



Homes and Community Renewal

2014

Fiscal Year
Financial Statements

State of New York Municipal Bond Bank Agency

State of New York Municipal Bond Bank Agency

Financial Statements

Fiscal Years Ended October 31, 2014 and 2013

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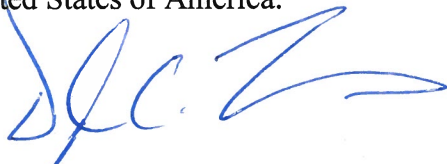
RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the State of New York Municipal Bond Bank Agency (the "Agency"), for the fiscal years ended October 31, 2014 and 2013, are the responsibility of management. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

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

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

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



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President/Chief Executive Officer



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January 29, 2015



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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the State of New York Municipal Bond Bank Agency (the Agency), a component unit of the State of New York, as of and for the years ended October 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Agency'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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of October 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that Management's Discussion and Analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 29, 2015, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 the 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 Agency's internal control over financial reporting and compliance.

Ernst + Young LLP

January 29, 2015

STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY

A Component Unit of the State of New York

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEARS ENDED OCTOBER 31, 2014 and 2013

Overview of the Financial Statements - The following is a narrative overview of the financial performance of the State of New York Municipal Bond Bank Agency (the "Agency") for the fiscal years ended October 31, 2014 ("fiscal 2014") and 2013 ("fiscal 2013"), with selective comparative information for the fiscal year ended October 31, 2012 ("fiscal 2012"). Please read this analysis in conjunction with the financial statements.

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

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

Management's Discussion and Analysis

- This section of the Agency's financial statements, Management's Discussion and Analysis ("MD&A"), presents an overview of the Agency's financial performance during fiscal 2014 compared to fiscal 2013. It provides a discussion of financial highlights and an assessment of how the Agency's position has changed from the past years. The MD&A identifies the factors that, in management's view, significantly affected the Agency's overall financial position. It may contain opinions, assumptions or conclusions by the Agency's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described below.

The Financial Statements

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

The Financial Statements (continued)

- The “Statement of Cash Flows” is presented on the direct method of reporting. It provides information about the Agency’s cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. Cash collections and payments are presented in this statement to arrive at the net increases or decreases in cash for each year.

The Notes to the Financial Statements

- The notes provide information that is essential to understanding the financial statements, such as the Agency’s accounting methods and policies, as well as providing information about the content of the financial statements.
- Details include contractual obligations, future commitments and contingencies of the Agency.
- Information is given regarding any other events or developing situations that could materially affect the Agency’s financial position.

Background

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

- Purchase general obligation bonds issued to fund certain public improvements under the American Recovery and Reinvestment Act at 2009 (“ARRA”) (“Recovery Act Bonds”) in order to provide efficiencies and interest rate savings to the municipality.
- Refund certain property taxes determined to be in excess of State constitutional tax limits or to reimburse such municipalities for the prior refunding of such taxes.
- Provide funds to pay the cost of settling litigation involving certain school districts and the teachers’ unions thereof.
- Provide financing for the Enlarged City School District of the City of Troy to liquidate the projected accumulated deficit in its general fund as of the close of its fiscal year ended June 30, 2002.
- Finance the payments of certain school districts’ prior year claims with respect to state school aid.

Background (continued)

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

CONDENSED STATEMENTS OF NET POSITION

	October 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
	(In thousands)				
Assets:					
Receivable from municipalities:					
Advances	\$ 294,620	\$ 295,175	\$ 297,695	—	(1%)
Bonds purchased	262,866	290,279	318,221	(9%)	(9%)
Other assets	11,489	11,472	34,308	—	(67%)
Total assets	568,975	596,926	650,224		
Deferred outflows of resources:					
Deferred loss on bond defeasance	27,003	30,816	34,630	(12%)	(11%)
Liabilities:					
Bonds payable, net	597,580	633,540	691,987	(6%)	(8%)
Other liabilities	9,580	9,835	9,370	(3%)	5%
Total liabilities	607,160	643,375	701,357		
Net position:					
Unrestricted deficit	\$ (11,182)	\$ (15,633)	\$ (16,503)		

"—" indicates a percentage of less than 1%

Overall Financial Position - Deficit

Net deficits are reported as of October 31, 2014, 2013 and 2012 in the amounts of \$11.2 million, \$15.6 million and \$16.5 million, respectively. The net deficit decreased by \$4.4 million in fiscal year 2014 and decreased by \$870 thousand in fiscal year 2013 primarily as a result of amortization of bond premium.

The Agency's deficit is attributable to the advance of funds to municipalities in the amount of \$27.7 million during fiscal year 2004, using funds made available by the sale of bonds at a premium. At that time, the advance of such bond premium funds was recorded as an expense. However, the receipt of such funds when the bonds were issued was capitalized and is being amortized over the life of the related bond issues. Through amortization of the bond premium, the net deficit will be reduced over the life of the related bonds.

Changes in Assets

Receivables from Municipalities:

Advances

Advances represent the unpaid balance of funds advanced to The City of New York and City of Buffalo by the Agency as adjusted by the 2012 refunding bond series.

The City of New York and City of Buffalo are responsible to remit funds to the Agency in order to fund the debt service payments relating to the refunding bonds which were the source of the funds advanced by the Agency on their behalf. The amount recorded as advances is equivalent to the amount recorded as the payable relating to the refunding bonds. As a result of repayments by The City of New York and City of Buffalo, advances declined from \$295.2 million in fiscal year 2013 to \$294.6 million in fiscal year 2014, a decrease of \$600 thousand or less than 1%. In fiscal year 2013, advances declined from \$297.7 million in fiscal year 2012 to \$295.2 million, a decrease of \$2.5 million, or 1%.

Bonds Purchased

Bonds purchased in the amounts of \$262.9 million, \$290.3 million and \$318.2 million as of October 31, 2014, 2013 and 2012, respectively, represent the general obligations of participating municipalities in New York State that were purchased by the Agency with the proceeds of the Agency's Recovery Act Bonds issued in fiscal 2011 and 2010. The payments due from the participating municipalities relating to their local bonds are used to fund the debt service due on the Agency's outstanding Recovery Act Bonds. As part of the program, the Agency reimburses the municipalities for a portion of their respective debt service payments with interest subsidies received from the federal government. In 2013, the federal government lowered the interest subsidy rate by 8.7% and 7.2% respectively as a result of the Federal Budget Sequestration. In October of 2014, the sequestration rate was increased by 10 basis points to 7.3%. Municipalities participating in the program are required to pay the gross debt service on their local bonds. As such, these reductions have had no effect on the Agency's ability to cover debt service on its bonds. Bonds purchased decreased from \$290.3 million at October 31, 2013 to \$262.9 million at October 31, 2014, a decrease of \$27.4 million, or 9%, compared to the decrease from \$318.2 million at October 31, 2012 to \$290.3 million at October 31, 2013 of \$27.9 million, or

Changes in Assets (continued):

9% resulting from the amortization of bond premium funds and payments made by the participating municipalities.

Other Assets

Other assets, which as of October 31, 2014 and 2013 primarily included interest due from municipalities, remained unchanged in the approximate amount of \$11.5 million. In the prior fiscal year, other assets declined from \$34.3 million in fiscal year 2012 to \$11.5 million in fiscal year 2013, a decrease of \$22.8 million, or 67%, primarily as a result of the decline of the investments held. Investments were held at October 31, 2012 in the revenue and debt service reserve account to fund the redemption of the remaining portion of Special School Purpose (Prior Year Claims) Revenue Bonds 2003 Series C in fiscal year 2013.

Changes in Liabilities

Bonds Payable

The Agency did not issue bonds during fiscal 2014 or 2013. During fiscal 2012, the Agency issued bonds as follows:

Special School Purpose Revenue Bonds (Prior Year Claims – The City of New York) 2012 Series A, in the par amount of \$281.3 million (bond premium in the amount of \$49 million).

Special Program (City of Buffalo) Refunding Revenue Bonds, 2012 Series A in the par amount of \$13.9 million (bond premium in the amount of \$1 million).

Bonds Payable, net decreased from \$633.5 million at October 31, 2013 to \$597.6 million at October 31, 2014, a decrease of approximately \$35.9 million or 6%. This compared with a decline during the prior fiscal year from \$692.0 million at October 31, 2012 to \$633.5 million at October 31, 2013, a decrease of approximately \$58.5 million or 8%. The decrease was primarily a result of the debt service payments made during the year.

CONDENSED SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended October 31,			% Change	
	2014	2013	2012	2014-2013	2013-2012
	(In thousands)				
Operating revenues:					
Interest on advances and bonds purchased	\$ 27,084	\$ 28,325	\$ 36,194	(4%)	(22%)
Investment income	1	188	1,119	(99%)	(83%)
Fees and charges	674	343	520	97%	(34%)
Total operating revenues	<u>27,759</u>	<u>28,856</u>	<u>37,833</u>		
Operating expenses:					
Interest	22,907	27,609	37,252	(17%)	(26%)
Earnings credited to municipalities	-	-	1,190	N/A	(100%)
Other	401	377	454	6%	(17%)
Federal interest subsidy funds paid to municipalities	2,336	3,008	2,421	(22%)	24%
Total operating expenses	<u>25,644</u>	<u>30,994</u>	<u>41,317</u>		
Non-operating revenues (expenses):					
Federal interest subsidy funds received	2,336	3,008	2,083	(22%)	44%
Transfers from the State of New York	34,000	-	-	N/A	-
Transfers to Municipalities of the State of New York	(34,000)	-	-	N/A	-
Net non-operating revenues	<u>2,336</u>	<u>3,008</u>	<u>2,083</u>		
Net position:					
Increase (decrease) in Net Position	4,451	870	(1,401)	412%	162%
Total Net Position - beginning of year	(15,633)	(16,503)	(15,102)	5%	(9%)
Total Net Position - end of year	<u>\$ (11,182)</u>	<u>\$ (15,633)</u>	<u>\$ (16,503)</u>		

"—" indicates a percentage of less than 1%

"N/A" indicates not applicable

Changes in Revenues and Expenses

Interest on Advances and Bonds Purchased

Interest on advances and bonds purchased represent the primary sources of funds available to pay interest expense due on bonds payable. Interest on advances and bonds purchased decreased from \$28.3 million in fiscal 2013 to \$27.1 million in fiscal 2014, a decrease of approximately \$1.2 million or 4%. During the 2012 fiscal year, interest on advances and bond purchases declined from \$36.2 million to \$28.3 million, a decrease of approximately \$7.9 million, or 22%. The declines were primarily a result of the issuance of refunding bonds and the reduction of the amounts due from municipalities.

Investment Income

Investment income declined from \$188 thousand in fiscal 2013 to \$1,000 in fiscal 2014, a decrease of approximately \$187 thousand, or 99%. In the prior fiscal year, investment income declined from \$1.1 million to \$188 thousand, a decrease of approximately \$931 thousand, or 83%. The variances are the result of the decrease in earnings related to the investment of the debt service reserve funds held for the Special School Purpose (Prior Year Claims) 2003 Series C Revenue Bonds which were called in early fiscal 2013. Currently, outstanding bonds do not require debt service reserve funds.

Fees and Charges

Fees and charges increased from \$343 thousand in fiscal year 2013 to \$674 thousand in fiscal year 2014, an increase of approximately \$331 thousand, or 97%. The increase was a result of a one-time fee received from the Corporation relating to the issuance of the Tobacco Settlement Financing Corporation Asset-Backed Revenue Bonds, Series 2013 Bonds in Fiscal 2014 in the amount of \$375 thousand. This compares with the decrease from \$520 thousand in fiscal year 2012 to \$343 thousand in fiscal year 2013, a decrease of approximately \$177 thousand, or 34%. The reduction was a result of the decrease in the advances receivable from municipalities for which the municipalities were required to pay an annual fee.

Interest Expense

Interest expense incurred on bonds outstanding decreased from \$27.6 million in fiscal year 2013 to \$22.9 million in fiscal year 2014, a decrease of approximately \$4.7 million, or 17%, primarily as a result of bond premium amortizations. This compares with a decrease from \$37.3 million in fiscal year 2012 to \$27.6 million in fiscal year 2013, a decrease of approximately \$9.7 million, or 26%.

Earnings Credited to Municipalities

Due to the aforementioned liquidation of the debt service reserve fund and the corresponding decline in investment income, the Agency did not credit any earnings to municipalities in 2014 or 2013, as compared with approximately \$1.2 million in fiscal year 2012. Earnings credits vary based on both available earnings and the timing of the credits on billings to municipalities.

Non-operating revenues (expenses)

Federal Interest Subsidy Payments

Federal interest subsidy payments represent subsidies received by the Agency from the Federal Government to reimburse municipalities participating in the Agency's Recovery Act Bond Program for a portion of the amount of interest due on bonds purchased. As a result of bond amortization leading to lower interest costs on the outstanding bonds and the continuing impact of Federal Budget Sequestration cuts, Federal interest subsidy payments decreased approximately \$672 thousand from \$3.0 million in fiscal 2013 to \$2.3 million in fiscal 2014, a decrease of 22%. This compares with an increase from \$2.1 million in fiscal 2012 to \$3.0 million in fiscal 2013, an increase of approximately \$925 thousand, or 44%.

Transfers from the State of New York Mortgage Agency for Transfer to Municipalities of the State of New York

Pursuant to the State Fiscal Year 2014-2015 enacted budget, during fiscal year 2014, certain excess balances calculated in accordance with the State of New York Mortgage Agency Act totaling \$34 million were directed to be transferred by the State of New York Mortgage Agency to the Agency. Pursuant to the State Fiscal Year 2014-2015 enacted budget, the Agency transferred the \$34 million as follows: \$28.0 million to the City of Yonkers and \$6.0 million to the City of Rochester.

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

	October 31,	
	2014	2013
	(In thousands)	
Assets		
Current assets:		
Restricted cash held by trustee	\$ 818	\$ 466
Unrestricted Investments	1,623	1,147
Receivable from municipalities:		
Advances	19,240	555
Bonds purchased	26,210	25,680
Interest receivable and other	8,810	9,101
Due from the Tobacco Settlement Financing Corporation	238	452
Subsidy interest funds due from the Federal Government	-	306
Total current assets	56,939	37,707
Non-current assets:		
Receivable from municipalities:		
Advances	275,380	294,620
Bonds purchased	236,656	264,599
Total non-current assets	512,036	559,219
Total assets	568,975	596,926
Deferred outflows of resources		
Deferred loss on bond defeasance	27,003	30,816
Liabilities		
Current liabilities:		
Bonds payable	45,450	26,235
Interest payable	9,070	9,369
Due to The New York State Housing Finance Agency	104	116
Accounts payable	45	43
Federal interest funds due to municipalities	361	307
Total current liabilities	55,030	36,070
Non-current liabilities:		
Bonds payable, net	552,130	607,305
Total non-current liabilities	552,130	607,305
Total liabilities	607,160	643,375
Net position		
Unrestricted deficit	(11,182)	(15,633)
Total net position	\$ (11,182)	\$ (15,633)

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

	Fiscal Year Ended October 31,	
	2014	2013
	(In thousands)	
Operating revenues		
Interest on advances and bonds purchased	\$ 27,084	\$ 28,325
Investment income	1	188
Fees and charges	674	343
Total operating revenues	27,759	28,856
Operating expenses		
Interest	22,907	27,609
General	401	377
Federal interest subsidy funds to municipalities	2,336	3,008
Total operating expenses	25,644	30,994
Operating income (loss)	2,115	(2,138)
Non-operating revenues (expenses)		
Subsidy interest funds received from the Federal Government	2,336	3,008
Transfers from the State of New York	34,000	-
Transfers to Municipalities of the State of New York	(34,000)	-
Total non-operating revenue	2,336	3,008
Increase in net position	4,451	870
Total net position - beginning of year	(15,633)	(16,503)
Total net position - end of year	\$ (11,182)	\$ (15,633)

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

	Fiscal Year Ended October 31,	
	2014	2013
	(In thousands)	
Cash flows from operating activities:		
Interest on advances and bonds purchased	\$ 27,375	\$ 24,108
General expenses	(197)	(837)
Fees and charges	674	343
Federal interest subsidy funds advanced to municipalities	(2,282)	(2,701)
Principal payments on advances	555	2,520
Amounts Release of funds held in trust	—	(3,535)
Principal payments on bond purchased	27,413	27,942
Net cash provided by operating activities	53,538	47,840
Cash flows from non-capital financing activities:		
Interest paid on bonds	(19,393)	(19,829)
Subsidy interest funds received from the Federal Government	2,642	2,702
Principal repayments	(35,960)	(58,447)
Transfers from the State of New York	34,000	—
Transfers to Municipalities of the State of New York	(34,000)	—
Net cash used in non-capital financing activities	(52,711)	(75,574)
Cash flows from investing activities:		
Investment income	1	575
Proceeds from sales or maturities of investments	3,338	59,186
Purchases of investments	(3,814)	(32,644)
Net cash (used in) provided by investing activities	(475)	27,117
Net increase (decrease) in cash	352	(617)
Cash at beginning of year	466	1,083
Cash at end of year	\$ 818	\$ 466

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

	Fiscal Year Ended October 31,	
	2014	2013
(In thousands)		
Reconciliation of net operating revenue to net cash used in operating activities:		
Operating income (loss)	\$ 2,115	\$ (2,138)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of deferred loss on defeasance	3,813	3,814
Investment income	(1)	(188)
Interest paid on bonds	19,094	23,795
Changes in assets and liabilities:		
Advances from municipalities	555	2,520
Bonds purchased from municipalities	27,413	27,942
Interest receivable and other	291	(4,217)
Due from (to) the Tobacco Settlement Financing Corporation	214	(187)
Accounts payable	2	(312)
Federal interest subsidies due	54	307
Due (to) from the New York State Housing Finance Agency	(12)	39
Fund held in trust	—	(3,535)
Net cash provided by operating activities	\$ 53,538	\$ 47,840

State of New York Municipal Bond Bank Agency

(A Component Unit of the State of New York)

Notes to the Financial Statements

Fiscal Years Ended October 31, 2014 and 2013

1. The Agency

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

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

1. **The Agency (continued)**

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

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

2. **Summary of Significant Accounting Policies**

Basis of Accounting

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

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

Receivable from Municipalities

Advances

The present value of future repayments of funds advanced to municipalities relating to the outstanding Special Program (City of Buffalo) Revenue Bonds and Special School Purpose Revenue Bonds (Prior Year Claims) were recorded as a receivable when the original bonds were sold in fiscal 2004. The receivable was adjusted when such bonds were refunded in fiscal 2012. The aggregate future payments equal the total debt service on the refunding bonds, and the discounted values of such payments is equal to the face value of bonds. The bond premium funds made available through the sale of the 2003 bond series were recorded as an expense at the time of their advance to the municipalities. However, the amount of such funds received at the time of the bond sale was capitalized and is being amortized over the life of the specific bond issues.

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

2. Summary of Significant Accounting Policies (continued)

Bonds Purchased

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

Bond Premium

Bond premium is amortized over the life of the related long term debt using the effective interest method.

Use of Restricted Assets

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

Deferred Outflows of Resources

Gains or losses in connection with advanced refundings are recorded as either a deferred outflows (loss) or a deferred inflows (gain) of resources and amortized as an adjustment to interest expense over the original life of the refunded bonds or the life of the refunding bonds, whichever is shorter.

Investments

Investments are recorded at their fair value (see Note 3). For the purpose of financial statement presentation, the Agency does not consider any of its investments to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Revenue and Expense Classification

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

Recent Adoption of GASB Accounting Pronouncements

In March 2012, GASB issued Statement No. 66, *Technical Corrections–2012*. The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements–Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The implementation of this standard did not have an impact on the Agency’s financial statements.

In February 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees (“GASB 70”)*. The objective of this Statement is to improve the comparability of financial statements among governments by requiring consistent reporting by those governments that extend and/or receive nonexchange financial guarantees. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. The implementation of this standard did not have an impact on the Agency’s financial statements.

Accounting Pronouncements Issued But Not Yet Adopted

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions (“GASB 68”)*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Since the Agency does not have any employees, the implementation of this standard will not have an impact on its financial statements.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations (“GASB 69”)*. The objective of this Statement is to improve the accounting for mergers and acquisitions among state and local governments by providing guidance specific to the situations and circumstances encountered within the governmental environment. The provisions of this Statement

Accounting Pronouncements Issued But Not Yet Adopted (continued)

are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The Agency does not anticipate that the implementation of this standard will have an impact on its financial statements.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date ("GASB 71"). The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This standard will not have an impact on the Agency's financial statements.

3. Deposits and Investments

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

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

For the fiscal years ended October 31, 2014 and 2013, all Agency monies were invested in accordance with the Agency's formal investment policy or resolution. At October 31, 2014 and 2013, investments held by trustees in the Agency's name amounted to \$1.6 million and \$1.1 million, respectively. Uncollateralized cash on deposit amounted to \$818 thousand and \$466 thousand at October 31, 2014 and October 31, 2013, respectively.

Credit Risk

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

Permitted Investments

Bond proceeds and revenues can only be invested in obligations of the State or the United States of America, obligations where the principal of and interest thereon are guaranteed by the State or by the United States of America; or in Certificates of Deposits or Time Deposits eligible for investment by savings banks in the State, or in obligations of any Agency of the State or the United States of America, or in obligations of FNMA.

3. Deposits and Investments (continued)

Custodial Credit Risk

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

Diversification Standards

The Agency's investments, other than securities, shall be diversified among banks but not more than 35% of the Agency's total invested funds may be invested with any bank and investments with any single institution shall not exceed 20% of that institution's capital. These standards may be waived by the Agency's Chairman or the President and Chief Executive Officer.

Interest Rate Risk

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

All of the Agency's investments are held by its trustees and in its name. As of October 31, 2014, the Agency's investments were all held in U.S. Treasury Bills that mature in less than one year.

4. Bond Indebtedness

As of October 31, 2014 and 2013, the outstanding bonds issued by the Agency are listed below:

	<u>Original Face Amount</u>	<u>Balance October 31, 2013</u>	<u>Issued</u>	<u>Principal Payment/ Retired</u>	<u>Balance October 31, 2014</u>
	(\$ In thousands)				
Special Program (City of Buffalo) Revenue Bonds,					
2012 Series A, 3%-5%, maturing in varying annual installments to 2031	\$ 13,860	\$ 13,860	\$ —	\$ 555	\$ 13,305
Special School Purpose Revenue Bonds (Prior Year Claims)					
2012 Series A, 2%-5%, maturing in varying semi-annual installments to 2022	281,315	281,315	—	—	281,315
Recovery Act Bonds, 2009 Series A					
Sub-Series 2009A1 (Tax Exempt), 2%-4.5%, maturing in varying annual installments to 2020	35,090	25,950	—	5,090	20,860
Sub-Series 2009A2 (Federally Taxable-Build America Bonds), 5.16%-5.66%, maturing in varying installments to 2024	9,400	9,400	—	—	9,400
Sub-Series 2009A3 (Federally Taxable-Recovery Zone Bonds), 6.45%, maturing in 2029 installments to 2024	2,860	2,860	—	—	2,860
2009 Series B					
Sub-Series 2009B1 (Tax Exempt), 2%-5%, maturing in varying annual installments to 2034	24,775	22,480	—	805	21,675
Sub-Series 2009B2 (Federally Taxable-Build America Bonds), 6.88%, maturing in 2033	3,275	3,275	—	—	3,275
Sub-Series 2009B3 (Federally Taxable-Recovery Zone Bonds), 6.88%, maturing in 2034	3,240	3,240	—	—	3,240

4. Bond Indebtedness (continued)

	Original Face Amount	Balance October 31, 2013	Issued	Principal Payment/ Retired	Balance October 31, 2014
			(\$ In thousands)		
2009 Series C					
Sub-Series 2009C1 (Tax Exempt), 4%-5%, maturing in varying annual installments to 2024	97,172	64,140	—	9,890	54,250
Sub-Series 2009C2 (Federally Taxable-Build America Bonds), 5.41%-6.88%, maturing in varying installments to 2028	5,630	5,630	—	—	5,630
Sub-Series 2009C3 (Federally Taxable-Recovery Zone Bonds), 5.41%-6.88%, maturing in varying installments to 2029	2,800	2,800	—	—	2,800
2010 Series A					
Sub-Series 2010A1 (Tax Exempt), 3%-5%, maturing in varying annual installments to 2021	31,075	20,595	—	4,155	16,440
Sub-Series 2010A2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 4.82%-5.17%, maturing in varying annual installments to 2035	33,565	33,565	—	—	33,565
2010 Series B					
Sub-Series 2010B1 (Tax Exempt), 3%-5%, maturing in varying annual installments to 2021	30,765	22,765	—	2,815	19,950
Sub-Series 2010B2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 5.32%-5.95%, maturing in varying installments to 2025	20,935	20,935	—	—	20,935

4. Bond Indebtedness (continued)

	<u>Original Face Amount</u>	<u>Balance October 31, 2013</u>	<u>Issued</u>	<u>Principal Payment/ Retired</u>	<u>Balance October 31, 2014</u>
			(\$ In thousands)		
2010 Series C					
Sub-Series 2010C1 (Tax Exempt), 3.86%-5%, maturing in varying annual installments to 2018	1,590	1,385	—	210	1,175
Sub-Series 2010C2 (Federally Taxable- Recovery Zone Bonds), 5.24%-5.64% maturing in varying installments to 2021	3,150	3,150	—	—	3,150
2010 Series D					
Sub-Series 2010D1 (Tax Exempt), 2%-5%, maturing in varying annual installments to 2019	18,100	12,470	—	2,715	9,755
Sub-Series 2010D2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 5.34%-5.94%, maturing in varying installments to 2021	27,980	27,980	—	—	27,980
Total Bond Indebtedness	646,577	577,795	—	26,235	551,560
Unamortized bond premium	—	55,745	—	9,725	46,020
Total Net Bond Indebtedness	\$ 646,577	\$ 633,540	\$ —	\$ 35,960	\$ 597,580

5. Debt Service Requirements

The schedule of total annual maturities at October 31, 2014 was as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(\$ In thousands)	
Fiscal year ending October 31,			
2015	\$ 45,450	\$ 25,838	\$ 71,288
2016	51,185	23,801	74,986
2017	52,610	21,436	74,046
2018	54,685	18,962	73,647
2019 - 2023	274,720	55,517	330,237
2024 - 2028	44,780	13,585	58,365
2029 - 2033	21,175	5,266	26,441
2034 - 2038	6,955	495	7,450
Total	\$ 551,560	\$ 164,900	\$ 716,460

6. Transfers from the State of New York Mortgage Agency for Transfer to Municipalities of the State of New York

Pursuant to the State Fiscal Year 2014-2015 enacted budget, during fiscal year 2014, certain excess balances calculated in accordance with the State of New York Mortgage Agency Act totaling \$34 million were directed to be transferred by the State of New York Mortgage Agency to the Agency. Pursuant to the State Fiscal Year 2014-2015 enacted budget, the Agency transferred the \$34 million as follows: \$28.0 million to the City of Yonkers and \$6.0 million to the City of Rochester.

7. Service Agreements

The Agency has an agreement with the New York State Housing Finance Agency ("HFA") with respect to HFA providing managerial, administrative and financial functions to the Agency ("HFA Service Agreement"). Pursuant to this Agreement, costs allocated to the Agency approximated \$368,000 and \$325,000 for the years ended October 31, 2014 and 2013, respectively. As of October 31, 2014 and 2013 respectively, the amounts of \$104,000 and \$116,000 were owed by the Agency to HFA as per the HFA Service Agreement. In addition, the Agency has entered into a service agreement with the Corporation ("TSFC" Service Agreement") whereby the services provided by HFA to the Agency are also provided to the Corporation. Pursuant to this agreement, costs for such allocated services are allocated to the Corporation approximated \$538,000 and \$455,000 for the years ended October 31, 2014 and 2013, respectively. As of October 31, 2014 and 2013 the Corporation owed the Agency the amounts of \$238,000 and \$452,000 respectively, in accordance with the TSFC Service Agreement.



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Report of Independent Auditors 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*

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of New York Municipal Bond Bank Agency (the Agency), a component unit of the State of New York, which comprise the statement of net position as of October 31, 2014, and the related statements of revenues and expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 29, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 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 Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on 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.

Ernst + Young LLP

January 29, 2015