrease in the City of Buffalo as compared to other cities and towns within Erie County. Effective July 1, 2005, the County was authorized by the State to increase the local sales tax rate by an additional .25 percent, to 4.25 percent, and effective January 10, 2006, the County was authorized by the State to increase the local sales tax by another .50 percent, to 4.75 percent. None of these additional sales tax revenues are accrued to the City or BFSAs in the 2012, 2011, or 2010 fiscal years.

Sales tax revenue for the years ended June 30, 2012, 2011 and 2010 was \$111,678,652, \$108,771,463 and \$106,454,206, respectively. The increase from 2011 to 2012 was \$2,907,189, or 2.7%, while the increase from 2010 to 2011 was \$2,317,257, or 2.2%. 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. The Authority also received State aid for the year ended June 30, 2012 in the amount of \$163,820,023; the Authority received \$165,865,551 for the year ended June 30, 2011 and \$167,126,353 for the year ended June 30, 2010. State aid decreased \$1,260,802 (0.8%) from 2010 to 2011, and decreased another \$2,045,528 (1.2%) from 2011 to 2012. This is the result of a decrease in State aid funding from New York State. Investment income, which accounts for the remaining Authority revenue, totaled \$4,044,895, \$4,697,342 and \$5,314,954 for the years ended June 30, 2012, 2011 and 2010, respectively, of which \$3,792,996, \$4,388,115 and \$5,268,813 was derived from interest on the City's general obligation bonds described below. As principal is repaid on the notes held by BFSa, the amount of interest earnings decreases.

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, 2005 B & C, 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, 2005 B&C, 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 \$48,157,000. The Authority did not issue any debt during 2012, 2011 and 2010.

The statement of net assets shows total net assets of \$9,637,594 at June 30, 2012, as compared to net assets of \$10,479,569 at June 30, 2011 and \$7,803,715 at June 30, 2010, representing a decrease of \$841,975 from 2011 to 2012 and an increase of \$2,675,854 from 2010 to 2011. The decrease in net assets from 2011 to 2012 primarily results from a combination of two factors. Firstly, the Authority's debt issuances, which are backed by securitization of future sales tax revenue and State aid to the City, are reported as long-term liabilities, but the future revenues are not reportable. As of June 30, 2012, the Authority had net bonds payable of \$96,339,182, while net notes receivables from the City were \$71,894,129. The Authority made principal payments on outstanding debt in the amount of \$15,525,000. Payments received during 2012 from the City on the outstanding notes receivable was \$11,530,165. As total debt principal payments made exceeded the amount received on the notes receivable, the net effect is an increase to net assets of \$3,994,835. Secondly, 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 2012, 2011 and 2010. The Authority retains those funds until the conditions have been met. As such funds are released, the balance of net assets increases. The amount released to the City in 2012 was \$3,310,377. The remaining decrease is due to other revenue and expense variations. The statement on page 3 of these financial statements provides additional detail on the determination of the net asset amount.

The increase in net assets from 2010 to 2011 is related to similar factors. The Authority made principal payments on its long-term debt in the amount of \$14,360,000, while the Authority received principal payments from the City on outstanding notes receivable of \$12,639,443. The difference of \$1,720,557 represents an increase to net assets. Secondly, as noted above, 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 2011 nor was any amount held by the Authority released to the City. The remaining increase in net assets is primarily attributed to variations in revenue and expenses.

Cash and investments were \$31,715,664, \$36,586,374, and \$35,375,048 at June 30, 2012, 2011 and 2010, respectively. These amounts included funds for the future repayment of debt as well as State aid paid to BFSa in prior years for targeted purposes awaiting the City's request for disbursement in the amount of \$31,476,218, \$36,220,806 and \$35,077,582, at June 30, 2012, 2011 and 2010, respectively. Additionally, cash and investments included \$171,779, \$210,265 and \$189,009 of accrued interest to be paid to the City at June

30, 2012, 2011 and 2010, respectively, for the investment of such debt service reserves in accordance with outstanding agreements. Remaining cash and investments represents cash available for BFSAs operating expenses.

Operating expenses for the Authority totaled \$777,560, \$731,345 and \$710,797 for the years ended June 30, 2012, 2011 and 2010, respectively, under the fund basis of accounting. Total operating expenses increased \$46,215, or 6.3%, from 2011 to 2012, and increased \$20,548, or 2.9%, from 2010 to 2011. The reasons for the increases are discussed below.

Staff expenses for the years ended June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Wages	\$ 321,852	\$ 313,484	\$ 8,368	2.7%
Other staff related expenses	10,594	8,137	2,457	30.2%
Total direct staff expenses	<u>332,446</u>	<u>321,621</u>	<u>10,825</u>	<u>3.4%</u>
Staff benefits:				
NYS Employees' Retirement				
System contributions	47,195	35,064	12,131	34.6%
Payroll taxes, workers'				
compensation and NYS disability	24,723	23,082	1,641	7.1%
Health insurance (net of employee				
contributions)	53,614	31,888	21,726	68.1%
Total staff benefits	<u>125,532</u>	<u>90,034</u>	<u>35,498</u>	<u>39.4%</u>
Total staff expenses	<u>\$ 457,978</u>	<u>\$ 411,655</u>	<u>\$ 46,323</u>	<u>11.3%</u>

Staff expenses increased \$46,323, or 11.3%, from 2011 to 2012. The primary reason for the increase is the change in personnel. The Authority had two vacant positions for a portion of 2011; these vacant positions were filled during 2012, resulting in the increase to direct staff expenses. The increase in health insurance expense is related to the both an increase in the premium and to changes in the composition of employees' elections from last year. Other staff expenses have minor increases, with the exception of pension contributions to the NYS Employees' Retirement System (NYSERS) which increased \$12,131, or 34.6%. This increase is a primarily a result of the increase in required employer contribution as a percentage of payroll from 2011 to 2012.

The Authority employed a range of three to five salaried staff members during the years ended June 30, 2012 and 2011.

Staff expenses for the years ended June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Wages	\$ 313,484	\$ 370,849	\$ (57,365)	-15.5%
Other staff related expenses	8,137	9,732	(1,595)	-16.4%
Total direct staff expenses	<u>321,621</u>	<u>380,581</u>	<u>(58,960)</u>	<u>-15.5%</u>
Staff benefits:				
NYS Employees' Retirement				
System contributions	35,064	27,922	7,142	25.6%
Payroll taxes, workers' compensation and NYS disability	23,082	28,348	(5,266)	-18.6%
Health insurance (net of employee contributions)	<u>31,888</u>	<u>49,863</u>	<u>(17,975)</u>	<u>-36.0%</u>
Total staff benefits	<u>90,034</u>	<u>106,133</u>	<u>(16,099)</u>	<u>-15.2%</u>
Total staff expenses	<u>\$ 411,655</u>	<u>\$ 486,714</u>	<u>\$ (75,059)</u>	<u>-15.4%</u>

As noted above, two positions were vacant for a portion of 2011, resulting in the decrease to direct staff expenses and health insurance. Other staff expenses decreased commensurate with the decrease in personnel, with the exception of pension contributions to NYSERS. Required annual employer contributions as a percentage of payroll increased from 2010 to 2011, resulting in the increase.

The next largest category of expenses was for professional fees. The following chart indicates the amount expenditures for Professional Fees for the years ended June 30, 2012, 2011 and 2010.

	<u>2012</u>	<u>2011</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Legal fees	\$ 178,695	\$ 167,357	\$ 11,338	6.8%
Other professional fees	67,056	69,322	(2,266)	-3.3%
Total professional fees	<u>\$ 245,751</u>	<u>\$ 236,679</u>	<u>\$ 9,072</u>	<u>3.8%</u>
	<u>2011</u>	<u>2010</u>		
Legal fees	\$ 167,357	\$ 113,687	\$ 53,670	47.2%
Other professional fees	69,322	30,812	38,510	125.0%
Total professional fees	<u>\$ 236,679</u>	<u>\$ 144,499</u>	<u>\$ 92,180</u>	<u>63.8%</u>

Legal fees increased from 2010 to 2011 due to the level of litigation services required, which continued through 2012. Other professional fees increased from 2010 to 2011 due to the tax reporting matters on outstanding bonds.

Directors of the Authority do not receive any compensation for their services but are reimbursed for any Authority related expenses, primarily travel expense for those attending meetings from outside the Buffalo area. The following chart details expenses connected with Authority meetings and Directors' travel.

Meeting expenses for the years ended June 30, 2012, 2011 and 2010 are as follows:

	2012	2011	Increase/ (Decrease)	Percentage Change
Facilities expenses - public board meetings	\$ 5,944	\$ 9,069	\$ (3,125)	-34.5%
Public forums	2,092	2,021	71	3.5%
Directors' travel reimbursement	-	1,305	(1,305)	-100.0%
Total meeting expenses	\$ 8,036	\$ 12,395	\$ (4,359)	-35.2%
	2011	2010		
Facilities expenses - public board meetings	\$ 9,069	\$ 9,245	\$ (176)	-1.9%
Public forums	2,021	2,253	(232)	-10.3%
Directors' travel reimbursement	1,305	2,367	(1,062)	-44.9%
Total meeting expenses	\$ 12,395	\$ 13,865	\$ (1,470)	-10.6%

Meeting expenses are fairly consistent from year-to-year with the most significant decrease in facilities expense, resulting in a change in venue of where Authority public meetings are held.

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, 2012, 2011 and 2010:

	2012	2011	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	\$ 5,045	\$ 5,736	\$ (691)	-12.0%
Rent	42,063	41,035	1,028	2.5%
Telephone and data processing	11,710	12,113	(403)	-3.3%
Office supplies	3,836	3,534	302	8.5%
Public notices	190	5,478	(5,288)	-96.5%
Equipment	2,951	2,720	231	8.5%
Total Other Expenses	\$ 65,795	\$ 70,616	\$ (4,821)	-6.8%
	2011	2010		
Office services including postage and delivery	\$ 5,736	\$ 3,620	\$ 2,116	58.5%
Rent	41,035	39,163	1,872	4.8%
Telephone and data processing	12,113	15,966	(3,853)	-24.1%
Office supplies	3,534	5,342	(1,808)	-33.8%
Public notices	5,478	-	5,478	N/A
Equipment	2,720	1,628	1,092	67.1%
Total Other Expenses	\$ 70,616	\$ 65,719	\$ 4,897	7.5%

In total, other expenses has remained relatively consistent over the last three fiscal years. Individual significant fluctuations include: public notices increased \$5,478 in 2011 primarily due to the advertisements necessary to fill two vacated positions; there was no such required public notices in 2012; and the fluctuation of equipment expenditures in 2011 due to the replacement of one additional laptop computer.

The Authority's rental payments are made to the Buffalo Economic Renaissance Corporation, the economic development arm of the City, where they can be used toward the City's economic development efforts.

Debt Service Fund

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

Contacting the Authority's Financial Management

This financial report is designed to provide, taxpayers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeanette M. Mongold, 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 Assets

June 30, 2012

(With comparative totals as of June 30, 2011)

	2012	2011
Assets		
Cash and cash equivalents	\$ 14,713,324	\$ 18,148,307
Investments	17,002,340	18,438,067
Notes receivable - City of Buffalo due within one year	10,404,673	11,530,165
Due from other governments	32,854,407	32,646,672
Prepaid expenses	17,269	15,146
Notes receivable - City of Buffalo	61,489,456	72,134,932
Bond issuance costs, net	1,389,209	1,624,216
Capital assets	62,718	81,839
Accumulated depreciation	(59,533)	(78,541)
Total assets	<u>137,873,863</u>	<u>154,540,803</u>
Liabilities		
Accounts payable	15,499	25,827
Accrued liabilities	1,509,963	1,760,869
Due to the City of Buffalo		
Sales tax	10,834,483	10,217,093
General purpose aid	19,165,879	19,165,879
Bonds payable		
Bonds due within one year	14,535,000	15,525,000
Bonds due beyond one year	81,804,182	97,052,344
Other postemployment benefits	371,263	314,222
Total liabilities	<u>128,236,269</u>	<u>144,061,234</u>
Net Assets		
Invested in capital assets, net of related debt	3,185	3,298
Restricted	29,991,913	36,220,806
Unrestricted	(20,357,504)	(25,744,535)
Total net assets	<u>\$ 9,637,594</u>	<u>\$ 10,479,569</u>

See accompanying notes.

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

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2012
(With comparative totals for June 30, 2011)

	2012	2011
Expenses		
General and administrative	\$ 834,714	\$ 764,712
Distributions		
City of Buffalo - general operations	239,711,141	236,791,780
City of Buffalo School District	35,770,200	34,296,665
Interest expense	4,069,490	4,805,345
Total expenses	<u>280,385,545</u>	<u>276,658,502</u>
General revenues		
State aid	163,820,023	165,865,551
Sales tax	111,678,652	108,771,463
Interest and other income	4,044,895	4,697,342
Total general revenues	<u>279,543,570</u>	<u>279,334,356</u>
Change in net assets	(841,975)	2,675,854
Net assets - beginning	<u>10,479,569</u>	<u>7,803,715</u>
Net assets - ending	<u>\$ 9,637,594</u>	<u>\$ 10,479,569</u>

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

Balance Sheet - Governmental Funds

June 30, 2012

(With summarized comparative totals as of June 30, 2011)

	General	Debt Service	Total Governmental Funds	
			2012	2011
Assets				
Cash and cash equivalents	\$ 14,710,977	\$ 2,347	\$ 14,713,324	\$ 18,148,307
Investments	-	17,002,340	17,002,340	18,438,067
Due from other governments	31,264,574	73,483,962	104,748,536	116,311,769
Prepaid expenses	17,269	-	17,269	15,146
Total assets	\$ 45,992,820	\$ 90,488,649	\$ 136,481,469	\$ 152,913,289
Liabilities and Fund Balances				
Accounts payable	\$ 15,499	\$ -	\$ 15,499	\$ 25,827
Accrued liabilities	23,311	1,486,652	1,509,963	1,760,869
Due to the City of Buffalo	29,828,583	171,779	30,000,362	29,382,972
Total liabilities	29,867,393	1,658,431	31,525,824	31,169,668
Fund Balances				
Nonspendable:				
Prepaid expenses	17,269	-	17,269	15,146
Restricted:				
Debt service	-	88,830,218	88,830,218	102,009,091
State mandated initiatives	14,645,657	-	14,645,657	17,993,004
Unassigned	1,462,501	-	1,462,501	1,726,380
Total fund balances	16,125,427	88,830,218	104,955,645	121,743,621
Total liabilities and fund balances	\$ 45,992,820	\$ 90,488,649	\$ 136,481,469	\$ 152,913,289

See accompanying notes.

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

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

June 30, 2012

Total fund balances - governmental funds \$ 104,955,645

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

Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 3,185

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

Bonds payable, net	(96,339,182)	
Other postemployment benefits	<u>(371,263)</u>	(96,710,445)

Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued. 1,389,209

Net assets - governmental activities \$ 9,637,594

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

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

For the year ended June 30, 2012
(With summarized comparative totals for June 30, 2011)

	General	Debt Service	Total Governmental Funds	
			2012	2011
Revenues				
State aid	\$ 163,820,023	\$ -	\$ 163,820,023	\$ 165,865,551
Sales tax	111,678,652	-	111,678,652	108,771,463
Interest income	54,318	3,990,577	4,044,895	4,937,147
Total revenues	275,552,993	3,990,577	279,543,570	279,574,161
Expenditures				
General and administrative	652,028	-	652,028	641,311
Distributions				
City of Buffalo - general operations	239,238,174	472,967	239,711,141	236,791,780
City of Buffalo School District	35,770,200	-	35,770,200	34,296,665
Employee benefits	125,532	-	125,532	90,034
Debt service				
Principal	-	15,525,000	15,525,000	14,360,000
Interest	-	4,547,645	4,547,645	5,283,500
Total expenditures	275,785,934	20,545,612	296,331,546	291,463,290
Excess expenditures	(232,941)	(16,555,035)	(16,787,976)	(11,889,129)
Other financing sources (uses)				
Operating transfers in (out), net	(3,376,162)	3,376,162	-	-
Net change in fund balances	(3,609,103)	(13,178,873)	(16,787,976)	(11,889,129)
Fund balances - beginning	19,734,530	102,009,091	121,743,621	133,632,750
Fund balances - ending	\$ 16,125,427	\$ 88,830,218	\$ 104,955,645	\$ 121,743,621

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

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

For year ended June 30, 2012

Total net change in fund balances - governmental funds \$ (16,787,976)

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

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense and disposals exceeded capital outlays. (113)

Payments of long-term liabilities are reported as an expenditure in governmental funds, and reduce such liabilities in the statement of net assets. In the current year bond principal payments amounted to: 15,525,000

In the statement of activities and changes in net assets, certain operating expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported as paid.

Amortization of bond premiums	713,162	
Amortization of bond issuance costs	(235,007)	
Other postemployment benefits	(57,041)	<u>421,114</u>

Change in net assets - governmental activities \$ (841,975)

BUFFALO FISCAL STABILITY AUTHORITY

(A Component Unit of the City of Buffalo, New York)

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

The Buffalo Fiscal Stability Authority (the Authority) is a corporate governmental agency and instrumentality of the State of New York (the State) constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the Act), Chapter 122 of the Laws of 2003, as amended from time to time. Although legally separate and independent of the City of Buffalo (the City), the Authority is a component unit of the City for financial reporting purposes and, accordingly, is included in the City's financial statements. The 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 can not exceed \$175,000,000. The Authority may also issue bonds, notes or other obligations to pay the cost of issuance of such borrowings, to establish debt service reserves, to refund or advance refund any outstanding notes of the City. The Authority may issue cash flow borrowings which do not count toward the above limit, but are limited to \$145,000,000 of aggregate principal amounts outstanding at any one time.

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 an annual financial plan for four years to be approved by the Authority. The Act also allows the Authority to establish a maximum level of spending, impose a wage or hiring freeze, review and approve or disapprove any contracts, settlements, debt issuances or collective bargaining agreements entered into by the City or covered organization, and may require the City to explore certain actions regarding merger of services with the County of Erie. Under an advisory period, the Authority's monitoring responsibilities continue to exist, however the Authority is not required to approve the various items as noted above, but will publicly comment on such items.

The Authority receives all sales tax revenues designated for the City and the District, and State aid to be paid to the City. State aid includes all general purpose local government aid, emergency financial assistance to certain cities, emergency financial assistance to eligible municipalities, supplemental municipal aid, and any successor or new aid appropriated by the State as local government assistance for the benefit of the City. The Authority is also entitled to receive all other aid, rents, fees, charges, payments and other income to the extent such amounts are pledged to bondholders of the City. The Authority maintains amounts it deems necessary for its operations and debt service requirements with the excess transferred to the City as frequently as practicable. On occasion, the Authority has been directed by the State to retain certain State aid amounts for the City's future use.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities and changes in net assets display financial activities of the overall Authority. These statements are required to distinguish between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Authority does not maintain any business-type activities.

The statement of activities and changes in net assets is designed to present a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Given the specific nature of the Authority's purpose, its only function is displayed as monitoring of City finances.

Fund Financial Statements: The fund financial statements provide information about the Authority's funds. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column.

The Authority reports the following major funds:

- *General fund.* This is the Authority's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- *Debt service fund.* This fund is used to account for resources that are restricted, committed or assigned to expenditure for principal and interest payments on long-term debt obligations of governmental activities on behalf of the City. Financial resources that are being accumulated for principal and interest payments maturing in future years are also included in this fund.

The financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority receives value directly without giving equal value in exchange, include State aid and sales taxes. On an accrual basis, revenue is recognized in the fiscal year for which taxes and State aid are earned or designated. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Authority considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end, with the exception of amounts determined by statute as State general purpose aid. By law, although designated for the current fiscal year, the amount is paid by the State in December.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent that they have matured. Capital asset purchases are reported as expenditures in governmental funds. Proceeds of long-term liabilities and equipment or property purchased under capital leases are reported as other financing sources.

Interest expense is recognized on the accrual basis in the government-wide financial statements. In the governmental fund statements, interest expenditures are recognized when funds are deposited in the debt service fund.

The Authority receives sales tax revenue several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis. The Authority also withholds, as necessary, amounts which in its judgment are required for operations and operating reserves. Residual sales tax revenue and investment earnings are then transferred to the City.

No revenues are generated from operating activities of the Authority; therefore, all revenues are defined by the Authority as non-operating revenues. Revenues are received in the general and debt service funds. Expenses of the Authority that arise in the course of providing the Authority's oversight and debt issuance services, such as payroll and administrative expenses are considered operating expenses and are accounted for in the general fund. Expenditures related to debt issuance are considered non-operating expenses and are accounted for in the debt service fund.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and commercial paper with original maturities of three months or less.

Capital Assets

Assets are capitalized at historical cost if their value is greater than \$500 and have a useful benefit in excess of one year. Contributed assets are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives of five years using the straight-line method. Maintenance and repairs are expensed as incurred, significant improvements are capitalized.

Inventory and Prepaid Expenses

The Authority holds no inventory beyond small amounts of office supplies. Prepaid expense accruals are minor and are adjusted at the close of each fiscal year.

Bond Issuance Costs

Bond issuance costs are expensed and recognized in the period issued in the governmental funds. Within the government-wide statements, bond issuance costs are capitalized and amortized on a straight-line basis over the life of the related debt issue.

Bond Premiums

In the government-wide statements, proceeds from the issuance of bonds received in excess of face value (premiums) are deferred and added to the bonded liability. These amounts are subsequently amortized on a straight-line basis as an offset of interest expense over the life of the bond. In the fund statements, these amounts are recognized currently as other financing sources.

Equity Classifications

Government-wide statements

- *Invested in capital assets, net of related debt* - consists of net capital assets reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* – net assets are considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws or as provided by the Authority's bonds.
- *Unrestricted net assets* – consists of all other net assets that do not meet the definition of the above two components and are available for general use by the Authority.

Interfund Transfers

The operations of the Authority include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. Permanent transfers of funds include the transfer of expenditure and revenues to provide resources for required debt service payments.

In the government-wide statements, the amounts reported on the statement of net assets for interfund receivables and payables, if any, would represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations would be made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds, if any.

Governmental fund statements

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 and net assets result from reserves created primarily by enabling legislation to preserve resources for future expenditures as required by budgetary regulations or bond instruments. 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 and net asset restrictions consist of the following reserves:

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

State mandated initiatives – used to accumulate money provided by the State through aid and incentives for municipalities that is held by the Authority on behalf of the City. These funds are required to be used by the City for maintaining, stabilizing or reducing the real property tax burden; investing in technology or other efficiency and productivity initiatives that permanently minimize or reduce the City’s operating expenses; supporting economic development or infrastructure investments that are necessary to achieve economic revitalization and generate growth in real property tax base; or minimizing or preventing reductions in City services. The money will be disbursed by the Authority when requested by the City for the aforementioned initiatives.

2. 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 2012 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of \$111,678,652 were recorded, of which \$56,386,062 was or will be paid to the City and \$35,770,200 was designated for the District. The balance was retained for Authority operations and to provide for a debt service sinking fund.

- State aid of \$163,820,023 was received during 2012. Of this amount, \$19,165,879 was accrued as revenue in fiscal 2011. The Authority has accrued \$19,165,879 at June 30, 2012, to be remitted to the City in December 2012.
- Distributions paid or accrued to the City in 2012 totaled \$239,711,141, which includes \$56,386,062 sales tax receipts, \$182,717,794 state aid and other revenue receipts and \$607,285 interest receipts.

3. Cash and Investments

Investment policies are governed by State laws in accordance with the Act and as established in the Authority’s written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Executive Director is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and its Agencies, repurchase agreements, obligations of the State or its localities, and commercial paper of any bank or corporation provided it has the highest rating of two independent rating agencies.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Custodial credit risk is the risk that in the event of a bank failure the Authority’s deposits may not be returned to it. At June 30, 2012, the Authority’s bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution’s trust in the Authority’s name.

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

	Carrying Value	Fair Value
Cash	\$ 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	1,587,853	1,587,853
Fed'l Home Loan Mortgage Corp. Disc. Paper	4,623,311	4,624,552
Fed'l National Mortgage Assn. Disc. Notes	7,696,917	7,722,649
Fed'l Home Loan Mortgage Corp. Med. Term Note	166,880	174,230
Commercial Paper	422,794	422,794
US Dept Hsg & Urban Dev Agency Obligation	1,288,754	1,292,625
Accrued interest	171,779	171,779
	<u>\$ 31,715,664</u>	<u>\$ 31,753,858</u>

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities are generally short term with certificates of deposits issued with 30 day maturities and commercial paper due within 45 days of purchase.

4. Due from Governments

Due from Other Governments:

New York State:	
May and June sales tax receipts	\$ 12,098,695
June 2012 general purpose local aid	19,165,879
Accrued interest	1,589,833
	<u>\$ 32,854,407</u>

Due from the City:

Mirror bond 2005A (1/15/2025), interest at 5.0% inclusive of premium of \$751,976	\$ 14,087,690
Mirror bond 2005B&C (1/15/2019), interest at 5.0% inclusive of premium of \$782,018	18,022,018
Mirror bond 2006A (1/15/2020), interest at 5.0% inclusive of premium of \$137,798	18,287,798
Mirror bond 2007A (1/15/2023), interest at 5.0% inclusive of premium of \$607,923	21,496,623
	<u>71,894,129</u>
Amount due within one year	10,404,673
	<u>\$ 61,489,456</u>

Amounts to be received from the City, net of bond premiums of \$2,279,715, on the mirror bonds are as follows:

Year ending June 30,	Principal	Interest
2013	\$ 10,404,673	\$ 3,480,720
2014	10,965,657	2,960,488
2015	8,691,439	2,412,204
2016	7,852,712	1,977,632
2017	6,293,597	1,584,997
2018-2022	22,594,749	3,438,443
2023-2025	2,811,587	185,083
	<u>\$ 69,614,414</u>	<u>\$ 16,039,567</u>

5. Capital Assets

	2012
Furniture, fixtures, and computers	\$ 62,718
Accumulated depreciation	(59,533)
	<u>\$ 3,185</u>

Furniture, fixtures, and computers decreased by \$19,121 in fiscal 2012 offset by accumulated depreciation reduction of \$20,614. Depreciation expense totaled \$1,606.

6. Long-Term Liabilities

	July 1, 2011	Increases	Decreases	June 30, 2012	Amounts Due in One Year
Series 2004A Bond, maturing \$ August 2014 with interest ranging from 4.0% to 5.25% over the life of the bond.	11,915,000	\$ -	\$ 2,750,000	\$ 9,165,000	\$ 2,895,000
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	17,435,000	-	1,960,000	15,475,000	2,000,000
Series 2005B&C bond maturing September 2019 with interest at 5.0% over the life of the bond.	30,945,000	-	7,565,000	23,380,000	6,140,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	21,740,000	-	1,760,000	19,980,000	1,830,000
Series 2007A bond maturing September 2023 with interest ranging from 4.0% to 5.0% over the life of the bond.	24,725,000	-	1,490,000	23,235,000	1,670,000
	106,760,000	-	15,525,000	91,235,000	14,535,000
Premiums:					
2004A	611,753	-	203,807	407,946	-
2005A	1,516,851	-	106,663	1,410,188	-
2005B	2,216,150	-	269,532	1,946,618	-
2006A	791,322	-	77,923	713,399	-
2007A	681,268	-	55,237	626,031	-
	5,817,344	-	713,162	5,104,182	-
	\$ 112,577,344	\$ -	\$ 16,238,162	\$ 96,339,182	\$ 14,535,000

Debt service requirements:

Year ending June 30,	Principal	Interest
2013	\$ 14,535,000	\$ 4,244,397
2014	13,540,000	3,513,517
2015	14,265,000	2,814,503
2016	8,780,000	2,175,244
2017	7,935,000	1,763,844
2018-2022	27,170,000	3,776,544
2023-2026	5,010,000	249,241
	\$ 91,235,000	\$ 18,537,290

Lease obligations:

The Authority leases office space from a City related entity under the terms of an operating lease which expired May 31, 2011, and continues under a month to month arrangement. Rental expense amounted to \$42,063 for the year ended June 30, 2012.

7. Contributions to Pension Plans

The Authority participates in the New York State and Local Employees' Retirement System (ERS), which is a cost-sharing multiple employer, public employee retirement system. ERS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

The New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York State and Local Retirement System at www.osc.state.ny.us/retire.

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 ERS 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 3% of compensation through March 31, 2013. Beginning April 1, 2013, these participants will 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. The required contributions and rates over the past three years were:

	<u>Amounts</u>	<u>Rates</u>
2012	\$ 47,692	15.8%
2011	37,579	11.3%
2010	18,526	7%

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

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 over age 55 and with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended June 30, 2012, there were no retirees of the Authority receiving benefits.

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

The following table summarizes the Authority's annual OPEB for the year ended June 30, 2012:

	<u>2012</u>
Annual required contribution	
Normal cost	\$ 63,810
Amortization of unfunded actuarial accrued liability	12,084
Interest on net OPEB obligation	12,569
ARC adjustment	<u>(31,422)</u>
Annual OPEB cost	57,041
Contributions made	-
Increase in net OPEB obligation	57,041
Net OPEB obligation - beginning of year	314,222
Net OPEB obligation - end of year	<u>\$ 371,263</u>

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 57,041	0%	\$ 371,263
2011	\$ 34,595	0%	\$ 314,222
2010	\$ 97,792	0%	\$ 279,627

As of June 30, 2012, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was \$116,194, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$319,377, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36%.

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 included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

Retirement age for active employees – assumed employees will not retire before age 62 and ten years of service.

Marital status – Assumed 100% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

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

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

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

Healthcare cost trend rate – The expected rate of increase in healthcare premiums was based on projections developed by the actuary's healthcare specialists. An initial inflation rate of 8%, reduced to an ultimate rate of 4.7% after ten years was used. The dental plan was based on a rate of 3.5% reduced to 3% after year 2, and the vision plan was based on a rate of 3%.

Health insurance premiums – 2012 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the Authority's general assets, a discount rate of 4.0% was used. The level percentage of projected payroll of active plan members method is used to amortize the unfunded actuarial liability.

9. Commitments and Contingencies

The Authority is involved in various legal proceedings, which, in the opinion of management, will not have a material adverse effect upon the financial position of the Authority. These proceedings result from the Authority being named as a party to various suits initiated by bargaining units representing many of the City's workers challenging articles of the Act relative to wage freezes. No damages have been specified.

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

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

June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (UAAL) (b)	Deficiency of Assets over UAAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b- a)/c)
1/1/2008	\$ -	\$ 225,100	\$ (225,100)	0%	\$ 360,000	63%
6/30/2011	\$ -	\$ 83,458	\$ (83,458)	0%	\$ 228,327	37%
6/30/2012	\$ -	\$ 116,194	\$ (116,194)	0%	\$ 319,377	36%

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

Supplementary Information
Schedule of Administrative Expenditures - General Fund

For the years ended June 30, 2012 and 2011	2012	2011
General and Administrative		
Board functions		
Public meeting expenses	\$ 5,944	\$ 9,069
Public forums	2,092	2,021
Directors' travel reimbursement	-	1,305
	<u>8,036</u>	<u>12,395</u>
Staff expenses		
Wages	321,852	313,484
Professional development	6,198	3,986
Parking	3,705	3,426
Payroll processing fees	691	725
	<u>332,446</u>	<u>321,621</u>
Central services		
Postage, printing and dues	3,673	3,598
Rent	42,063	41,035
Telephone and data processing	11,710	12,113
Insurance	1,372	2,138
Office supplies	3,836	3,534
	<u>62,654</u>	<u>62,418</u>
Administrative		
Professional fees and consultants	67,056	69,322
Legal fees	178,695	167,357
Public notices	190	5,478
Equipment	2,951	2,720
	<u>248,892</u>	<u>244,877</u>
Total General and Administrative	<u>652,028</u>	<u>641,311</u>
Employee Benefits		
New York State Employees' Retirement System contributions	47,195	35,064
Social Security and Medicare taxes	24,723	23,082
Medical insurance net of employee contributions	53,614	31,888
Total Employee Benefits	<u>125,532</u>	<u>90,034</u>
Total administrative expenditures - general fund	<u>\$ 777,560</u>	<u>\$ 731,345</u>

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

The Board of Directors
Buffalo Fiscal Stability Authority

We have audited the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority), a component unit of the City of Buffalo, New York, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, officials of the City of Buffalo, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.



September 14, 2012

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 Buffalo Fiscal Stability Authority's (the Authority), a component unit of the City of Buffalo, New York), as of June 30, 2012, which collectively comprise the Authorities' financial statements listed in the table of contents, and we have issued our report thereon dated September 14, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority failed to comply with Section 2925(3)(f) of the New York State Public Authorities Law and Part 201 of Title Two of the New York Code of Rules and Regulations regarding investment guidelines during the year ended June 30, 2012. 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.

This report is intended solely for the information and use of management, the Board of Directors, officials of the City of Buffalo, and the Office of the State Comptroller of the State of New York. It is not intended to be and should not be used by anyone other than these specified parties.

September 14, 2012

