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

FINANCIAL STATEMENTS

JUNE 30, 2015

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

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June 30, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 auditors' 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 2 to the financial statements, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this item.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information, as listed in the table of contents, 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. 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 is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 21, 2015 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 21, 2015

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015
(UNAUDITED)

Introduction

The Buffalo Fiscal Stability Authority (BFSA or the Authority) is a corporate governmental agency and instrumentality of the State of New York constituting a public benefit corporation created by 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 City of Buffalo School District (the 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, BFSA operates with a reduced set of financial oversight powers and responsibilities. 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 financial statements.

<u>Management's discussion and analysis</u> of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2015, 2014 and 2013. 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 resources 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 the timing of the related cash flows.

Governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Government fund financial statements are the *Balance Sheet* and the S*tatement of Revenues, Expenditures, and Changes in Fund Balances*. Under the modified accrual basis, revenue is recognized when it becomes both measurable and available to finance expenditures in the current fiscal period.

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

Adoption of New Accounting Pronouncements
Effective July 1, 2013, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required the Authority to retroactively expense bond issuance costs previously recorded as deferred outflows of resources.

The effect on prior year comparative statements was a reduction in net position at July 1, 2012 totaling $1,389,209 and a decrease in interest expense of $235,008 for the year ended June 30, 2013.

Effective July 1, 2014, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements require the Authority to include in its statement of net position its proportionate share of the net pension liability and deferred outflows and deferred inflows of resources for the pension provided to Authority employees and administered by the New York State and Local Employees' Retirement System (ERS).

The cumulative effect on the current year statements is a decrease in beginning of year net position totaling $67,581 as detailed in Note 2 to 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 District's share of Erie County (the County) sales tax revenues (beginning July 1, 2004), and the City's State aid, which together provided 99% of the Authority's revenue from 2013 to 2015. 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 the County. Sales taxes are imposed by the County, collected by the State and remitted to the Authority, usually several times each month. After provision for Authority debt service deposits and operating expenses, the remaining funds are remitted immediately to the City or the District. The State legislation also provided that all State aid appropriated as local government assistance for the benefit of the City is payable to the Authority to use for debt service requirements and operating expenses, with the remaining funds to be remitted to the City.

The amount of BFSA sales tax revenues to be collected depends upon various factors, including the economic conditions within the County, which has experienced numerous cycles of growth and recession. In addition, in the past the State has enacted amendments to the Tax Law to exempt specific goods and services from the imposition of sales tax. The Act requires the County to impose the local sales tax at a rate of no less than 3.0% for the period ending June 30, 2037. Pursuant to State statutory authority, the 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 the 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 annually in 2015, 2014 and 2013; the District does not share in this additional sales tax revenue.

Sales tax revenue for the years ended June 30, 2015, 2014 and 2013 were $120,524,217, $119,578,002 and $114,937,114. The increase from 2014 to 2015 was $946,215, or 0.8%, while the increase from 2013 to 2014 was $4,640,888, or 4.0%. The increase in sales tax revenue is attributed to increased sales subject to such taxes within the County stemming from the overall economic recovery both locally as well as nationally. However, the rate of increase slowed during 2015 due to: 1) the harsh winter weather; 2) the significant drop in gasoline prices (there is currently no cap on the County sales tax collected on gasoline sales); and, 3) the negative impact from Canadian shoppers as the Canadian dollar dropped compared to the U.S. dollar. The Authority also received State aid for the year ended June 30, 2015 in the amount of $161,285,233; the Authority received $162,628,968 for the year ended June 30, 2014 and $175,963,231 for the year ended June 30, 2013. State aid decreased $1,343,735 (0.8%) from 2014 to 2015, and decreased $13,334,263 (7.6%) from 2013 to 2014. The decrease in 2015 compared to 2014 is due to $1,343,735 of Efficiency Grant revenue received from the State of New York in 2014 compared to nil in 2015. The decrease in 2014 compared to 2013 is due to a combination of less State aid in the amount of $10,834,111 resulting from a spin-up of Aid to Municipalities funds in 2013 and a decrease of $2,500,152 in Efficiency Grant revenue from the State of New York. Investment income, which accounts for the remaining Authority revenue, totaled $2,335,723, $2,933,770 and $3,417,558 for the years ended June 30, 2015, 2014 and 2013, respectively, which primarily is 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 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, (2005B series) and $360,000 in 2-year taxable bonds (2005C Series). The City issued its own 13.5-year premium bonds privately placed with the Authority in the amount of $48,157,000. The Authority has not issued any debt since 2007.

The statement of net position shows total net position of $84,676 at June 30, 2015, after restatement of beginning net position due to implementation of GASB 68, as compared to a deficit of $68,439 at June 30, 2014 and $9,061,631 (as restated) at June 30, 2013. The increase of $153,115 from 2014 to 2015 represents changes due the timing of sales tax and State aid receipts and distributions to the City and the District offset by recognition of the net pension liability. The decrease of $9,130,070 from 2013 to 2014 is due primarily to the transfer of $12,000,000 of restricted State aid held by the Authority to the City, as well as the timing of sales tax and state aid receipts and distributions to the City and the District. The differences in assets and liabilities are from a combination of several factors. Principal payments on bonds payable totaling $14,265,000 in 2015 caused the majority of the decrease in total liabilities of $15,099,539 from $81,220,163 in 2014 to $66,120,624 in 2015.

The Authority made principal payments on bonds payable totaling $13,540,000 in 2014 resulting in a decrease in total liabilities of $14,731,017 from $95,951,180 in 2013 to $81,220,163 in 2014. Total assets decreased $14,953,967 from 2014 to 2015 as the Authority received principal payments from the City on outstanding notes receivable of $8,691,440, investments decreased $5,895,577 primarily due to using the funds to pay off the 2004A bonds which matured in 2015, and due from other governments decreased $503,992. Total assets decreased $23,861,087 from 2013 to 2014 as the Authority received principal payments from the City on outstanding notes receivable of $10,965,657, due from other governments decreased $1,007,419 primarily due to a receivable for efficiency grants in the amount of $1,441,534 at June 30, 2013 which was remitted to the City in July 2013, and cash and cash equivalents decreased $12,000,000 for the distribution of restricted State aid to the City. In 2013, assets decreased $31,471,843 primarily due to the receipt of principal payments from the City on notes receivable totaling $10,404,673 and a reduction in due from other governments for State aid of $19,165,879 that was received before fiscal year end 2013 as opposed to subsequent to year end for 2012. 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 2015, 2014 and 2013. The Authority retains those funds until the conditions have been met. No amounts were released to the City in 2015. Amounts released in 2014 and 2013 were $12,000,000 and $2,401,259.

Cash and investments totaled $10,759,875, $16,273,380, and $27,915,603 at June 30, 2015, 2014 and 2013, respectively. These amounts include funds for the future repayment of debt and restricted State aid in the amount of $10,245,481, $16,198,480 and $27,835,839, at June 30, 2015, 2014 and 2013 respectively. State aid was paid to BFSA in prior years for targeted purposes awaiting the City's request for disbursement. As of June 30, 2015, the majority of this restricted State Aid had been requested by the City, with a balance of $242,530 remaining. Additionally, cash and investments included $1,997, $74,900 and $79,764 of accrued interest to be paid to the City at June 30, 2015, 2014 and 2013, 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 reported in the governmental fund statements totaled $667,587, $661,569 and $717,096 for the years ended June 30, 2015, 2014 and 2013. Total operating expenses increased $6,018, or 0.9%, from 2014 to 2015 and decreased $55,527, or 7.7%, from 2013 to 2014. The reasons for the changes are discussed below.

Staff expenses for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014	Increase/ (Decrease)	Percentage Change
Wages	$ 365,916	$ 348,621	$ 17,295	5.0%
Other staff-related expenses	9,649	9,650	(1)	0.0%
Total direct staff expenses	375,565	358,271	17,294	4.8%
Staff benefits:				
ERS contributions	63,693	72,336	(8,643)	-11.9%
Payroll taxes	27,855	26,666	1,189	4.5%
Health insurance (net of employee contributions)	69,438	65,699	3,739	5.7%
Total staff benefits	160,986	164,701	(3,715)	-2.3%
Total staff expenses	$ 536,551	$ 522,972	$ 13,579	2.6%

Staff expenses increased $13,579, or 2.6%, from 2014 to 2015. The primary reason for the increase is the change in personnel. The Authority had one position filled for a portion of 2015 that was vacant in 2014; one position was elevated during 2015 and a general inflationary salary increase was given to employees, resulting in the increase to direct staff expenses in 2015. The increase in health insurance expense is related to an increase in premiums. Other staff expenses have minor increases, with the exception of pension contributions to ERS which decreased $8,643, or 11.9%. This decrease is a result of the decrease in required employer contributions as a percentage of payroll from 2014 to 2015.

The Authority employed a range of four to five salaried staff members during the years ended June 30, 2015 and 2014.

Staff expenses for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013	Increase/ (Decrease)	Percentage Change
Wages	$ 348,621	$ 348,069	$ 552	0.2%
Other staff-related expenses	9,650	10,478	(828)	-7.9%
Total direct staff expenses	358,271	358,547	(276)	-0.1%
Staff benefits:				
ERS contributions	72,336	51,892	20,444	39.4%
Payroll taxes	26,666	26,197	469	1.8%
Health insurance (net of employee contributions)	65,699	63,066	2,633	4.2%
Total staff benefits	164,701	141,155	23,546	16.7%
Total staff expenses	$ 522,972	$ 499,702	$ 23,270	4.7%

Staff expenses increased $23,270, or 4.7%, from 2013 to 2014. The primary reason for the increase is the increase in pension contributions to ERS which increased $20,444, or 39.4%. This increase is a result of the increase in required employer contributions as a percentage of payroll from 2013 to 2014.

The Authority employed a range of four to five salaried staff members during the years ended June 30, 2014 and 2013.

The next largest category of expenses was for professional fees. The following charts indicated the amount expended for professional fees for the years ended June 30, 2015, 2014 and 2013.

	2015	2014	Increase/ (Decrease)	Percentage Change
Legal fees	$ 12,970	$ 33,777	$ (20,807)	-61.6%
Other professional fees	54,776	35,334	19,442	55.0%
Total professional fees	$ 67,746	$ 69,111	$ (1,365)	-2.0%

	2014	2013	Increase/ (Decrease)	Percentage Change
Legal fees	$ 33,777	$ 116,930	$ (83,153)	-71.1%
Other professional fees	35,334	26,865	8,469	31.5%
Total professional fees	$ 69,111	$ 143,795	$ (74,684)	-51.9%

Legal fees decreased $20,807, or 61.6%, from 2014 to 2015 due to the level of litigation services required. Other professional fees increased $19,442, or 55.0%, due to additional consultants hired in 2015.

Legal fees decreased $83,153, or 71.1%, from 2013 to 2014 due to the level of litigation services required. Other professional fees increased $8,469, or 31.5%, due to more expenditures in 2014 as the Authority had higher needs and the 2013 expenditures were unusually low.

Directors of the Authority do not receive any compensation for their services but are reimbursed for any Authority-related expenses, primarily travel expenses 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, 2015, 2014 and 2013 are as follows:

	2015	2014	Increase/ (Decrease)	Percentage Change
Facilities expenses - public board meetings	$ 5,284	$ 7,211	$ (1,927)	-26.7%

	2014	2013	Increase/ (Decrease)	Percentage Change
Facilities expenses - public board meetings	$ 7,211	$ 4,972	$ 2,239	45.0%

Meeting expenses have remained consistent over the last three fiscal years. Minor fluctuations are due to the number of meetings held each year.

Other expenses include various items necessary for the operation of the Authority's offices and are as follows for the years ended June 30, 2015, 2014 and 2013:

	2015	2014	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	$ 3,657	$ 5,831	$ (2,174)	-37.3%
Rent	42,063	42,933	(870)	-2.0%
Telephone and data processing	9,351	8,745	606	6.9%
Office supplies	638	2,650	(2,012)	-75.9%
Public notices	1,010	1,095	(85)	N/A
Equipment	1,287	1,021	266	26.1%
Total Other Expenditures	$ 58,006	$ 62,275	$ (4,269)	-6.9%

	2014	2013	Increase/ (Decrease)	Percentage Change
Office services including postage and delivery	$ 5,831	$ 5,520	$ 311	5.6%
Rent	42,933	43,020	(87)	-0.2%
Telephone and data processing	8,745	8,638	107	1.2%
Office supplies	2,650	3,768	(1,118)	-29.7%
Public notices	1,095	-	1,095	N/A
Equipment	1,021	7,681	(6,660)	-86.7%
Total Other Expenditures	$ 62,275	$ 68,627	$ (6,352)	-9.3%

In total, other expenses have decreased steadily over the last three fiscal years. The decrease in equipment of $6,660 from 2013 to 2014 is due to the purchase of a multi-function copier machine in 2013.

The Authority's rental payments, prior to October 2014, were made to the Buffalo Economic Renaissance Corporation (BERC), the economic development arm of the City, where they can be used toward the City's economic development efforts. In September 2014, BERC sold the building to an independent company. The Authority is negotiating a lease with the new owner and continues to rent on a month to month basis.

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.

Statement of Net Position

June 30, 2015

Assets	
Cash and cash equivalents	$ 844,958
Investments	9,914,917
Notes receivable - City of Buffalo due within one year	7,852,712
Due from other governments	14,309,713
Prepaid expenses	13,869
Notes receivable - City of Buffalo	33,257,239
Capital assets, net (Note 6)	4,349
Total assets	66,197,757
Deferred Outflows of Resources	
Deferred outflows of resources from pensions	29,635
Liabilities	
Accounts payable	31,241
Accrued liabilities	793,688
Due to the City of Buffalo - sales tax	12,601,950
Long-term liabilities	
Due within one year:	
Bonds	8,780,000
Due beyond one year:	
Bonds	43,283,172
Other postemployment benefits	568,375
Net pension liability	62,198
Total liabilities	66,120,624
Deferred Inflows of Resources	
Deferred inflows of resources from pensions	22,092
Net Position	
Net investment in capital assets	4,349
Restricted	9,977,111
Unrestricted	(9,896,784)
Total net position	$ 84,676

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, 2015

Expenses		
General and administrative	$	752,929
Distributions		
City of Buffalo - general operations		241,076,476
City of Buffalo School District		40,167,930
Interest expense		1,927,142
Total expenses		283,924,477
General revenues		
State aid		161,285,233
Sales tax		120,524,217
Interest and other income		2,335,723
Total general revenues		284,145,173
Change in net position		220,696
Net position - beginning, as restated (Note 2)		(136,020)
Net position - ending	$	84,676

See accompanying notes.

Balance Sheet - Governmental Funds

June 30, 2015
(With summarized comparative totals as of June 30, 2014)

	General	Debt Service	Total Governmental Funds 2015	Total Governmental Funds 2014
Assets				
Cash and cash equivalents	$ 756,924	$ 88,034	$ 844,958	$ 462,886
Investments	-	9,914,917	9,914,917	15,810,494
Due from other governments	13,403,299	42,016,365	55,419,664	64,855,899
Prepaid expenses	13,869	-	13,869	16,441
Total assets	$ 14,174,092	$ 52,019,316	$ 66,193,408	$ 81,145,720
Liabilities and Fund Balances				
Accounts payable	$ 31,241	$ -	$ 31,241	$ 13,258
Accrued liabilities	28,721	764,967	793,688	1,038,672
Due to the City of Buffalo	12,584,153	17,797	12,601,950	12,858,615
Total liabilities	12,644,115	782,764	13,426,879	13,910,545
Fund Balances				
Nonspendable:				
Prepaid expenses	13,869	-	13,869	16,441
Restricted:				
Debt service	-	51,236,552	51,236,552	66,037,304
State-mandated initiatives	756,924	-	756,924	243,427
Unassigned	759,184	-	759,184	938,003
Total fund balances	1,529,977	51,236,552	52,766,529	67,235,175
Total liabilities and fund balances	$ 14,174,092	$ 52,019,316	$ 66,193,408	$ 81,145,720

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

June 30, 2015

Total fund balances - governmental funds		$	52,766,529
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and are not reported as assets in governmental funds.			4,349
The Authority's proportionate share of the net pension liability as well as pension-related deferred outflows and deferred inflows of resources are recognized on the government-wide statements and include:			
Deferred outflows of resources from pensions	29,635		
Net pension liability	(62,198)		
Deferred inflows of resources from pensions	(22,092)		(54,655)
Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:			
Bonds payable	(52,063,172)		
Other postemployment benefits	(568,375)		(52,631,547)
Net position - governmental activities		$	84,676

See accompanying notes.

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

For the year ended June 30, 2015
(With summarized comparative totals for June 30, 2014)

	General	Debt Service	Total Governmental Funds 2015	Total Governmental Funds 2014
Revenues				
State aid	$ 161,285,233	$ -	$ 161,285,233	$ 162,628,968
Sales tax	120,524,217	-	120,524,217	119,578,002
Interest and other income	61,957	2,273,766	2,335,723	2,933,770
Total revenues	281,871,407	2,273,766	284,145,173	285,140,740
Expenditures				
General and administrative	506,601	-	506,601	496,868
Distributions				
City of Buffalo - general operations	240,703,784	372,692	241,076,476	251,019,070
City of Buffalo School District	40,167,930	-	40,167,930	40,104,319
Employee benefits	160,986	-	160,986	164,701
Debt service				
Principal	-	14,265,000	14,265,000	13,540,000
Interest	-	2,436,826	2,436,826	3,152,355
Total expenditures	281,539,301	17,074,518	298,613,819	308,477,313
Excess revenues (expenditures)	332,106	(14,800,752)	(14,468,646)	(23,336,573)
Fund balances - beginning	1,197,871	66,037,304	67,235,175	90,571,748
Fund balances - ending	$ 1,529,977	$ 51,236,552	$ 52,766,529	$ 67,235,175

See accompanying notes.

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

For the year ended June 30, 2015

Total net change in fund balances - governmental funds		$	(14,468,646)
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays are reported in governmental funds as expenditures. 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 exceed depreciation expense.			(1,655)
Net differences between pension system contributions recognized on the fund statement of revenues, expenditures, and changes in fund balances and the statement of activities.			
2015 contributions	62,469		
2015 accrued contribution	16,841		
2014 accrued contribution	(15,617)		
2015 net pension expense	(50,767)		12,926
Payments of long-term liabilities are reported as expenditures in the governmental funds, and as a reduction of debt in the statement of net position.			14,265,000
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	509,684		
Other postemployment benefits	(96,613)		413,071
Change in net position - governmental activities		$	220,696

See accompanying notes.

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 cannot 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, or 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 annually a 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 governmental fund financial statements include certain prior year summarized comparative information in total but not by 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, 2014, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority receives value directly without giving equal value in exchange, include State aid and sales taxes. 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. Expenditures 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.

Investments

The Authority's investment policy complies with the State Comptroller's guidelines for Public Authorities. Investments consist primarily of government obligations stated at carrying value.

Capital Assets

Assets are capitalized at historical cost if their value is greater than $500 and has 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

Premiums received upon the issuance of debt are included as other financing sources in the governmental fund statements when issued. In the government-wide statements, premiums are recognized with the related debt issue and amortized on a straight-line basis as a component of interest expense over the life of the related obligation.

Pensions

The Authority uses GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) on the government-wide statements to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the defined benefit pension plan. The Authority's participation in the New York State and Local Employees' Retirement System (ERS) is mandated by State law. ERS recognizes benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value. More information on pension activity is included in Note 8.

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 at times 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.

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, 2014, the Authority adopted GASB 68 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These statements address accounting and financial reporting for the pension provided to Authority employees and administered by ERS. The statements also require various note disclosures (Note 8) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, July 1, 2014	$	(68,439)
Net pension liability		(83,198)
Deferred outflows of resources for contributions made subsequent to measurement date		15,617
Net position as restated	$	(136,020)

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 2015 include:

- The receipt and remittance to the City of sales tax revenues. Revenues of $120,524,217 were recorded, of which $68,313,752 was or will be paid to the City and $40,167,930 was designated for the District. The balance was retained for Authority operations and to provide for a debt service sinking fund.
- State aid of $161,285,233 was received during 2015. No amounts were accrued at June 30, 2015 or 2014.
- Distributions paid or accrued to the City in 2015 totaled $241,076,476, which includes $68,313,752 of sales tax receipts, $172,388,877 of State aid and other revenue, and interest receipts of $373,847.

4. Cash and Investments

Investment management is 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. Policies permit the Executive Director 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, 2015, the Authority's bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institution's trust department in the Authority's name.

The Authority's cash and investments at June 30, 2015 consist of the following:

	Carrying Value	Fair Value
Cash	$ 95,115	$ 95,115
Money Market	749,843	749,843
U.S. Treasury SLGS	1,128,844	1,128,844
U. S. Treasury Notes	177,145	184,086
Federal National Mortgage Association Discount Notes	2,892,332	2,962,694
Federal Home Loan Mortgage Corporation Medium Term Notes	5,120,982	5,217,038
Federal Home Loan Banks	516,139	537,122
Federal Farms Credit Banks	77,478	74,520
Accrued interest	1,997	1,997
	$ 10,759,875	$ 10,951,259

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 Other Governments

Due from Other Governments:		
New York State:		
May and June sales tax receipts	$	13,403,299
Accrued interest due from the City		906,414
	$	14,309,713
Due from the City:		
Mirror bond 2005A (1/15/2025), interest at 5.0% inclusive of premium of $569,391	$	7,683,831
Mirror bond 2005B&C (1/15/2019), interest at 5.0% inclusive of premium of $457,181		5,117,181
Mirror bond 2006A (1/15/2020), interest at 5.0% inclusive of premium of $83,732		12,243,732
Mirror bond 2007A (1/15/2023), interest at 5.0% inclusive of premium of $447,002		16,065,207
		41,109,951
Amount due within one year		7,852,712
	$	33,257,239

Amounts to be received from the City, net of bond premiums of $1,557,306 on the mirror bonds are as follows:

Year ending June 30,		Principal		Interest
2016	$	7,852,712	$	1,977,632
2017		6,293,597		1,584,997
2018		6,509,277		1,270,316
2019		6,315,816		944,853
2020		5,628,181		629,062
2021-2025		6,953,062		779,295
	$	39,552,645	$	7,186,155

6. Capital Assets

		Balance July 1, 2014		Increases		Retirements/ Reclassifications		Balance June 30, 2015
Furniture, fixtures, and computers	$	70,399	$	905	$	1,927	$	69,377
Accumulated depreciation		64,395		2,560		1,927		65,028
	$	**6,004**	**$**	**(1,655)**	**$**	**-**	**$**	**4,349**

Depreciation of $2,560 has been allocated to general and administrative expense.

7. Long-Term Liabilities

	July 1, 2014	Increases	Decreases	June 30, 2015	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.	$ 3,215,000	$ -	$ 3,215,000	$ -	$ -
Series 2005A bond maturing September 2025 with interest ranging from 4.0% to 5.0% over the life of the bond.	11,430,000	-	2,090,000	9,340,000	2,140,000
Series 2005B&C bonds maturing September 2019 with interest at 5.0% over the life of the bonds.	12,435,000	-	5,145,000	7,290,000	2,630,000
Series 2006A bond maturing September 2020 with interest ranging from 4.0% to 5.0% over the life of the bond.	16,250,000	-	1,995,000	14,255,000	2,095,000
Series 2007A bond maturing September 2023 with interest ranging from 4.5% to 5.5% over the life of the bond	19,830,000	-	1,820,000	18,010,000	1,915,000
	63,160,000	-	14,265,000	48,895,000	8,780,000
Premiums:					
2004A	332	-	332	-	-
2005A	1,196,862	-	106,663	1,090,199	-
2005B	1,407,554	-	269,530	1,138,024	-
2006A	557,553	-	77,922	479,631	-
2007A	515,555	-	55,237	460,318	-
	3,677,856	-	509,684	3,168,172	-
	$ 66,837,856	$ -	$ 14,774,684	$ 52,063,172	$ 8,780,000

Debt Service Requirements

Year ending June 30,		Principal		Interest
2016	$	8,780,000	$	2,109,494
2017		7,935,000		1,696,969
2018		6,380,000		1,339,094
2019		6,600,000		1,020,131
2020		6,400,000		706,456
2021-2025		12,495,000		907,188
2026		305,000		3,291
	$	**48,895,000**	**$**	**7,782,623**

Lease Obligation

The Authority leases office space under the terms of an expired operating lease with a month to month arrangement. Rental expense amounted to $42,063 for the year ended June 30, 2015.

8. Pension Plan

The Authority participates in ERS, which is a cost-sharing, multiple employer, public employee retirement system. ERS provides retirement benefits as well as death and disability benefits. 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 from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: ERS provides retirement, disability, and death benefits for eligible members, including an automatic cost of living adjustment. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

Contribution Requirements: 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 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. For 2015, these rates ranged from 16.6% - 20.3%.

A liability to ERS of $16,841 is accrued based on the Authority's legally required contribution for employee services rendered from April 1, 2015 through June 30, 2015.

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2015, the Authority reported a liability of $62,198 for its proportionate share of the net pension liability.

The net pension liability was measured as of March 31, 2015, and the total pension liability was determined by an actuarial valuation as of April 1, 2014. The Authority's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2015 measurement date, the Authority's proportion was 0.0018411%.

For the year ended June 30, 2015, the Authority recognized pension expense of $50,767. At June 30, 2015, the Authority reported deferred outflows and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,991	$ -
Net difference between projected and actual earnings on pension plan investments	10,803	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	-	22,092
Authority contributions subsequent to the measurement date	16,841	-
	$ 29,635	**$ 22,092**

Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	Net Deferred Outflows and Deferred Inflows of Resources
2016	$ 2,325
2017	2,325
2018	2,324
2019	2,324
	$ 9,298

Actuarial Assumptions

The actuarial assumptions used in the April 1, 2014 valuation, with update procedures used to roll forward the total pension liability to March 31, 2015, were based on the results of an actuarial experience study for the period April 1, 2005 to March 31, 2010. These assumptions are:

Inflation - 2.7%
Salary increases - 4.9%
Investment rate of return - 7.5% compounded annually, net of investment expense, including inflation
Mortality - Based on ERS experience from April 1, 2005 - March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.
Discount rate - 7.5%

The long-term expected rate of return on ERS's pension plan investments was determined in accordance with Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class and ERS's target asset allocations as of the applicable valuation dates are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	38%	7.3%
International equities	13%	8.5%
Private equities	10%	11.0%
Real estate	8%	8.3%
Domestic fixed income securities	2%	4.0%
Bonds and mortgages	18%	4.0%
Short-term	2%	2.3%
Other	9%	6.8%-8.6%
	100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, ERS's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the Authority's proportionate share of its net pension asset (liability) calculated using the discount rate of 7.5% and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	Discount Rate	1.0% Increase
Authority's proportionate share of the ERS net pension asset (liabiltiy)	$ (414,575)	$ (62,198)	$ 235,296

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 years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially-determined liabilities. For the year ended June 30, 2015, 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 (ARC) of the Authority. 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, 2015:

Annual required contribution		
Normal cost	$	112,834
Amortization of unfunded actuarial accrued liability		12,084
Interest on net OPEB obligation		18,871
ARC adjustment		(47,176)
		96,613
Contributions made		-
Increase in net OPEB obligation		96,613
Net OPEB obligation - beginning of year		471,762
Net OPEB obligation - end of year	**$**	**568,375**

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

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$ 96,613	0%	$ 568,375
2014	43,845	0%	471,762
2013	56,654	0%	427,917

As of June 30, 2015, the most recent alternative measurement method date, the actuarial accrued liability for future benefits was $337,694, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was $361,360, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 93%.

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 are expected to retire, on average, at 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 – 4% payroll growth rate
Healthcare cost trend rate – Initial rate of 8%, reduced to an ultimate rate of 4.7% after ten years; dental plan 3.5% reduced to 3% after year 2; and vision plan 3%.
Health insurance premiums – 2015 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.
Discount rate – 4%
Amortization method – 10 years, level percentage of payroll

Required Supplementary Information
Schedule of Funding Progress for Other Postemployment Benefits

June 30, 2015

Actuarial Valuation Date *		Actuarial Value of Assets		Actuarial Accrued Liability		Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio		Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2011	$	-	$	83,458	$	(83,458)	0%	$	228,327	37%
6/30/2012	$	-	$	116,194	$	(116,194)	0%	$	319,377	36%
6/30/2015	$	-	$	337,694	$	(337,694)	0%	$	361,360	93%

*Alternative Measurement Method

Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System

As of the measurement date of March 31, 2015

Authority's proportion of the net pension liability		0.0018411%
Authority's proportionate share of the net pension liability	$	62,198
Authority's covered-employee payroll	$	334,762
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll		18.58%
Plan fiduciary net position as a percentage of the total pension liability		97.90%

Data prior to 2015 is unavailable.

Required Supplementary Information
Schedule of Contributions
New York State and Local Employees' Retirement System

June 30,	2015	2014	2013
Contractually required contribution	$ 62,469	$ 75,625	$ 53,237
Contribution in relation to the contractually required contribution	(62,469)	(75,625)	(53,237)
Contribution deficiency (excess)	$ -	$ -	$ -
Authority's covered-employee payroll	$ 334,762	$ 348,621	$ 306,554
Contributions as a percentage of covered-employee payroll	18.66%	21.69%	17.37%

Supplementary Information
Schedule of Administrative Expenditures - General Fund

For the years ended June 30,	2015	2014
General and Administrative		
Board functions		
Public meeting expenses	$ 5,284	$ 7,211
Staff expenses		
Wages	365,916	348,621
Professional development	4,796	4,913
Parking	4,039	3,978
Payroll processing fees	814	759
	375,565	358,271
Central services		
Postage, printing and dues	2,519	4,347
Rent	42,063	42,933
Telephone and data processing	9,351	8,745
Insurance	1,138	1,484
Office supplies	638	2,650
	55,709	60,159
Administrative		
Professional fees and consultants	54,776	35,334
Legal fees	12,970	33,777
Public notices	1,010	1,095
Equipment	1,287	1,021
	70,043	71,227
Total General and Administrative	506,601	496,868
Employee Benefits		
New York State and Local Employees' Retirement System contributions	63,693	72,336
Social security and medicare taxes	27,855	26,666
Medical insurance net of employee contributions	69,438	65,699
Total Employee Benefits	160,986	164,701
Total general and administrative expenditures and employee benefits - general fund	**$ 667,587**	**$ 661,569**

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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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 21, 2015.

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 to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

September 21, 2015

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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 financial statements of Buffalo Fiscal Stability Authority (the Authority), a component unit of the City of Buffalo, New York, as listed in the table of contents, as of June 30, 2015, which collectively comprise the Authority's basic financial statements, and we have issued our report thereon dated September 21, 2015.

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 regarding investment guidelines during the year ended June 30, 2015. 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 21, 2015