NEW YORK STATE OF OPPORTUNITY.

Homes and Community Renewal

2015

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, 2015 and 2014

Contents

RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the State of New York Municipal Bond Bank Agency (the "Agency"), for the fiscal years ended October 31, 2015 and 2014, are the responsibility of management. The financial statements were prepared in accordance with U.S. generally accepted accounting principles.

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 to provide engagement related updates and communications.

The independent auditors conducted their audit 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 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 U.S. generally accepted accounting principles.

James S. Rubin
President/Chief Executive Officer

Sheila Robinson
Senior Vice President/Chief Financial Officer

January 28, 2016

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Report of Independent Auditors

Management and the 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, 2015 and 2014, 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, 2015 and 2014, 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 28, 2016 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 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEARS ENDED OCTOBER 31, 2015 and 2014

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, 2015 ("fiscal 2015") and 2014 ("fiscal 2014"), with selective comparative information for the fiscal year ended October 31, 2013 ("fiscal 2013"). 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 2015 compared to fiscal 2014. 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 Statements of Net Position provide information about the liquidity and solvency of the Agency by presenting the assets, deferred outflows of resources, liabilities and net position.

- The Statements of Revenues, Expenses and Changes in Net Position account 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 Statements of Cash Flows are 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, non-capital financing, and investing activities. Cash collections and payments are presented in this statement to arrive at the net increase or decrease 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 in 2003 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	
	2015	2014	2013	2015-2014	2014-2013
	(In thousands)				
Assets:					
Receivable from municipalities:					
Advances	$ 275,380	$ 294,620	$ 295,175	(7%)	–
Bonds purchased	235,205	262,866	290,279	(11%)	(9%)
Other assets	10,608	11,489	11,472	(8%)	–
Total assets	**521,193**	**568,975**	**596,926**		
Deferred outflows of resources:					
Deferred loss on bond defeasance	**23,190**	**27,003**	**30,816**	(14%)	(12%)
Liabilities:					
Bonds payable, net	542,968	597,580	633,540	(9%)	(6%)
Other liabilities	8,588	9,580	9,835	(10%)	(3%)
Total liabilities	**551,556**	**607,160**	**643,375**		
Net position:					
Unrestricted deficit	**$ (7,173)**	**$ (11,182)**	**$ (15,633)**		

"—" indicates a percentage of less than 1%

Overall Financial Position - Deficit

Net deficits are reported as of October 31, 2015, 2014 and 2013 in the amounts of $7.2 million, $11.2 million and $15.6 million, respectively. The net deficit decreased by $4.0 million in fiscal year 2015 and decreased by $4.4 million in fiscal year 2014 primarily as a result of the 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.

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 $294.6 million in fiscal year 2014 to $275.4 million in fiscal year 2015, a decrease of $19.2 million or 7%. In fiscal year 2014, advances declined from $295.2 million in fiscal year 2013 to $294.6 million, a decrease of $600 thousand, or less than 1%.

Bonds Purchased

Bonds purchased in the amounts of $235.2 million, $262.9 million and $290.3 million as of October 31, 2015, 2014 and 2013, 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. The rates vary from year to year as a result of the Federal Budget Sequestration. 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 $262.9 million at October 31, 2014 to $235.2 million at October 31, 2015, a decrease of $27.7 million, or 11%, compared to the decrease from $290.3 million at October 31, 2013 to $262.9 million at October 31, 2014 of $27.4 million, or 9% resulting from the amortization of bond premium funds and

Changes in Assets (continued):

payments made by the participating municipalities.

Other Assets

Other assets, primarily representing interest receivable due from municipalities and investments held, declined from $11.5 million in fiscal year 2014 to $10.6 million in fiscal year 2015, a decrease of $900 thousand, or 8% primarily due to the decline in the receivables from municipalities. In the prior fiscal year, 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.

Changes in Liabilities

Bonds Payable

The Agency did not issue bonds during fiscal 2015, 2014, or 2013. Bonds Payable, net decreased from $597.6 million at October 31, 2014 to $543.0 million at October 31, 2015, a decrease of approximately $54.6 million or 9%. This compared with a decline during the prior fiscal year 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%. The decreases were a result of principal payments made by the Agency during each year.

CONDENSED SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended October 31,			% Change	
	2015	2014	2013	2015-2014	2014-2013
	(In thousands)				
Operating revenues:					
Interest on advances and bonds purchased	$ 25,452	$ 27,084	$ 28,325	(6%)	(4%)
Investment income	–	1	188	(100%)	(99%)
Fees and charges	281	674	343	(58%)	97%
Total operating revenues	**25,733**	**27,759**	**28,856**		
Operating expenses:					
Interest and amortization	21,304	22,907	27,609	(7%)	(17%)
Other	420	401	377	5%	6%
Total operating expenses	**21,724**	**23,308**	**27,986**		
Non-operating revenues (expenses):					
Federal interest subsidy revenue	2,340	2,336	3,008	–	(22%)
Federal interest subsidy expense	(2,340)	(2,336)	(3,008)	–	22%
Transfers from the State of New York	–	34,000	–	(100%)	N/A
Transfers to Municipalities of the State of New York	–	(34,000)	–	100%	N/A
Total non-operating revenues (expenses)	–	–	–		
Net position:					
Change in net position	4,009	4,451	870	(10%)	412%
Total net position - beginning of year	(11,182)	(15,633)	(16,503)	(28%)	(5%)
Total net position - end of year	$ **(7,173)**	$ **(11,182)**	$ **(15,633)**		

"–" 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 received from municipalities available to pay interest expense due on bonds payable. Interest on advances and bonds purchased decreased from $27.1 million in fiscal 2014 to $25.5 million in fiscal 2015, a decrease of approximately $1.6 million or 6%. During the 2014 fiscal year, interest on advances and bond purchased declined from $28.3 million to $27.1 million, a decrease of approximately $1.2 million, or 4%. The declines were primarily a result of the reduction of principal amounts due from municipalities leading to decreased interest due on advances and bonds purchased.

Investment Income

Investment income declined from approximately $1 thousand to $374, a decrease of 63%. In the prior fiscal year, investment income declined from $188 thousand in fiscal 2013 to $1 thousand in fiscal 2014, a decrease of approximately $187 thousand, or 99%. 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. Debt service reserve funds are not required to be held for bonds currently outstanding. .

Fees and Charges

Fees and charges decreased from $674 thousand in fiscal year 2014 to $281 thousand in fiscal year 2015, a decrease of approximately $393 thousand, or 58%. 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%. Both variances were 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.

Interest and Amortization

Interest expense incurred on bonds outstanding decreased from $22.9 million in fiscal year 2014 to $21.3 million in fiscal year 2015, a decrease of approximately $1.6 million, or 7%, primarily as a result of the decline in bonds outstanding and bond premium amortization. This compares with a decrease 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%.

Non-operating revenues (expenses)

Federal Interest Subsidy Revenues and Expenses

Federal interest subsidy revenues represent subsidies received by the Agency from the Federal Government. Such funds are used to reimburse municipalities participating in the Agency's Recovery Act Bond Program for a portion of the interest due on bonds purchased. Federal interest subsidy revenues and expenses of $2.3 million remain relatively unchanged in fiscal 2015 and 2014. During the prior fiscal year, 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%. Differences between Federal interest subsidy revenues and expenses are a result of timing. Funds held at the end of a fiscal year may be disbursed in the subsequent year.

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 from the State of New York Mortgage Agency to the Agency. Pursuant to the State Fiscal Year 2014-2015 enacted budget, during fiscal 2014, 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. No transfers from other state agencies to municipalities were required to be made in fiscal 2015.

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

	October 31, 2015		October 31, 2014	
	(In thousands)			
Assets				
Current assets:				
Restricted cash held by trustee	$	533	$	818
Unrestricted Investments		1,507		1,623
Receivable from muncipalities:				
Advances		29,570		19,240
Bonds purchased		21,615		26,210
Interest receivable and other		8,433		8,810
Due from the Tobacco Settlement Financing Corporation		135		238
Total current assets		**61,793**		**56,939**
Non-current assets:				
Receivable from municipalities:				
Advances		245,810		275,380
Bonds purchased		213,590		236,656
Total non-current assets		**459,400**		**512,036**
Total assets		**521,193**		**568,975**
Deferred outflows of resources				
Deferred loss on bond defeasance		**23,190**		**27,003**
Liabilities				
Current liabilities:				
Bonds payable		51,185		45,450
Interest payable		8,433		9,070
Due to The New York State Housing Finance Agency		92		104
Accounts payable		57		45
Federal interest subsidy funds due to municipalities		6		361
Total current liabilities		**59,773**		**55,030**
Non-current liabilities:				
Bonds payable, net		491,783		552,130
Total liabilities		**551,556**		**607,160**
Net position				
Unrestricted deficit		(7,173)		(11,182)
Total net position	**$**	**(7,173)**	**$**	**(11,182)**

See notes to financial statements.

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

	Fiscal Year Ended October 31,	
	2015	2014
	(In thousands)	
Operating revenues		
Interest on advances and bonds purchased	$ 25,452	$ 27,084
Investment income	–	1
Fees and charges	281	674
Total operating revenues	**25,733**	**27,759**
Operating expenses		
Interest and amortization	21,304	22,907
Other	420	401
Total operating expenses	**21,724**	**23,308**
Operating income	**4,009**	**4,451**
Non-operating revenues (expenses)		
Federal interest subsidy revenue	2,340	2,336
Federal interest subsidy expense	(2,340)	(2,336)
Transfers from the State of New York	–	34,000
Transfers to Municipalities of the State of New York	–	(34,000)
Total non-operating revenues (expenses)	–	–
Increase in net position	4,009	4,451
Total net position - beginning of year	(11,182)	(15,633)
Total net position - end of year	**$ (7,173)**	**$ (11,182)**

See notes to financial statements.

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

	Fiscal Year Ended October 31,	
	2015	2014
	(In thousands)	
Cash flows from operating activities:		
Interest on advances and bonds purchased	$ 25,829	$ 27,375
Other expenses	(317)	(197)
Fees and charges	281	674
Principal payments on advances	19,240	555
Principal payments on bond purchased	27,661	27,413
Net cash provided by operating activities	**72,694**	**55,820**
Cash flows from non-capital financing activities:		
Interest paid on bonds	(27,290)	(29,118)
Federal interest subsidy funds received	2,340	2,642
Federal interest subsidy funds paid	(2,695)	(2,282)
Principal repayments	(45,450)	(26,235)
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	**(73,095)**	**(54,993)**
Cash flows from investing activities:		
Investment income	—	1
Proceeds from sales or maturities of investments	8,290	3,338
Purchases of investments	(8,174)	(3,814)
Net cash provided by (used in) investing activities	**116**	**(475)**
Net (decrease) increase in cash	(285)	352
Cash at beginning of year	818	466
Cash at end of year	**$ 533**	**$ 818**

See notes to financial statements.

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

	Fiscal Year Ended October 31,	
	2015	2014
	(In thousands)	
Reconciliation of net operating revenue to net cash provided by operating activities:		
Operating income (loss)	$ 4,009	$ 4,451
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Amortization of deferred loss on defeasance	3,813	3,813
Amortization of unamortized bond premium	(9,162)	(9,725)
Investment income	–	(1)
Interest paid on bonds	26,653	28,819
Changes in assets and liabilities:		
Advances from municipalites	19,240	555
Bonds purchased from municipalities	27,661	27,413
Interest receivable and other	377	291
Due from the Tobacco Settlement Financing Corporation	103	214
Accounts payable	12	2
Due to the New York State Housing Finance Agency	(12)	(12)
Net cash provided by operating activities	**$ 72,694**	**$ 55,820**

See notes to financial statements.

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 municipality's 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 as an adjustment to interest expense.

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 bond 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 revenues are recognized as non-operating revenue. Revenue is accrued and recognized as revenue when earned. Operating expenses include interest expense, and other expenses. Expenses related to federal interest subsidy expenses and all other revenue and expenses are considered non-operating.

Recent Adoption of GASB Accounting Pronouncements

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

Accounting Pronouncements Issued But Not Yet Adopted

In February 2015, GASB issued Statement No. 72 ("GASB 72"), Fair Value Measurement and Application. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, Measurements of Elements of Financial Statements, and other relevant literature. The provisions of this Statement are effective for fiscal reporting periods beginning after June 15, 2015. The Agency is currently evaluating the impact that the implementation of this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 73 (“GASB 73”), Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The implementation of this standard will not have an impact on the Agency’s financial statements.

In June 2015, GASB issued Statement No. 74 (“GASB 74”), Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The implementation of this standard will not have an impact on the Agency’s financial statements.

In June 2015, GASB issued Statement No. 75 (“GASB 75”), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The implementation of this standard will not have an impact on the Agency’s financial statements.

In June 2015, GASB issued Statement No. 76 (“GASB 76”), The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (“GAAP”) and the framework for selecting those principles. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. The implementation of this standard will not have a significant impact on the Agency’s financial statements.

In August 2015, GASB issued Statement No. 77 (“GASB 77”), Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The provisions of this statement are effective for fiscal years beginning after December 15, 2015. The implementation of this standard will not have an impact on the Agency's financial statements.

In December 2015, GASB issued Statement No. 78 ("GASB 78"), Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB 68. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for fiscal years beginning after December 15, 2015. The implementation of this standard will not have an impact on the Agency's financial statements.

In December 2015, GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants ("GASB 79"). The objective of this Statement is to address for certain external investment pools and their participants the accounting and financial reporting implications that result from changes in the regulatory provisions referenced by previous accounting and financial reporting standards. The provisions of this statement are effective for fiscal years beginning after December 15, 2015. The Agency is currently evaluating the impact this standard will have on its financial statements.

Reclassifications

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

3. Deposits and Investments

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

All of the 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, 2015 and 2014, all Agency monies were invested in accordance with the Agency's formal investment policy or resolution. At October 31, 2015 and 2014, investments held by trustees in the Agency's name amounted to $1.5 million and $1.6 million, respectively. Uncollateralized cash on deposit amounted to $533 thousand and $818 thousand at October 31, 2015 and October 31, 2014, 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.

Custodial Credit Risk

The Agency manages custodial credit risk by establishing minimum equity, ratings and diversification requirements among depository, trustee and custodian banks and/or requiring high quality collateral be held by counterparties 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 bi-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, 2015, the Agency's investments totaled $1.5 million were all held in U.S. Treasury Bills that mature in less than one year.

4. Bond Indebtedness

As of October 31, 2015 and 2014, the outstanding bonds issued by the Agency are listed below:

	Original Face Amount	Balance October 31, 2014	Issued	Principal Payment/ Retired	Balance October 31, 2015
			($ In thousands)		
Special Program (City of Buffalo) Revenue Bonds,					
2012 Series A, 3%-5%, maturing in varying annual installments to 2031	$ 13,860	$ 13,305	$ —	$ 575	$ 12,730
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	—	18,665	262,650
Recovery Act Bonds, 2009 Series A					
Sub-Series 2009A1 (Tax Exempt), 2%-4.5%, maturing in varying annual installments to 2020	35,090	20,860	—	5,400	15,460
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	21,675	—	830	20,845
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, 2014	Issued	Principal Payment/ Retired	Balance October 31, 2015
			($ In thousands)		
2009 Series C					
Sub-Series 2009C1 (Tax Exempt), 4%-5%, maturing in varying annual installments to 2024	97,172	54,250	–	9,680	44,570
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	16,440	–	4,295	12,145
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	19,950	–	2,930	17,020
Sub-Series 2010B2 (Federally Taxable-Build America Bonds and Recovery Zone Bonds), 5.32%-5.95%, maturing in varying installments to 2025	20,935	20,935	–	–	20,935

4. Bond Indebtedness (continued)

	Original Face Amount	Balance October 31, 2014	Issued ($ In thousands)	Principal Payment/ Retired	Balance October 31, 2015
2010 Series C					
Sub-Series 2010C1 (Tax Exempt), 3.86%-5%, maturing in varying annual installments to 2018	1,590	1,175	—	220	955
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	9,755	—	2,855	6,900
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	551,560	—	45,450	506,110
Unamortized bond premium	—	46,020	—	9,162	36,858
Total Net Bond Indebtedness	**$ 646,577**	**$ 597,580**	**$ —**	**$ 54,612**	**$ 542,968**

5. Debt Service Requirements

The schedule of total annual maturities at October 31, 2015 was as follows:

	Principal	Interest ($ In thousands)	Total
Fiscal year ending October 31,			
2016	$ 51,185	$ 23,801	$ 74,986
2017	52,610	21,436	74,046
2018	54,685	18,962	73,647
2019	56,275	16,599	72,874
2020	57,325	13,999	71,324
2021 - 2025	190,185	31,922	222,107
2026 - 2030	26,355	9,458	35,813
2031 - 2035	17,490	2,886	20,376
Total	$ 506,110	$ 139,063	$ 645,173

6. Transfers from the State of New York Mortgage Agency and Transfers 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 $34.0 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 $34.0 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 $382,000 and $368,000 for the years ended October 31, 2015 and 2014, respectively. As of October 31, 2015 and 2014 respectively, the amounts of $92,000 and $104,000 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 services were allocated to the Corporation in the approximate amount of $590,000 and $538,000 for the years ended October 31, 2015 and 2014, respectively. As of October 31, 2015 and 2014 the Corporation owed the Agency the amounts of $135,000 and $238,000 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 the 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, 2015, 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 28, 2016.

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 28, 2016

NEW YORK STATE OF OPPORTUNITY™ | Homes and Community Renewal

Andrew M. Cuomo, Governor

James S. Rubin, Commissioner/CEO

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