# 2012

# MBBA

## State of New York Municipal Bond Bank Agency
## Annual Report

**State of New York Municipal Bond Bank Agency**

Financial Statements

Fiscal Years Ended October 31, 2012 and 2011

**Contents**

# RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the State of New York Municipal Bond Bank Agency (the "Agency"), for the fiscal years ended October 31, 2012 and 2011, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Agency maintains a system of internal control. The objectives of an internal control system are to provide reasonable assurance as to the protection of, and accountability for, assets, compliance with applicable laws and regulations, proper authorization and recording of transactions, and the reliability of financial records for preparing financial statements. The system of internal control is subject to periodic review by management and the internal audit staff.

The Agency's annual financial statements have been audited by Ernst & Young LLP, independent auditors appointed by the Directors of the Agency. Management has made available to Ernst & Young LLP all the financial records and related data of the Agency as well as having provided access to all the minutes of the meetings of the Directors of the Agency. The independent auditors periodically meet with the Directors of the Agency.

The independent auditors conducted their audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that they plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. The audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, the independent auditors do not express an opinion on the effectiveness of the Agency's internal control over financial reporting. The audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The independent auditors' unqualified report attests that the financial statements are presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Darryl C. Towns
President/Chief Executive Officer

Sheila Robinson
Senior Vice President/Chief Financial Officer

January 29, 2013

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# Report of Independent Auditors

The Directors of the Board
State of New York Municipal Bond Bank Agency
New York, New York

We have audited the accompanying statements of net position of the State of New York Municipal Bond Bank Agency (the "Agency"), a component unit of the State of New York, as of October 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of the Agency's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of October 31, 2012 and 2011, and the changes in its financial position and cash flows for the year then ended in conformity with US generally accepted accounting principles.

Accounting principles generally accepted in the United States require that management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic 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 basic 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



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United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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 audits were conducted for the purpose of forming an opinion on the Agency's basic financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Ernst & Young LLP

January 29, 2013

# STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY
## A Component Unit of the State of New York

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FISCAL YEARS ENDED OCTOBER 31, 2012 and 2011

Overview of the Financial Statements - The following is a narrative overview of the financial performance of the State of New York Municipal Bond Bank Agency (the "Agency") for the fiscal years ended October 31, 2012 ("fiscal 2012") and 2011 ("fiscal 2011"), with selective comparative information for the fiscal year ended October 31, 2010 ("fiscal 2010"). Please read this analysis in conjunction with the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the Agency's financial statements and (3) the notes to the financial statements.

The Agency's financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**Management's Discussion and Analysis**

- This section of the Agency's financial statements, Management's Discussion and Analysis ("MD&A"), presents an overview of the Agency's financial performance during the fiscal years ended October 31, 2012 compared to the fiscal year ended October 31, 2011. It provides a discussion of financial highlights and an assessment of how the Agency's position has changed from the past years. It identifies the factors that, in management's view, significantly affected the Agency's overall financial position. It may contain opinions, assumptions or conclusions by the Agency's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described below.

**The Financial Statements**

- The "Statement of Net Position" provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to Agency creditors (liabilities) and net position.

- The "Statement of Revenues, Expenses and Changes in Net Position" accounts for all the current year's revenues and expenses in order to measure the success of the Agency's operations over the past year. It can be used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net position is similar to net profit or loss for a business.

- The "Statement of Cash Flows" is presented on the direct method of reporting. It provides information about the Agency's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

**The Financial Statements (continued)**

**The Notes to the Financial Statements**

- Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash for each year.

- The notes provide information that is essential to understanding the financial statements, such as the Agency's accounting methods and policies, providing information about the content of the financial statements.

- Details are included of contractual obligations, future commitments and contingencies of the Agency.

- Information is given regarding any other events or developing situations that could materially affect the Agency's financial position.

**Background**

The Agency, a component unit of the State of New York, is a corporate governmental agency, constituting a public benefit corporation created by the New York State legislature in 1972. The Agency originally was created to provide municipalities (as such term is defined by the Public Authorities Law) with an alternative mechanism for selling general obligation bonds. Since 1972, pursuant to its enabling statute, as amended, funds raised by the issuance and sale of the Agency's Revenue Bonds have been provided to municipalities in order to:

- Purchase general obligation bonds issued to fund certain public improvements under the American Recovery and Reinvestment Act at 2009 ("ARRA") ("Recovery Act Bonds") in order to provide efficiencies and interest rate savings to the municipality.

- Refund certain property taxes determined to be in excess of State constitutional tax limits or to reimburse such municipalities for the prior refunding of such taxes.

- Provide a means by which certain municipalities received monies for the purpose of paying the cost of settling litigation involving their school districts and the teachers' unions thereof.

- Provide a means by which the Enlarged City School District of the City of Troy received monies for the specific purpose of liquidating the projected accumulated deficit in its general fund as of the close of its fiscal year ended June 30, 2002.

- Finance certain school districts' prior year claims with respect to state school aid.

The Tobacco Settlement Financing Corporation ("Corporation") was created under the Tobacco Settlement Financing Corporation Act. The Corporation was established as a public benefit corporation and a subsidiary of the Agency. The Agency does not have financial accountability for the Corporation; accordingly, it is not a component unit of the Agency. Therefore, the financial activities of the Corporation are not included in this MD&A or the accompanying financial statements. Under the terms of a Service Agreement between the Agency and the Corporation, the Agency agrees to render to the Corporation services, required for the Corporation to operate. The Corporation reimburses the Agency for any costs the Agency incurs on behalf of the Corporation. Upon the issuance of bonds by the Corporation, the Agency receives a fee.

# CONDENSED FINANCIAL INFORMATION

## State of New York Municipal Bond Bank Agency
## (A Component Unit of the State of New York)

# CONDENSED STATEMENTS OF NET POSITION

| | October 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012-2011 | 2011-2010 |
| | | (In thousands) | | | |
| **Assets:** | | | | | |
| Receivable from muncipalities | | | | | |
| Advances | $ 297,695 | $ 403,891 | $ 435,700 | (26%) | (7%) |
| Bonds purchased | 318,221 | 345,499 | 314,170 | (8%) | 10% |
| Other assets | 37,739 | 43,092 | 43,688 | (12%) | (1%) |
| **Total assets** | **653,655** | **792,482** | **793,558** | | |
| **Liabilities:** | | | | | |
| Bonds payable, net | 655,752 | 764,821 | 766,784 | (14%) | (–) |
| Other liabilities | 9,370 | 39,154 | 40,514 | (76%) | (3%) |
| **Total liabilities** | **665,122** | **803,975** | **807,298** | | |
| **Net position:** | | | | | |
| Unrestricted deficit | **$ (11,467)** | **$ (11,493)** | **$ (13,740)** | | |

– indicates a percentage of less than 1%

**Overall Financial Position - Deficit**

Net deficits are reported as of October 31, 2012, 2011 and 2010 in the amounts of $11.5 million, $11.5 million, and $13.7 million, respectively. The net deficit decreased by $26 thousand in fiscal year 2012 and decreased by $2.2 million in fiscal year 2011.

The deficits in fiscal year 2011 and fiscal year 2010 were due to the advance to municipalities of $27.7 million of funds in fiscal year 2004 made available by the sale of bonds at a premium. At that time, the advance of such bond premium funds was recorded as an expense. However, the receipt of such funds when the bonds were issued was capitalized and is being amortized over the life of the related bond issues. During fiscal year 2012, a portion of the 2004 bonds were refunded. Through amortization of the bond premium, the net deficit will be reduced over the life of the related bonds.

**Changes in Assets**

**Receivables from Municipalities:**

**Advances**

Advances represent the unpaid balance of funds advanced by the Agency relating to the 1998, 2001, and 2003 Bond Series, as adjusted through the issuance of the 2012 refunding bonds. The refunding bonds, refunded the Special Program (City of Buffalo) Revenue Bonds, 2001 Series A and Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series bond issues. Each participating municipality is responsible to fund bond payments relating to the bonds which funded the amount advanced on their behalf. The amount recorded as advances is equivalent to the amount recorded as the payable on the related bonds. The repayments of advances are used to fund the debt service payment due on the related bonds outstanding. As a result of repayments by municipalities, advances and adjustments related to the issuance of the refunding bonds declined from $403.9 million in fiscal year 2011 to $297.7 million in fiscal year 2012 a decrease of $106.2 million, or 26% and declined from $435.7 million in 2010 to 403.9 million in 2011 a decrease of $31.8 million, or 7%.

**Bonds Purchased**

Bonds purchased in the amounts of $318.2 million and $345.5 million as of October 31, 2012 and 2011, respectively, represent the general obligations of participating municipalities in New York State that were purchased by the Agency with the proceeds of the Agency's Recovery Act Bonds issued in fiscal 2011 and 2010. The payments due from the participating municipalities relating to their local bonds are used to fund the debt service due on the Agency's outstanding Recovery Act Bonds. The decrease from $345.5 million as of October 31, 2011 to $318.2 million as of October 31, 2012, a decrease of $27.3 million or 8% resulted from amortization of bond principal and payments made by the participating municipalities. The increase from $314.2 million as of October 31, 2010 to $345.5 million as of October 31, 2011 an increase of $31.3 million or 10% is a result of the additional bonds purchased in fiscal 2011.

**Receivables from Municipalities (continued):**

**Changes in Liabilities**

**Bonds Payable**

During fiscal 2012 and 2011, the Agency issued bonds as follows:

- Special School Purpose Revenue Bonds (Prior Year Claims – The City of New York) 2012 Series A, in the par amount of $281.3 million (bond premium in the amount of $49 million). The bonds were issued to advance refund a portion of the outstanding Special School Purpose (Prior Year Claims) Revenue Bonds 2003 Series C bonds in the amount of $353.6 million and pay certain costs of issuance related thereto. The Agency recognized a loss in the amount $33.6 million and a present value savings in the amount of $53.5 million.

- Special Program (City of Buffalo) Refunding Revenue Bonds 2012 Series A in the par amount of $13.9 million (bond premium in the amount of $1 million). The bonds were issued to currently refund the outstanding Special Program (City of Buffalo Revenue Bonds 2001 Series A bonds in the amount of $22 million (the City of Buffalo contributed $6 million to the refunding transaction). The Agency recognized a loss in the amount of $1.1 million and a present value savings in the amount of $5.2 million.

- In fiscal year 2011 and fiscal year 2010, Recovery Act Bonds were issued in the par amounts of $50.8 million and $300.6 million (bond premium in the amounts of $1.7 million and $17.7 million respectively).

Bonds Payable, net decreased from $764.8 million as of October 31, 2011 to $655.8 million as of October 31, 2012. This represents a decrease of approximately $109.1 million or 14%, as a result of the bond amortizations from the issuance of the refunding bonds.

During the prior fiscal year, Bonds Payable, net decreased from $766.8 million to $764.8 million, a decrease of approximately $2 million or less than 1% as a result of the bond amortizations and bond redemptions in excess of the bonds issued in fiscal 2011.

# State of New York Municipal Bond Bank Agency
# (A Component Unit of the State of New York)

## CONDENSED SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | Fiscal Year Ended October 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012-2011 | 2011-2010 |
| | | (In thousands) | | | |
| **Revenues:** | | | | | |
| Interest on advances and bonds purchased | $ 36,194 | $ 38,220 | $ 32,868 | (5%) | 16% |
| Investment income | 1,119 | 1,272 | 1,333 | (12%) | (5%) |
| Fees and charges | 520 | 840 | 272 | (38%) | 209% |
| Federal interest subsidy payments | 2,083 | 2,233 | 498 | (7%) | 348% |
| **Total Revenues** | **39,916** | **42,565** | **34,971** | | |
| **Expenses:** | | | | | |
| Interest | 35,825 | 36,320 | 30,469 | (1%) | 19% |
| Earnings credited to municipalities | 1,190 | 1,454 | 1,307 | (18%) | 11% |
| Other | 454 | 649 | 508 | (30%) | 28% |
| Expenses related to federal interest subsidy payments | 2,421 | 1,895 | 498 | 28% | 281% |
| **Total Expenses** | **39,890** | **40,318** | **32,782** | | |
| **Increase in Net Position** | 26 | 2,247 | 2,189 | (99%) | 3% |
| Total Net Position - beginning of year | (11,493) | (13,740) | (15,929) | 16% | 14% |
| **Total Net Position - end of year** | $ **(11,467)** | $ **(11,493)** | $ **(13,740)** | | |

## Changes in Revenues and Expenses

### Interest on Advances and Bonds Purchased

Interest on advances and bonds purchased represent the primary sources of funds available to pay interest expense due on bonds payable. Interest on advances and bonds purchased decreased from $38.2 million in fiscal 2011 to $36.2 million in fiscal 2012, a decrease of approximately 5% or $2 million primarily as a result of the decline of the receivables from municipalities and bond purchased. This compares with the increase of approximately $5.3 million or 16% from $32.9 million in fiscal 2010 to $38.2 million in fiscal 2011. The increase was related to an increase in bond purchased as a result of the Agency's issuance of Recovery Act Bonds in fiscal years 2011 and 2010.

### Investment Income

Investment income declined from $1.3 million in fiscal 2011 to $1.1 million in fiscal 2012, a decrease of approximately 12% or $153 thousand, primarily as a result of the lower investment balance and lower yields on investments purchased. From fiscal 2010 to fiscal 2011investment income remain fairly constant at approximately $1.3 million.

### Federal Interest Subsidy Payments

Federal interest subsidy payments represent subsidies received by the Agency from the Federal Government to reimburse municipalities participating in the Agency's Recovery Act Bond Program for a portion of the amount of interest due on bonds purchased. Federal interest subsidy payments decreased approximately $150 thousand from approximately $2.2 million in fiscal 2011 to approximately $2 million in fiscal 2012, a decrease of approximately 7%. The decrease was a result of the timing of the disbursement of such funds.

This compares with an increase from approximately $498 thousand in fiscal 2010 to approximately $2.2 million in fiscal 2011, an increase of approximately $1.7 million or 348%. The increase was a result of a full year of federal interest subsidy payments received during fiscal 2011 for bonds purchased during fiscal 2010 compared with a partial year of such payments during fiscal 2010, as well as the federal interest subsidy payments relating to bonds purchased in fiscal 2011.

### Fees and Charges

Fees and charges decreased from approximately $840 thousand in fiscal year 2011 to approximately $520 thousand in fiscal year 2012, a decrease of approximately 38% or $320 thousand. Fees and charges increased from approximately $272 thousand in fiscal year 2010 to approximately $840 thousand in fiscal year 2011, an increase of approximately 209% or $568 thousand. The fluctuations are primarily a result a of one-time $254 thousand fee received in connection with the issuance of Tobacco Settlement Financing Corporation Series 2011 A and B (Refunding Bonds) by the Corporation during fiscal 2011.

## Changes in Revenues and Expenses (continued)

### Interest Expense

Interest expense incurred on bonds outstanding decreased from approximately $36.3 million in fiscal year 2011 to approximately $35.8 million in fiscal year 2012, a decrease of $495 thousand or 1% as a result of amortizations. This compares with an increase from approximately $30.5 million in fiscal year 2010 to approximately $36.3 million in fiscal year 2011 an increase of approximately $5.8 million or 19% as a result of interest due on Recovery Act Bonds.

Amortization of bond premium is included in interest expense in the amounts of $3 million in 2012, $5 million in 2011 and $1.4 million in 2010.

### Earnings Credited to Municipalities

The Agency credited municipalities in the amounts of approximately $1.2 million, $1.5 million, and $1.3 million for earnings on certain restricted funds in fiscal years 2012, 2011, and 2010 respectively. Earnings credits vary based both on available earnings and the timing of the credits on billings to municipalities.

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# State of New York Municipal Bond Bank Agency
# (A Component Unit of the State of New York)
# STATEMENTS OF NET POSITION

| | October 31, 2012 | October 31, 2011 |
|---|---|---|
| | (In thousands) | |
| **Assets** | | |
| Current assets: | | |
| Restricted cash held by trustee | $ 1,083 | $ 971 |
| Investments | | |
| Restricted | 15,056 | 1,977 |
| Unrestricted | 653 | 650 |
| Accrued interest receivable on investments | 387 | 518 |
| Receivable from muncipalities | | |
| Advances | 25,555 | 25,080 |
| Bonds purchased | 25,935 | 25,185 |
| Interest receivable and other | 8,315 | 14,307 |
| Due from the Tobacco Settlement Financing Corporation | 265 | 254 |
| **Total current assets** | **77,249** | **68,942** |
| Non-current assets: | | |
| Restricted investments | 11,980 | 24,415 |
| Receivable from municipalities | | |
| Advances | 272,140 | 378,811 |
| Bonds purchased | 292,286 | 320,314 |
| **Total non-current assets** | **576,406** | **723,540** |
| **Total assets** | **653,655** | **792,482** |
| **Liabilities** | | |
| Current liabilities: | | |
| Bonds payable | 51,490 | 50,265 |
| Interest payable | 5,403 | 13,243 |
| Due to The New York State Housing Finance Agency | 77 | 57 |
| Accounts payable | 355 | 24 |
| **Total current liabilities** | **57,325** | **63,589** |
| Non-current liabilities: | | |
| Bonds payable, net | 604,262 | 714,556 |
| Funds held in trust | 3,535 | 25,830 |
| **Total non-current liabilities** | **607,797** | **740,386** |
| **Total liabilities** | **665,122** | **803,975** |
| **Net position** | | |
| Unrestricted (deficit) | (11,467) | (11,493) |
| **Total net position** | **$ (11,467)** | **$ (11,493)** |

*See notes to financial statements.*

# State of New York Municipal Bond Bank Agency
# (A Component Unit of the State of New York)
# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

| | Fiscal Year Ended October 31, 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| **Operating revenues** | | |
| Interest on advances and bonds purchased | $ 36,194 | $ 38,220 |
| Investment income | 1,119 | 1,272 |
| Fees and charges | 520 | 840 |
| **Total operating revenues** | **37,833** | **40,332** |
| **Operating expenses** | | |
| Interest | 35,825 | 36,320 |
| Earnings credited to municipalities | 1,190 | 1,454 |
| General | 454 | 649 |
| Expenses related to federal interest subsidy payments | 2,421 | 1,895 |
| **Total operating expenses** | **39,890** | **40,318** |
| **Operating (loss) income** | **(2,057)** | **14** |
| **Non-operating revenues** | | |
| Federal interest subsidy payments | 2,083 | 2,233 |
| **Increase in net position** | 26 | 2,247 |
| Total net position - beginning of year | (11,493) | (13,740) |
| **Total net position - end of year** | **$ (11,467)** | **$ (11,493)** |

*See notes to financial statements.*

# State of New York Municipal Bond Bank Agency
# (A Component Unit of the State of New York)
## STATEMENTS OF CASH FLOWS

| | Fiscal Year Ended October 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (In thousands) | |
| **Cash flows from operating activities:** | | |
| Interest on advances and bonds purchased | $ 36,562 | $ 38,678 |
| Bonds purchased | – | (51,539) |
| General expenses | (455) | (850) |
| Cost of Issuance | (1,459) | (899) |
| Fees and charges | 366 | 842 |
| Earnings credited to municipalities | (1,190) | (1,454) |
| Expenses related to federal interest subsidy payments | (2,421) | (1,895) |
| Amounts received in advance | 2,235 | 589 |
| Reserve funds returned to municipalities | (1,502) | (1,789) |
| **Net cash provided by (used in) operating activities** | **32,136** | **(18,317)** |
| **Cash flows from non-capital financing activities:** | | |
| Interest paid on bonds | (37,151) | (39,164) |
| Issuance of bonds | 295,175 | 50,820 |
| Proceeds from Bond premium | 50,669 | 1,656 |
| Federal interest subsidy receipts | 2,084 | 2,233 |
| Bonds Refunded | (370,040) | (1,675) |
| Principal repayments | (51,105) | (47,722) |
| **Net cash provided by (used in) non-capital financing activities** | **(110,368)** | **(33,852)** |
| **Cash flows from investing activities:** | | |
| Investment income | 1,209 | 1,286 |
| Principal payments on advances | 52,556 | 31,809 |
| Principal payments on Bonds Purchased | 25,185 | 17,662 |
| Proceeds from sales or maturities of investments | 76,884 | 39,212 |
| Purchases of investments | (77,490) | (37,377) |
| **Net cash provided by investing activities** | **78,344** | **52,592** |
| Net increase in cash | 112 | 423 |
| Cash at beginning of year | 971 | 548 |
| **Cash at end of year** | **$ 1,083** | **$ 971** |
| **Reconciliation of net operating income (loss) to net cash used in operating activities:** | | |
| Operating income (loss) | $ (2,057) | $ 14 |
| Adjustments to reconcile increase in net assets from operating activites to net cash provided by (used in) operating activities: | | |
| Net cash provided by (used in) non operating activties | 33,204 | (16,825) |
| Changes in assets and liabilities - net: | | |
| Interest, fees and other receivables | (1,245) | (440) |
| Funds received in advance used to pay interest on bonds | 2,235 | 589 |
| Accounts and other payables | (1) | (1,655) |
| **Net cash used in operating activities** | **$ 32,136** | **$ (18,317)** |

*See notes to financial statements.*

**State of New York Municipal Bond Bank Agency**

**(A Component Unit of the State of New York)**

**Notes to the Financial Statements**

**Fiscal Years Ended October 31, 2012 and 2011**

## 1. The Agency

The State of New York Municipal Bond Bank Agency (“Agency”), a component unit of the State of New York, was created in 1972 under Title 18 of the Public Authorities Law of the State of New York (“Act”) and is a corporate governmental agency, constituting a public benefit corporation. The Agency’s enabling legislation is based on the Agency’s role to foster and promote, by all reasonable means, the provision to provide access to capital markets and facilities for borrowing money by municipalities to finance their public improvements from proceeds of bonds or notes issued by those municipalities. Further, the Agency is authorized to assist those municipalities in fulfilling their needs for improvements by the creation and use of indebtedness and, to the extent possible, to reduce costs of indebtedness to taxpayers and residents of New York State (the “State”) and to encourage continued investor interest in the purchase of bonds or notes of municipalities as sound and preferred securities for investment. The Agency is authorized to issue bonds of approximately $1 billion for such purposes.

The Act further states that: 1) It is the policy of the State to provide a means by which certain municipalities may receive monies to refund certain property taxes determined to be in excess of State constitutional tax limits or to reimburse such cities for the prior refunding of such taxes; 2) It is the policy of the State to provide a means by which certain municipalities can receive monies for the purpose of paying the cost of settling litigation involving their school districts and the teachers’ unions thereof; 3) In 2003, the Act was amended to allow the Agency to issue bonds and make the proceeds of such issuance available to the Enlarged City School District of the City of Troy for the specific object and purpose of liquidating the projected accumulated deficit in its general fund at the close of its fiscal year ended June 30, 2002; 4) the Act was amended to allow the Agency to issue bonds and make the proceeds of such issuance available to certain municipalities and/or school districts with prior year claims in respect of school aid owed to those municipalities and/or school districts in excess of $1 million as of May 15, 2002, to have such “prior year” claims satisfied in full; 5) the Act was amended in 2009 to authorize the Agency to issue bonds to fund the purchase of bonds issued by local municipalities for qualified purposes under the American Recovery and Reinvestment Act of 2009; and 6) the Act was further amended in 2003 and 2010 to provide for the Agency to issue its bonds to facilitate the financing of interoperable public communications networks for statewide use through the purchase by the Agency of Local Public Safety Communications Bonds issued to fund all or a portion of building regional, interoperable public communications networks.

## 1. The Agency (continued)

In accordance with Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards, the Agency's financial statements are included in the State's annual financial statements as a component unit for financial reporting purposes.

The Tobacco Settlement Financing Corporation ("Corporation") was created under the Tobacco Settlement Financing Corporation Act. The Corporation was established as a public benefit corporation and a subsidiary of the Agency. The Agency does not have financial accountability for the Corporation; accordingly, it is not a component unit of the Agency in accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus.* Therefore, the financial activities of the Corporation are not included in the accompanying financial statements.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

The Agency utilizes the accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

The financial statements are prepared in accordance with generally accepted accounting principles as prescribed by GASB.

### Receivable from Municipalities

#### Advances

The present value of future repayments of funds advanced to municipalities relating to the outstanding 1998, 2001, and 2003 bond series were recorded as a receivable when the bonds were sold. The aggregate future payments equal the total debt service on the underlying bonds, and the discounted values of such payments is equal to the face value of bonds. The bond premium funds made available though the sale of the 1998, 2001, and 2003 bond series were recorded as an expense at the time of their advance to the municipalities. However, the amount of such funds received at the time of the bond sale was capitalized and is being amortized over the life of the specific bond issue.

The cash flow due from municipalities is sufficient to fund debt service payments due on the bonds.

#### Bonds Purchased

Bonds Purchased represent the general obligations of participating Municipalities in New York State that were purchased by the Agency with the proceeds of the Agency's Recovery Act Bonds issued in 2009, 2010 and 2011. The payments received from the Municipalities relating to their local bonds are used to fund the debt service due on the Agency's outstanding Recovery Act Bonds. Any interest received relating to the bonds held is recorded as "Interest on Advances and Bonds Purchased" The Agency's holding of the bonds is backed by each Municipalities pledge of its full faith and credit to the payment the principal and interest on its bonds. Under laws of the State, each Municipality has the power to levy and collect ad valorem taxes on all taxable property within the Municipality for such payment. The statute of the State which created the Agency provides for a State Aid intercept to the extent that the Agency has certified to the State Comptroller that a Municipality has failed to make debt service payments on its bonds purchased by the Agency. The bonds held by the Agency are not considered discretionary "investments" of Agency monies and are therefore not required to be administered in accordance with the Agency's or New York State investment guidelines.

### Bond Discount and Bond Premium

Bond discount and bond premium are both amortized over the life of the related long term debt using the effective interest method.

### Use of Net Position

When both restricted and unrestricted assets are available for a particular restricted use, it is the Agency's policy to use restricted assets first, and then unrestricted as needed.

### Deferred Losses on Defesances and Refundings

Gains or losses in connection with advanced refundings and defeasances are deferred and amortized using the straight line method as an adjustment to interest expense over the original life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

### Investments

As of October 31, 2012 and 2011, investments other than investment agreements are recorded at their fair value (see note 3). Investment agreements are reported at an amount equal to principal plus accrued interest. For the purpose of financial statement presentation, the Agency does not consider any of its investments to be cash equivalents.

### Revenue and Expense Classification

Operating revenue consists of interest on advances and bonds purchased, investment income and fees and charges. Federal interest subsidy payments are recognized as non-operating revenue. Revenue is accrued and recognized as revenue when earned. Operating expenses include interest expense, earnings credited to municipalities, general expenses and expenses related to federal interest subsidy payments. All other revenue and expenses are considered non-operating.

## 2. Summary of Significant Accounting Policies (continued)

### Funds Held in Trust

Funds Held in Trust represents the amounts held by the Agency on behalf of certain municipalities to fund the required debt service reserve fund for their respective bond series. The funds held in trust were funded through individual bond sales and, if not otherwise used for the payment of debt service on the related bonds, will be credited to the respective municipalities in connection with the final retirement of the related bonds (See Note 6).

### Recently Adopted Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of net position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011; however the Agency elected to early-adopt this Statement in the 2011 fiscal year. The Agency did not have any deferred inflows or outflows of resources at October 31, 2012 and 2011.

### Upcoming Accounting Pronouncements

In June 2011, GASB issued Statement No. 64, *Derivative Instruments; Application of Hedge Accounting Termination Provisions.* The objective of this Statement is to clarify GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* as it applies to termination provisions when a counterparty of an interest rate or commodity swap is replaced. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. The Agency has not entered into any interest rate or commodity swaps and does not anticipate that the implementation of this standard will have an impact on its financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The Agency is in the process of assessing the impact of this standard on its financial statements.

## 2. Summary of Significant Accounting Policies (continued)

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* The objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Since the Agency does not have any employees, it does not anticipate the implementation of this standard to have an impact on its financial statements.

### Reclassification

Certain reclassifications have been made to prior year in order to conform to current year presentation.

## 3. Deposits and Investments

Agency funds are invested in accordance with the investment guidelines approved annually by the Agency's board, which are in compliance with the New York State Comptroller's Investment Guidelines.

All of the above investments that are securities are in registered form, and are held by agents of the Agency or by the trustee under the applicable bond resolution, in the Agency's name. The agents or their custodians take possession of the securities.

For the fiscal years ended October 31, 2012 and 2011, all Agency monies were invested in accordance with the Agency's formal investment policy or resolution. At October 31, 2012 and 2011, investments held by trustees in the Agency's name amounted to $27 million and $26.4 million, respectively. Uncollateralized cash on deposit amounted to $1.1 million and $971 thousand as of October 31, 2012 and October 31, 2011, respectively.

### Credit Risk

The Agency has a formal investment policy which governs the investment of all Agency monies. These guidelines and policies are designed to protect principal by limiting credit risk. A summary of investment policies and procedures is as follows:

***Permitted Investments***

All bond proceeds and revenues can only be invested in Securities [defined as (i) obligations the principal of and interest on which are guaranteed by the United States of America; (ii) obligations of the United States of America; (iii) obligations the principal of and interest on which are guaranteed by the State; (iv) obligations of the State; (v) obligations of any agency of the United States of America; (vi) obligations of any agency of the State; and (vii) obligations the principal of and interest on which are guaranteed by an agency or instrumentality of the United States of America; provided, however, that notwithstanding anything to the contrary herein, the Agency shall not be authorized to Invest in Securities set forth in clause (vi) hereof, unless specifically

## 3. Deposits and Investments (continued)

authorized under authority of Section 98 of the State Finance Law]; Time Deposits; Collateralized Investment Agreements; Repurchase Agreements; and obligations which the Comptroller is authorized to invest in under Section 98 of the State Finance Law. Securities are only purchased from Primary Dealers, and Securities are delivered to the applicable Custodian/Trustee, who records the interest of the Agency. Time Deposits, Collateralized Investment Agreements and Repurchase Agreements may only be entered into with institutions rated at least within the second highest rating category without regard to gradations within such category by Moody's Investors Service or Standard & Poor's. Time Deposits and Collateralized Investment Agreements are collateralized at a minimum of 100% of the principal amount of the agreement and marked to market weekly. The collateral is delivered to the Custodian and held for the benefit of the Agency.

### *Custodial Credit Risk*

The Agency manages custodial credit risk by limiting its investments to highly rated institutions and/ or requiring high quality collateral be held by the counterparty in the name of the Agency.

### *Diversification Standards*

The Agency's investments, other than Securities, shall be diversified among banks but not more than 35% of the Agency's total invested funds may be invested with any bank, and investments with any single institution shall not exceed 20% of that institution's capital. These standards may be waived by the Agency's Chairman or the President and Chief Executive Officer. During the fiscal years ended October 31, 2012 and 2011 this standard was waived by the President and Chief Executive Officer. One fully collateralized investment agreement with MBIA in the amounts of $12 million and $21.3 million as of October 31, 2012 and 2011 represented 43.3% and 78.8% respectively, of the total invested funds. This investment agreement represented less than 35% of the Agency's funds at the time of its execution in fiscal 2004.

### Interest Rate Risk

Interest rate risk is minimal due to the short term duration of the Agency's investments in the other than collateralized investment agreements category. Rates on collateralized investment agreements are linked to interest rates on applicable bonds so that interest rate risk is minimal. Securities purchased from revenues are invested in U. S. Treasury Obligations with maturities as close as practicable to the next debt service payment date or date of usage, typically six months and under. Collateralized Investment Agreements are collateralized at a minimum of 105% of the principal amount of the agreement and marked to market weekly. The collateral consists of United States government obligations, other securities the principal and interest of which are guaranteed by the United States, Government National Mortgage Association obligations and obligations of agencies and instrumentalities of the Congress of the United States. The collateral is delivered to the Custodian and held for the benefit of the Agency.

All of the Agency's investments are held by a trustee in the Agency's name.

## 3. Deposits and Investments (continued)

As of October 31, 2012 the Agency had the following investments and maturities in two categories: Restricted Funds and Unrestricted Funds.

Values below are at fair value excluding accrued interest as of October 31, 2012.

| | | Investment Maturities (In Years) | | | |
|---|---|---|---|---|---|
| | Fair Value | Less Than 1 | 1 to 5 | 6 to 10 | More Than 10 |
| | | (In thousands) | | | |
| **Restricted Funds:** | | | | | |
| Collateralized Investment Agreements | $ 11,980 | $ — | $ — | $ — | $ 11,980 |
| U.S. Treasury Bills | 15,056 | 15,056 | — | — | — |
| | 27,036 | 15,056 | — | — | 11,980 |
| **Unrestricted Funds:** | | | | | |
| U.S. Treasury Bills | 653 | 653 | — | — | — |
| | 653 | 653 | — | — | — |
| **Grand Total :** | | | | | |
| Collateralized Investment Agreements | 11,980 | — | — | — | 11,980 |
| U.S. Treasury Bills | 15,709 | 15,709 | — | — | — |
| | $ 27,689 | $ 15,709 | $ — | $ — | $ 11,980 |

## 4. Bond Indebtedness

As of October 31, 2012, the outstanding bonds issued by the Agency were for the following purposes:

- Special Program (City of Buffalo) Revenue Bonds, 2001 Series A were issued to finance the cost of settling litigation involving the City of Buffalo Teachers Federation. Such bonds were currently refunded through the issuance of the Special Program (City of Buffalo) Refunding Revenue Bonds, Series 2012 A.

- Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series A and 2003 Series B were issued to make payments to special school purpose municipalities in satisfaction of prior year claims for school aid owed to the following Special School Purpose Municipalities: Ballston Spa Central School District, Niagara Falls City School District, City of Rochester, Enlarged City School District of the City of Troy and the Utica City School District.

- Special School Purpose Revenue Bonds (Prior Year Claims), 2003 Series C was issued to make payments to special school purpose municipalities in satisfaction of prior year claims for school aid owed to The City of New York. The 2003 Series C Bonds were advance refunded through the issuance of Special School Purpose Revenue Bonds (Prior Year Claims- The City of New York), 2012 Series A.

- Recovery Act Bonds, 2009 Series A, B and C, were issued to purchase local ARRA Bonds issued by the Town of Brookhaven, the County of Montgomery, the City of Rochester, the County of Saratoga, the County of Warren and the County of Wayne to finance or refinance purposes eligible in whole or in part for subsidies under the American Recovery and Reinvestment Act of 2009 ("ARRA").

- Recovery Act Bonds, 2010 Series A and B, were issued to purchase local ARRA Bonds issued by the County of Allegany, the County of Broome, the County of Madison, the County of Oneida and the County of Sullivan to finance or refinance purposes eligible in whole or in part for subsidies under ARRA.

- Recovery Act Bonds, 2010 Series C and D, were issued to purchase local ARRA Bonds issued by the County of Putnam, the County of Cattaraugus, the County of Oswego, the County of Tioga and the County of Wyoming to finance or refinance purposes eligible in whole or in part for subsidies under ARRA.

Substantially all of the assets of each bond program of the Agency are pledged as collateral for the payment of principal and interest on bond indebtedness only of that program. The obligations of the Agency are not obligations of the State, and the State is not liable for such obligations.

## 4. Bond Indebtedness (continued)

### Bond Refundings

Through the issuance of the Special School Purpose Revenue Bonds (Prior Year Claims-The City of New York), 2012 Series A, portions of the Special School Purpose Revenue Bonds 2003 Series C bonds were defeased through an advance refunding. As a result of the refunding, a loss was incurred in the amount of $34 million. The outstanding balance of the loss has been deferred and is included in Bond Payable net balance. The calculated present value savings over the life of the 2012 A Bonds is in the amount of $53.5 million. The deferred loss is being amortized, using the straight line method in accordance with GASB No. 23.

Through the issuance of the Special Program (City of Buffalo) Refunding Revenue Bonds, 2012 Series A, portions of the outstanding Special Program (City of Buffalo Revenue Bonds) 2001 Series A bonds were defeased through a current refunding. As a result of the refunding, a loss was incurred in the amount of $851 thousand. The calculated present value savings over the life of the 2012 A Bonds is in the amount of $5.2 million. The loss is being deferred and amortized, using the straight line method in accordance with GASB No. 23.

The defeasances were accomplished by placing in irrevocable trustee escrow accounts, cash and amounts invested in U.S. Treasury obligations that will generate funds sufficient to meet future payments of all interest, principal and call premiums, if applicable, on the refunded bonds. Accordingly, the refunded bonds and related assets placed in the irrevocable escrow accounts are not included in the Agency's financial statements since the Agency has legally satisfied its obligations with respect thereto, in accordance with GASB Statement No. 23.

As of October 31, 2012 the principal amount of bonds refunded and still outstanding amounted to $352.5 million. The liability for any debt previously refunded or defeased is not included in the Agency's financial statements.

## 4. Bond Indebtedness (continued)

| | Original Face Amount | Balance October 31, 2011 | Issued | Principal Payment/ Retired | Balance October 31, 2012 |
|---|---|---|---|---|---|
| | | | ($ In thousands) | | |
| **Special Program (City of Buffalo) Revenue Bonds,** | | | | | |
| 2001 Series A, 3.45%-5.25%, maturing in varying annual installments to 2031 | 27,415 | 22,585 | – | 22,585 | – |
| 2012 Series A, 3%-5%, maturing in varying annual installments to 2031 | 13,860 | – | 13,860 | – | 13,860 |
| **Special School Deficit Program (Enlarged City School District of the City of Troy)** Revenue Bonds, 2003 Series A, 2.50%-4.50%, maturing in varying semi-annual installments to 2013 | 15,260 | 1,030 | – | 1,030 | – |
| **Special School Purpose Revenue Bonds (Prior Year Claims),** | | | | | |
| 2003 Series A, 2%-3%, maturing in varying semi-annual installments to 2013 | 5,160 | 1,130 | – | 555 | 575 |
| 2003 Series B, 2%-5%, maturing in varying semi-annual installments to 2013 | 16,535 | 3,820 | – | 1,875 | 1,945 |
| 2003 Series C, 2%-5.50%, maturing in varying semi-annual installments to 2023 | 478,365 | 375,400 | – | 352,365 | 23,035 |
| 2012 Series A, 2%-5%, maturing in varying semi-annual installments to 2022 | 281,315 | – | 281,315 | – | 281,315 |
| **Recovery Act Bonds, 2009 Series A** | | | | | |
| Sub-Series 2009A1 (Tax Exempt), 2%-4.5%, maturing in varying annual installments to 2020 | 35,090 | 34,915 | – | 4,380 | 30,535 |
| Sub-Series 2009A2 (Federally Taxable-Build America Bonds), 5.16%-5.66%, maturing in varying installments to 2024 | 9,400 | 9,400 | – | – | 9,400 |
| Sub-Series 2009A3 (Federally Taxable-Recovery Zone Bonds), 6.45%, maturing in 2029 | 2,860 | 2,860 | – | – | 2,860 |

## 4. Bond Indebtedness (continued)

| | Original Face Amount | Balance October 31, 2011 | Issued | Principal Payment/ Retired | Balance October 31, 2012 |
|---|---|---|---|---|---|
| | | | ($ In thousands) | | |
| **2009 Series B** | | | | | |
| Sub-Series 2009B1 (Tax Exempt), 2%-5%, maturing in varying annual installments to 2034 | 24,775 | 24,025 | – | 765 | 23,260 |
| Sub-Series 2009B2 (Federally Taxable-Build America Bonds), 6.88%, maturing in 2033 | 3,275 | 3,275 | – | – | 3,275 |
| Sub-Series 2009B3 (Federally Taxable-Recovery Zone Bonds), 6.88%, maturing in 2034 | 3,240 | 3,240 | – | – | 3,240 |
| **2009 Series C** | | | | | |
| Sub-Series 2009C1 (Tax Exempt), 4%-5%, maturing in varying annual installments to 2024 | 97,172 | 86,250 | – | 11,050 | 75,200 |
| Sub-Series 2009C2 (Federally Taxable-Build America Bonds), 5.41%-6.88%, maturing in varying installments to 2028 | 5,630 | 5,630 | – | – | 5,630 |
| Sub-Series 2009C3 (Federally Taxable-Recovery Zone Bonds), 5.41%-6.88%, maturing in varying installments to 2029 | 2,800 | 2,800 | – | – | 2,800 |
| **2010 Series A** | | | | | |
| Sub-Series 2010A1 (Tax Exempt), 3%-5%, maturing in varying annual installments to 2021 | 31,075 | 28,415 | – | 3,845 | 24,570 |
| Sub-Series 2010A2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 4.82%-5.17%, maturing in varying annual installments to 2035 | 33,565 | 33,565 | – | – | 33,565 |
| **2010 Series B** | | | | | |
| Sub-Series 2010B1 (Tax Exempt), 3%-5%, maturing in varying annual installments to 2021 | 30,765 | 28,065 | – | 2,595 | 25,470 |
| Sub-Series 2010B2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 5.32%-5.95%, maturing in varying installments to 2025 | 20,935 | 20,935 | – | – | 20,935 |

## 4. Bond Indebtedness (continued)

| | Original Face Amount | Balance October 31, 2011 | Issued | Principal Payment/ Retired | Balance October 31, 2012 |
|---|---|---|---|---|---|
| | | | ($ In thousands) | | |
| **2010 Series C** | | | | | |
| Sub-Series 2010C1 (Tax Exempt), 3.86%-5%, maturing in varying annual installments to 2018 | 1,590 | 1,590 | — | — | 1,590 |
| Sub-Series 2010C2 (Federally Taxable-Recovery Zone Bonds), 5.24%-5.64% maturing in varying installments to 2021 | 3,150 | 3,150 | — | — | 3,150 |
| **2010 Series D** | | | | | |
| Sub-Series 2010D1 (Tax Exempt), 2%-5%, maturing in varying annual installments to 2019 | 18,100 | 17,645 | — | 2,550 | 15,095 |
| Sub-Series 2010D2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 5.34%-5.94%, maturing in varying installments to 2021 | 27,980 | 27,980 | — | — | 27,980 |
| Total Bond Indebtedness | $ 1,189,312 | $ 737,705 | $ 295,175 | $ 403,595 | $ 629,285 |
| Bond Premium | — | 29,088 | | | 62,702 |
| Bond Discount | — | (1,972) | | | (1,605) |
| Deferred loss on bonds refunded | — | — | | | (34,630) |
| **Total Net Bond Indebtedness** | **$ 1,189,312** | **$ 764,821** | | | **$ 655,752** |

## 5. Debt Service Requirements

| | Principal | Interest | Total |
|---|---|---|---|
| | | ($ In thousands) | |
| Fiscal year ending October 31, | | | |
| 2013 | $ 51,490 | $ 24,755 | $ 76,245 |
| 2014 | 26,235 | 27,383 | 53,618 |
| 2015 | 45,450 | 25,838 | 71,288 |
| 2016 | 51,185 | 23,801 | 74,986 |
| 2017 | 52,610 | 21,436 | 74,046 |
| 2018 - 2022 | 282,025 | 68,868 | 350,893 |
| 2023 - 2027 | 86,695 | 17,304 | 103,999 |
| 2028 - 2032 | 23,340 | 6,584 | 29,924 |
| 2033 - 2037 | 10,255 | 1,070 | 11,325 |
| Total | $ 629,285 | $ 217,039 | $ 846,324 |

## 6. Reserve Fund Requirements

Cash and investments, including accrued interest, in the debt service reserve funds, as valued in accordance with the respective bond resolutions at October 31, 2012 and 2011, were as follows:

| | 2012 | 2011 |
|---|---|---|
| | (In thousands) | |
| On Deposit | $ 13,716 | $ 25,758 |
| Reserve Requirement | 13,280 | 25,240 |
| Excess | $ 436 | $ 518 |

The Recovery Act Bond Resolution, the Special School Purpose Revenue Bonds (Prior Year Claims- The City of New York), 2012 Series A bonds and the Special Program (City of Buffalo) Refunding Revenue, 2012 Series A Bonds do not require debt service reserve funds.

## 7. Service Agreements

The Agency has an agreement with the New York State Housing Finance Agency ("HFA") with respect to HFA providing managerial, administrative and financial functions to the Agency ("HFA Service Agreement"). Pursuant to this Agreement, costs allocated to the Agency approximated $398,000 and $524,000 for the years ended October 31, 2012 and 2011, respectively. As of October 31, 2012 and 2011 respectively, the amounts of $77,000 and $57,000 were owed by the Agency to HFA as per the HFA Service Agreement. In addition, the Agency has entered into a service agreement with the Corporation ("TSFC Service Agreement") whereby the Agency provides managerial, administrative and financial services to the Corporation. Pursuant to this agreement,

## 7. Service Agreements (continued)

costs allocated to the Corporation approximated $497,000 and $441,000 for the years ended October 31, 2012 and 2011, respectively. As of October 31, 2012 and 2011 the Corporation owed the Agency the amounts of $265,000 and $254,000 respectively, in accordance with the TSFC Service Agreement.

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