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

FINANCIAL STATEMENTS

JUNE 30, 2013

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June 30, 2013

Lumsden McCormick LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2013, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note 2 to the financial statements, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis preceding the financial statements, and the schedule of funding progress other postemployment benefits on page 17 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements 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 accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

September 16, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013
(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, 2013, 2012 and 2011. 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 Position presents information on all the Authority's assets and liabilities, with the difference between the two reported as net position. The Statement of Activities presents information showing how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of the related cash flows. The term "net position" stems from the Authority's adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of July 1, 2012.

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 S*tatement of Revenues, Expenditures, and Changes in Fund Balances*. 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 reconciliations 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% to 99% of the Authority's revenue from 2011 to 2013. 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 the Authority's 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 remitted to the City.

The amount of BFSA sales tax revenues 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% for the period ending June 30, 2037. Pursuant to State statutory authority, Erie County currently imposes sales tax at the rate of 4.75%. New York State has reauthorized the additional 1.0% 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% sales tax currently expires on November 30, 2015, 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% 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% sales tax. This allocation resulted in additional City tax revenues delivered to BFSA of approximately $5.7 million in 2013, 2012 and 2011; the School District does not share in this additional sales tax revenue. Effective July 1, 2005, the County was authorized by the State to increase the local sales tax rate by an additional .25%, to 4.25%, and effective January 10, 2006, the County was authorized by the State to increase the local sales tax by another .50%, to 4.75%. None of these additional sales tax revenues are accrued to the City or BFSA.

Sales tax revenue for the years ended June 30, 2013, 2012 and 2011 were $114,937,114, $111,678,652 and $108,771,463. The increase from 2012 to 2013 was $3,258,462, or 2.9%, while the increase from 2011 to 2012 was $2,907,189, or 2.7%. 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, 2013 in the amount of $175,963,231; the Authority received $163,820,023 for the year ended June 30, 2012 and $165,865,551 for the year ended June 30, 2011. State aid increased $12,143,208, or 7.4%, from 2012 to 2013, and decreased $2,045,528 (1.2%) from 2011 to 2012. The increase in 2013 compared to 2012 is due to a combination of additional State aid in the amount of $10,834,121 resulting from a spin-up of Aid to Municipalities funds and an increase in the amount of $1,309,087 of Efficiency Grant revenue from the State of New York. The decrease in State aid from 2011 to 2012 was the result of a decrease in State aid funding from New York State. Interest and other income, which accounts for the remaining Authority revenue, totaled $3,417,558, $4,044,895 and $4,697,342 for the years ended June 30, 2013, 2012 and 2011, respectively, of which $3,242,280, $3,792,996 and $4,388,115 was derived from interest on the City's general obligation bonds described below. As principal is repaid on the outstanding long-term debt, the amount of interest earnings decreases.

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 2013, 2012 and 2011.

The statement of net position shows total net position of $10,215,832 at June 30, 2013, as compared to $9,637,594 at June 30, 2012 and $10,479,569 at June 30, 2011. The increase of $578,238 from 2012 to 2013 and decrease of $841,975 from 2011 to 2012 represents changes due primarily to the timing of sales tax and state aid receipts and distributions to the City of Buffalo and the School District. The differences in assets and deferred outflows and liabilities and deferred inflows are from a combination of several factors. The Authority made principal payments on bonds payable totaling $14,535,000 in 2013, as well as reduced its liability to the City during the year, resulting in a decrease in liabilities from $128,236,269 in 2012 to $95,951,180 in 2013. Liabilities decreased from $144,061,234 in 2011 to $128,236,269 in 2012, due primarily to $15,525,000 in bond repayments. Total assets decreased $31,471,843 from 2012 to 2013 as the Authority received principal payments from the City on outstanding notes receivable of $10,404,673 and approximately $17,000,000 from other governments, which was distributed to the City. In 2012, assets decreased $16,431,933 primarily due to the receipt of principal payments from the City on notes receivable totaling $11,530,165. 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 2013, 2012 and 2011. The Authority retains those funds until the conditions have been met. The amount released to the City in 2013 and 2012 was $2,401,259 and $3,310,377.

Cash and investments were $27,915,603, $31,715,664, and $36,586,374 at June 30, 2013, 2012 and 2011, respectively. These amounts included funds for the future repayment of debt in the amount of $27,835,839, $31,476,218 and $36,220,806, at June 30, 2013, 2012 and 2011 respectively as well as State aid paid to BFSA in prior years for targeted purposes awaiting the City's request for disbursement. Additionally, cash and investments included $79,764, $171,779 and $210,265 of accrued interest to be paid to the City at June 30, 2013, 2012 and 2011, respectively, for the investment of such debt service reserves in accordance with outstanding agreements. Remaining cash and investments represents cash available for BFSA operating expenses.

Operating expenses of the Authority totaled $717,096, $777,560 and $731,345 for the years ended June 30, 2013, 2012 and 2011, respectively, under the fund basis of accounting. Total operating expenses decreased $60,464, or 7.8%, from 2012 to 2013, and increased $46,215, or 6.3%, from 2011 to 2012. The reasons for the increases are discussed below.

Staff expenses for the years ended June 30, 2013 and 2012 were as follows:

	2013	2012	Increase/ (Decrease)	Percentage Change
Wages	$ 348,069	$ 321,852	$ 26,217	8.1%
Other staff related expenses	10,478	10,594	(116)	-1.1%
Total direct staff expenses	358,547	332,446	26,101	7.9%
Staff Benefits:				
NYS Employees' Retirement System contributions	51,892	47,195	4,697	10.0%
Payroll taxes, workers' compensation and NYS disability	26,197	24,723	1,474	6.0%
Health insurance (net of employee contributions)	63,066	53,614	9,452	17.6%
Total Staff Benefits	141,155	125,532	15,623	12.4%
Total Staff Expenses	$ 499,702	$ 457,978	$ 41,724	9.1%

Staff expenses increased $41,724, or 9.1%, from 2012 to 2013. The primary reason for the increase is the change in personnel. The Authority had two positions filled for a greater portion of 2013 compared to 2012; these vacant positions were filled during 2012, resulting in the increase to direct staff expenses in 2013. The increase in health insurance expense is related to both an increase in the premium and to changes in the composition (family coverage versus single coverage) of employees' elections from last year. NYS Employees' Local Retirement System (NYSERS) contributions increased $4,697, or 10.0%. This increase is a primarily a result of the increase in required employer contribution as a percentage of payroll from 2012 to 2013.

The Authority employed a range of four to five salaried staff members during the year ended June 30, 2013 and three to five salaried staff members during the year ended June 30, 2012.

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

		2012		2011		Increase/ (Decrease)	Percentage Change
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		332,446		321,621		10,825	3.4%
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		125,532		90,034		35,498	39.4%
Total Staff Expenses	$	457,978	$	411,655	$	46,323	11.3%

Staff expenses increased $46,323, or 11.3%, from 2011 to 2012. The primary reason for the increase from 2011 to 2012 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 expenses is related to 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 NYSERS which increased $12,131, or 34.6%. This increase is primarily a result of the increase in required employer contributions as a percentage of payroll which increased 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.

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, 2013, 2012 and 2011.

		2013		2012		Increase/ (Decrease)	Percentage Change
Legal fees	$	116,930	$	178,695	$	(61,765)	-34.6%
Other professional fees		26,865		67,056		(40,191)	-59.9%
Total Professional Fees	$	143,795	$	245,751	$	(101,956)	-41.5%
		2012		**2011**			
Legal fees	$	178,695	$	167,357	$	11,338	6.8%
Other professional fees		67,056		69,322		(2,266)	-3.3%
Total Professional Fees	$	245,751	$	236,679	$	9,072	3.8%

Legal fees decreased $61,765, or (34.6%), from 2012 to 2013 due to the level of litigation services required, which decreased during 2013 due to less litigation activity. Other professional fees decreased $40,191, or (59.9%), due to less expenditures in 2013 as the Authority had lower needs.

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, 2013, 2012 and 2011 are as follows:

	2013	2012	Increase/ (Decrease)	Percentage Change
Facilities expenses - Public Board Meetings	$ 4,468	$ 5,944	$ (1,476)	-24.8%
Public forums	-	2,092	(2,092)	-100.0%
Total Meeting Expenses	$ 4,468	$ 8,036	$ (3,568)	-44.4%
	2012	**2011**		
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%

Meeting expenses decreased from 2012 to 2013 by $3,064, or (38.1%). This decrease is primarily due to a decrease in expenses related to public forums, as a public forum was not held in 2013 as compared to the prior year.

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, 2013, 2012 and 2011:

	2013	2012	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	$ 5,520	$ 5,045	$ 475	9.4%
Rent	43,020	42,063	957	2.3%
Telephone and data processing	8,638	11,710	(3,072)	-26.2%
Office supplies	3,768	3,836	(68)	-1.8%
Public notices	-	190	(190)	N/A
Equipment	7,681	2,951	4,730	160.3%
Total Other Expenditures	$ 68,627	$ 65,795	$ 2,832	4.3%
	2012	**2011**		
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 Expenditures	$ 65,795	$ 70,616	$ (4,821)	-6.8%

In total, other expenses have remained relatively consistent over the last three fiscal years. Individually significant fluctuations include: Public notices decreased to nil in 2013 compared to $5,478 in 2011 due to the advertisements in that year necessary to fill two vacated positions; there was no such required public notices in 2013; and the fluctuation of equipment expenditures in 2013 as compared to 2012 is due to the purchase of a multi-function copier machine in 2013.

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

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

Statement of Net Position

June 30, 2013
(With comparative totals as of June 30, 2012)

	2013	2012
Assets		
Cash and cash equivalents	$ 12,634,077	$ 14,713,324
Investments	15,281,526	17,002,340
Notes receivable - City of Buffalo due within one year	10,965,657	10,404,673
Due from other governments	15,821,124	32,854,407
Prepaid expenses	18,612	17,269
Notes receivable - City of Buffalo	50,282,996	61,489,456
Capital assets, net	8,819	3,185
Total assets	105,012,811	136,484,654
Deferred outflows of resources		
Bond issuance costs, net	1,154,201	1,389,209
Liabilities		
Accounts payable	15,534	15,499
Accrued liabilities	1,276,568	1,509,963
Due to the City of Buffalo		
Sales tax	11,698,608	10,834,483
General purpose aid	1,441,534	19,165,879
Bonds payable		
Bonds due within one year	13,540,000	14,535,000
Bonds due beyond one year	67,551,019	81,804,182
Other postemployment benefits	427,917	371,263
Total liabilities	95,951,180	128,236,269
Net Position		
Net investment in capital assets	8,819	3,185
Restricted	26,495,665	29,991,913
Unrestricted	(16,288,652)	(20,357,504)
Total net position	$ 10,215,832	$ 9,637,594

See accompanying notes.

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

Statement of Activities

For the year ended June 30, 2013
(With comparative totals for June 30, 2012)

	2013	2012
Expenses		
General and administrative	$ 768,116	$ 834,714
Distributions		
City of Buffalo - general operations	252,326,764	239,711,141
City of Buffalo School District	37,283,206	35,770,200
Interest expense	3,361,579	4,069,490
Total expenses	293,739,665	280,385,545
General revenues		
State aid	175,963,231	163,820,023
Sales tax	114,937,114	111,678,652
Interest and other income	3,417,558	4,044,895
Total general revenues	294,317,903	279,543,570
Change in net position	578,238	(841,975)
Net position - beginning	9,637,594	10,479,569
Net position - ending	$ 10,215,832	$ 9,637,594

See accompanying notes.

Balance Sheet - Governmental Funds

June 30, 2013
(With summarized comparative totals as of June 30, 2012)

			Total Governmental Funds	
	General	**Debt Service**	**2013**	2012
Assets				
Cash and cash equivalents	$ 12,337,249	$ 296,828	$ 12,634,077	$ 14,713,324
Investments	-	15,281,526	15,281,526	17,002,340
Due from other governments	14,469,732	62,600,045	77,069,777	104,748,536
Prepaid expenses	18,612	-	18,612	17,269
Total assets	$ 26,825,593	$ 78,178,399	$ 105,003,992	$ 136,481,469
Liabilities and Fund Balances				
Accounts payable	$ 15,534	$ -	$ 15,534	$ 15,499
Accrued liabilities	29,245	1,247,323	1,276,568	1,509,963
Due to the City of Buffalo	13,060,378	79,764	13,140,142	30,000,362
Total liabilities	13,105,157	1,327,087	14,432,244	31,525,824
Fund Balances				
Nonspendable:				
Prepaid expenses	18,612	-	18,612	17,269
Restricted:				
Debt service	-	76,851,312	76,851,312	88,830,218
State mandated initiatives	12,244,398	-	12,244,398	14,645,657
Unassigned	1,457,426	-	1,457,426	1,462,501
Total fund balances	13,720,436	76,851,312	90,571,748	104,955,645
Total liabilities and fund balances	$ 26,825,593	$ 78,178,399	$ 105,003,992	$ 136,481,469

See accompanying notes.

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

June 30, 2013

Total fund balances - governmental funds		$	90,571,748
Amounts reported for governmental activities in the statement of net position 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.			8,819
Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are			
Bonds payable	(81,091,019)		
Other postemployment benefits	(427,917)		(81,518,936)
Costs associated with the issuance of bonds are deferred outflows in the statement of net position and are expensed in the governmental funds in the year the bonds are issued.			1,154,201
Net position - governmental activities		$	10,215,832

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

For the year ended June 30, 2013
(With summarized comparative totals for June 30, 2012)

	General	Debt Service	Total Governmental Funds 2013	Total Governmental Funds 2012
Revenues				
State aid	$ 175,963,231	$ -	$ 175,963,231	$ 163,820,023
Sales tax	114,937,114	-	114,937,114	111,678,652
Interest income	29,223	3,388,335	3,417,558	4,044,895
Total revenues	290,929,568	3,388,335	294,317,903	279,543,570
Expenditures				
General and administrative	575,941	-	575,941	652,028
Distributions				
City of Buffalo - general operations	251,950,082	376,682	252,326,764	239,711,141
City of Buffalo School District	37,283,206	-	37,283,206	35,770,200
Employee benefits	141,155	-	141,155	125,532
Debt service				
Principal	-	14,535,000	14,535,000	15,525,000
Interest	-	3,839,734	3,839,734	4,547,645
Total expenditures	289,950,384	18,751,416	308,701,800	296,331,546
Excess revenues (expenditures)	979,184	(15,363,081)	(14,383,897)	(16,787,976)
Other financing sources (uses)				
Operating transfers, net	(3,384,175)	3,384,175	-	-
Net change in fund balances	(2,404,991)	(11,978,906)	(14,383,897)	(16,787,976)
Fund balances - beginning	16,125,427	88,830,218	104,955,645	121,743,621
Fund balances - ending	$ 13,720,436	$ 76,851,312	$ 90,571,748	$ 104,955,645

See accompanying notes.

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

For year ended June 30, 2013

Total net change in fund balances - governmental funds		$ (14,383,897)
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 the assets is allocated over estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense.		5,634
Payments of long-term liabilities are reported as expenditures in governmental funds, and reduce such liabilities in the statement of net position.		14,535,000
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported when paid. These differences are:		
Amortization of bond premiums	713,163	
Amortization of bond issuance costs	(235,008)	
Other postemployment benefits	(56,654)	421,501
Change in net position - governmental activities		$ 578,238

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

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

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

The Authority reports the following major funds:

- *General fund.* This is the Authority's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

- *Debt service fund.* This fund is used to account for resources that are restricted, committed or assigned to expenditure for principal and interest payments on long-term debt obligations of governmental activities on behalf of the City. Financial resources that are being accumulated for principal and interest payments maturing in future years are also included in this fund.

The financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2012, from which the summarized information was derived (Note 2).

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 typically paid by the State in December.

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

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

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

No revenues are generated from operating activities of the Authority; therefore, all revenues are defined by the Authority as non-operating revenues. Revenues are received in the general and debt service funds. 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.

Bond Premiums

In the government-wide statements, proceeds from the issuance of bonds received in excess of face value (premiums) are 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

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

Interfund Balances

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

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

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

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

2. Change in Accounting Principle

Effective, July 1, 2012, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement requires reporting of deferred outflows and inflows of resources separately from assets and liabilities and replaces net assets with net position. Prior year amounts have been reclassified to conform with the requirements of GASB No. 63.

3. 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 2013 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of $114,937,114 were recorded, of which $59,670,975 was or will be paid to the City and $37,283,206 was designated for the District. The balance was retained for Authority operations and to provide for a debt service sinking fund.
- State aid of $175,963,231 was received during 2013. Of this amount, $19,165,879 was accrued as revenue in fiscal 2012. The Authority has accrued $1,441,534 at June 30, 2013, to be remitted to the City in July 2013.
- Distributions paid or accrued to the City in 2013 totaled $252,326,764, which includes $59,670,975 sales tax receipts, $192,248,626 state aid and other revenue and interest receipts of $407,163.

4. 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, 2013, 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, 2013 consist of the following:

	Carrying Value	Fair Value
Cash	$ 571,433	$ 571,433
Money Market	12,330,234	12,330,234
U.S. Treasury SLGS	763,219	763,219
U. S. Treasury Bills	1,620,186	1,620,186
Fed'l Home Loan Mortgage Corp. Disc. Paper	4,145,503	4,212,280
Fed'l National Mortgage Assn. Disc. Notes	6,076,930	6,191,857
Fed'l Home Loan Mortgage Corp. Med. Term Note	470,887	475,976
Commercial Paper	239,290	239,290
US Dept Hsg & Urban Dev Agency Obligations	1,618,157	1,619,301
Accrued interest	79,764	79,764
	$ 27,915,603	$ 28,103,540

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.

5. Due from Governments

Due from Other Governments:	
New York State:	
May and June sales tax receipts	$ 14,469,732
Accrued interest	1,351,392
	$ 15,821,124
Due from the City:	
Mirror bond 2005A (1/15/2025), interest at 5.0% inclusive of premium of $691,114	$ 11,998,871
Mirror bond 2005B&C (1/15/2019), interest at 5.0% inclusive of premium of $673,739	13,108,739
Mirror bond 2006A (1/15/2020), interest at 5.0% inclusive of premium of $119,776	16,369,776
Mirror bond 2007A (1/15/2023), interest at 5.0% inclusive of premium of $554,284	19,771,267
	61,248,653
Amount due within one year	10,965,657
	$ 50,282,996

Amounts to be received from the City, net of bond premiums of $2,038,913, on the mirror bonds are as follows:

Year ending June 30,	Principal	Interest
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	6,509,277	1,270,316
2019-2023	18,309,436	2,308,706
2024-2025	587,622	44,504
	$ 59,209,740	$ 12,558,847

6. Capital Assets

	2013
Furniture, fixtures, and computers	$ 70,399
Accumulated depreciation	(61,580)
	$ 8,819

Furniture, fixtures, and computers increased by $7,681 in fiscal 2013 offset by depreciation expense of $2,047.

7. Long-Term Liabilities

	July 1, 2012	Increases	Decreases	June 30, 2013	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.	$ 9,165,000	$ -	$ 2,895,000	$ 6,270,000	$ 3,055,000
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	15,475,000	-	2,000,000	13,475,000	2,045,000
Series 2005B&C bond maturing September 2019 with interest at 5.0% over the life of the bond.	23,380,000	-	6,140,000	17,240,000	4,805,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	19,980,000	-	1,830,000	18,150,000	1,900,000
Series 2007A bond maturing September 2023 with interest ranging from 4.0% to 5.0% over the life of the bond.	23,235,000	-	1,670,000	21,565,000	1,735,000
	91,235,000	-	14,535,000	76,700,000	13,540,000
Premiums:					
2004A	407,946	-	203,807	204,139	-
2005A	1,410,188	-	106,663	1,303,525	-
2005B	1,946,618	-	269,532	1,677,086	-
2006A	713,399	-	77,923	635,476	-
2007A	626,031	-	55,238	570,793	-
	5,104,182	-	713,163	4,391,019	-
	$ 96,339,182	$ -	$ 15,248,163	$ 81,091,019	$ 13,540,000

Debt service requirements:

Year ending June 30,	Principal	Interest
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	6,380,000	1,360,594
2019-2023	22,955,000	2,573,794
2024-2026	2,845,000	91,397
	$ 76,700,000	**$ 14,292,893**

Lease obligations:

The Authority leases office space from a City related entity under the terms of an expired operating lease with a month to month arrangement. Rental expense amounted to $43,020 for the year ended June 30, 2013.

8. 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 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:

	Amounts	Rates
2013	$ 53,237	10.1% - 18.6%
2012	47,692	15.8%
2011	37,579	11.3%

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

9. Postemployment Healthcare Benefits

The Authority maintains a single-employer defined benefit healthcare plan (the Plan) providing for lifetime cost sharing of medical, dental, and vision premiums to eligible retirees and spouses.

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the Authority whom are over age 55 and have a minimum of ten or more years of service. The required contribution is on a pay-as-you-go basis, with no current funding of actuarially determined liabilities. For the year ended June 30, 2013, 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 10 years.

The following table summarizes the Authority's annual OPEB for the year ended June 30, 2013:

	2013
Annual required contribution	
Normal cost	$ 66,846
Amortization of unfunded actuarial accrued liability	12,084
Interest on net OPEB obligation	14,850
ARC adjustment	(37,126)
Annual OPEB cost	56,654
Contributions made	-
Increase in net OPEB obligation	56,654
Net OPEB obligation - beginning of year	371,263
Net OPEB obligation - end of year	$ 427,917

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:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 56,654	0%	$ 427,917
2012	$ 57,041	0%	$ 371,263
2011	$ 34,595	0%	$ 314,222

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

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

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

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

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

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

Healthcare cost trend rate – Initial rate of 8%, reduced to an ultimate rate of 4.7% after ten years. 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.

10. 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.

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

June 30, 2013

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%

Supplementary Information
Schedule of Administrative Expenditures - General Fund

For the years ended June 30,	2013	2012
General and Administrative		
Board functions		
Public meeting expenses	$ 4,972	$ 5,944
Public forums	-	2,092
Directors' travel reimbursement	-	-
	4,972	8,036
Staff expenses		
Wages	348,069	321,852
Professional development	5,740	6,198
Parking	3,986	3,705
Payroll processing fees	752	691
	358,547	332,446
Central services		
Postage, printing and dues	3,717	3,673
Rent	43,020	42,063
Telephone and data processing	8,638	11,710
Insurance	1,803	1,372
Office supplies	3,768	3,836
	60,946	62,654
Administrative		
Professional fees and consultants	26,865	67,056
Legal fees	116,930	178,695
Public notices	-	190
Equipment	7,681	2,951
	151,476	248,892
Total General and Administrative	575,941	652,028
Employee Benefits		
New York State Employees' Retirement System contributions	51,892	47,195
Social Security and Medicare taxes	26,197	24,723
Medical insurance net of employee contributions	63,066	53,614
Total Employee Benefits	141,155	125,532
Total administrative expenditures - general fund	**$ 717,096**	**$ 777,560**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Buffalo Fiscal Stability Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Buffalo Fiscal Stability Authority (the Authority), a component unit of the City of Buffalo, New York, as of and for the year ended June 30, 2013, which collectively comprise the Authority's financial statements, and have issued our report thereon dated September 16, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Lumsden & McCormick, LLP

September 16, 2013

Lumsden McCormick LLP
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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 accompanying financial statements of Buffalo Fiscal Stability Authority's (the Authority), a component unit of the City of Buffalo, New York, as listed in the table of contents, as of June 30, 2013, which collectively comprise the Authorities' financial statements, and we have issued our report thereon dated September 16, 2013.

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, 2013. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the above rules and regulations.

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

Lumsden & McCormick, LLP

September 16, 2013