

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

MBBA

Financial Statements

Fiscal Year

2018

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

Financial Statements

Fiscal Years Ended October 31, 2018 and 2017

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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, 2018 and 2017, 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 also 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.



RuthAnne Visnauskas
President/Chief Executive Officer



Sheila Robinson
Senior Vice President/Chief Financial Officer

January 24, 2019



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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, 2018 and 2017, 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, 2018 and 2017, 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, 2019 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 solely 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 effectiveness of the Agency's 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, 2019

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, 2018 and 2017

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, 2018 ("fiscal 2018") and 2017 ("fiscal 2017"), with selective comparative information for the fiscal year ended October 31, 2016 ("fiscal 2016"). 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 2018 compared to fiscal 2017. 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, financing, and investing 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 (“the State”), 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 of 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.

CONDENSED STATEMENTS OF NET POSITION

	October 31,			% Change	
	2018	2017	2016	2018-2017	2017-2016
	(In thousands)				
Assets:					
Receivable from municipalities:					
Advances	\$ 182,505	\$ 214,905	\$ 245,810	(15%)	(13%)
Bonds purchased	166,714	189,727	212,392	(12%)	(11%)
Other assets	7,669	9,432	10,067	(19%)	(6%)
Total assets	356,888	414,064	468,269		
Deferred outflows of resources:					
Deferred loss on bond defeasance	11,750	15,563	19,376	(25%)	(20%)
Liabilities:					
Bonds payable, net	362,851	423,655	483,490	(14%)	(12%)
Other liabilities	6,894	8,347	8,342	(17%)	-
Total liabilities	369,745	432,002	491,832		
Net position:					
Unrestricted deficit	\$ (1,107)	\$ (2,375)	\$ (4,187)		

"-" indicates a percentage of less than 1%

Overall Financial Position - Deficit

Net deficits are reported as of October 31, 2018, 2017 and 2016 in the amounts of \$1.1 million, \$2.4 million and \$4.2 million, respectively. The net deficit decreased by \$1.3 million in fiscal year 2018 and decreased by \$1.8 million in fiscal year 2017 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 deficits continue to 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 2012 Series refunding bonds. As a result of repayments by The City of New York and City of Buffalo, advances declined from \$214.9 million in fiscal year 2017 to \$182.5 million in fiscal year 2018, a decrease of \$32.4 million or 15%. In fiscal year 2017, advances declined from \$245.8 million in fiscal year 2016 to \$214.9 million, a decrease of \$30.9 million or 13%.

Bonds Purchased

Bonds purchased in the amounts of \$166.7 million, \$189.7 million and \$212.4 million as of October 31, 2018, 2017 and 2016, respectively, represent the remaining balance of 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. Bonds purchased decreased from \$189.7 million at October 31, 2017 to \$166.7 million at October 31, 2018, a decrease of \$23.0 million, or 12%, compared to the decrease from \$212.4 million at October 31, 2016 to \$189.7 million at October 31, 2017 of \$22.7 million, or 11% resulting from the amortization of municipal bond purchase balances, the amortization of bond premium funds, and payments made by the participating municipalities.

Other Assets

Other assets, primarily representing interest receivable due from municipalities and investments held, declined from \$9.4 million in fiscal year 2017 to \$7.7 million in fiscal year 2018, a decrease of \$1.7 million, or 19% compared to the decrease from \$10.1 million at October 31, 2016 to \$9.4 million at October 31, 2017, a decrease of \$635 thousand, or 6% primarily due to the decline in receivables from municipalities.

Changes in Liabilities

Bonds Payable

The Agency has not issued bonds since fiscal 2012. Bonds Payable, net decreased from \$423.7 million at October 31, 2017 to \$362.9 million at October 31, 2018, a decrease of approximately \$60.8 million or 14%. This compared with a decline during the prior fiscal year from \$483.5 million at October 31, 2016 to \$423.7 million at October 31, 2017, a decrease of approximately \$59.8 million or 12%. The decreases were a result of bond principal payments during each fiscal year.

Other Liabilities

Other liabilities decreased from \$8.3 million at October 31, 2017 to \$6.9 million at October 31, 2018, a decrease of approximately \$1.4 million or 17%. This decrease is primarily attributed to the reduction in interest due on bonds payable.

CONDENSED SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended October 31,			% Change	
	2018	2017	2016	2018-2017	2017-2016
	(In thousands)				
Operating revenues:					
Interest on advances and bonds purchased	\$ 17,943	\$ 20,350	\$ 23,060	(12%)	(12%)
Investment income	11	11	8	-	38%
Fees and charges	217	231	254	(6%)	(9%)
Total operating revenues	18,171	20,592	23,322		
Operating expenses:					
Interest	16,366	18,140	19,787	(10%)	(8%)
Other	537	640	549	(16%)	17%
Total operating expenses	16,903	18,780	20,336		
Non-operating revenues (expenses):					
Federal interest subsidy funds received	2,519	2,141	2,143	18%	-
Federal interest subsidy funds paid to municipalities	(2,519)	(2,141)	(2,143)	18%	-
Transfers from the State of New York	9,000	12,500	25,000	N/A	(50%)
Transfers to Municipalities of the State of New York	(9,000)	(12,500)	(25,000)	N/A	(50%)
Total non-operating revenues (expenses)	-	-	-		
Net position:					
Change in net position	1,268	1,812	2,986		
Total net position - beginning of year	(2,375)	(4,187)	(7,173)		
Total net position - end of year	\$ (1,107)	\$ (2,375)	\$ (4,187)		

"-" 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 \$20.3 million in fiscal 2017 to \$17.9 million in fiscal 2018, a decrease of approximately \$2.4 million or 12%. During the 2017 fiscal year, interest on advances and bond purchased declined from \$23.1 million to \$20.4 million, a decrease of approximately \$2.7 million, or 12%. The declines were primarily a result of the reduction of principal amounts due from municipalities.

Investment Income

Investment income of \$11 thousand remains relatively unchanged in fiscal 2018 and 2017. During the 2017 fiscal year, investment income increased from \$8 thousand in fiscal 2016 to \$11 thousand in fiscal 2017. The variances are the result of the fluctuations in the amount of funds invested and interest rates paid on such investments.

Fees and Charges

Fees and charges decreased from \$231 thousand in fiscal year 2017 to \$217 thousand in fiscal year 2018, a decrease of approximately \$14 thousand, or 6%. Fees and charges decreased from \$254 thousand in fiscal year 2016 to \$231 thousand in fiscal year 2017, a decrease of approximately \$23 thousand, or 9%. Fees and charges decline each year as the bonds purchase balance is repaid.

Interest Expense

Interest expense incurred on bonds outstanding decreased from \$18.1 million in fiscal year 2017 to \$16.4 million in fiscal year 2018, a decrease of approximately \$1.7 million, or 10%. This compares with a decrease from \$19.8 million in fiscal year 2016 to \$18.1 million in fiscal year 2017, a decrease of approximately \$1.7 million, or 8%. Both decreases were a result of the decline in bonds outstanding and bond premium amortization.

Non-operating revenues (expenses)

Federal Interest Subsidy Payments

Federal interest subsidy funds received 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 interest due on bonds purchased. Federal interest subsidy payments paid to municipalities increased approximately \$378 thousand, or 18% from \$2.1 million in fiscal 2017 to \$2.5 million in fiscal 2018. Federal interest subsidy payments of \$2.1 million remained relatively unchanged in fiscal 2017 and 2016.

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

For the years ended October 31, 2018 and 2017, the Agency received funds from the State of New York Mortgage Agency totaling \$9 million and \$12.5 million, respectively. Pursuant to the State's annual enacted budgets, the Agency was directed to transfer such funds to various municipalities of the State.

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

	October 31,	
	2018	2017
	(In thousands)	
Assets		
Current assets:		
Restricted cash held by trustee	\$ 664	\$ 983
Unrestricted investments	1,215	1,569
Receivable from municipalities:		
Advances	33,645	32,400
Bonds purchased	22,196	22,985
Interest receivable and other	5,614	6,627
Due from the Tobacco Settlement Financing Corporation	176	253
Total current assets	63,510	64,817
Non-current assets:		
Receivable from municipalities:		
Advances	148,860	182,505
Bonds purchased	144,518	166,742
Total non-current assets	293,378	349,247
Total assets	356,888	414,064
Deferred outflows of resources		
Deferred loss on bond defeasance	11,750	15,563
Liabilities		
Current liabilities:		
Bonds payable	56,275	54,685
Interest payable	5,838	6,857
Due to The New York State Housing Finance Agency	671	824
Accounts payable	59	95
Federal interest subsidy funds due to municipalities	326	571
Total current liabilities	63,169	63,032
Non-current liabilities:		
Bonds payable, net	306,576	368,970
Total liabilities	369,745	432,002
Net position		
Unrestricted deficit	(1,107)	(2,375)
Total net position	\$ (1,107)	\$ (2,375)

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,	
	2018	2017
	(In thousands)	
Operating revenues		
Interest on advances and bonds purchased	\$ 17,943	\$ 20,350
Investment income	11	11
Fees and charges	217	231
Total operating revenues	18,171	20,592
Operating expenses		
Interest	16,366	18,140
Other	537	640
Total operating expenses	16,903	18,780
Operating income	1,268	1,812
Non-operating revenues (expenses)		
Federal interest subsidy revenue	2,519	2,141
Federal interest subsidy expense	(2,519)	(2,141)
Transfers from the State of New York	9,000	12,500
Transfers to Municipalities of the State of New York	(9,000)	(12,500)
Total non-operating revenues (expenses)	-	-
Increase in net position	1,268	1,812
Total net position (deficit) - beginning of year	(2,375)	(4,187)
Total net position (deficit) - end of year	\$ (1,107)	\$ (2,375)

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,	
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Interest on advances and bonds purchased	\$ 18,956	\$ 21,932
Other expenses	(649)	(615)
Fees and charges	217	231
Principal payments on advances received from municipalities	32,400	30,905
Principal payments on bonds purchased received from municipalities	23,013	21,705
Net cash provided by operating activities	73,937	74,158
Cash flows from non-capital financing activities:		
Interest paid on bonds	(13,572)	(21,436)
Federal interest subsidy funds received	2,519	2,141
Federal interest subsidy funds paid	(2,764)	(1,933)
Principal repayments	(60,804)	(52,610)
Transfers from the State of New York	9,000	12,500
Transfers to Municipalities of the State of New York	(9,000)	(12,500)
Net cash used in non-capital financing activities	(74,621)	(73,838)
Cash flows from investing activities:		
Investment income	11	11
Proceeds from sales or maturities of investments	1,968	3,563
Purchases of investments	(1,614)	(3,667)
Net cash (used in) provided by investing activities	365	(93)
Net increase in cash	(319)	227
Cash at beginning of year	983	756
Cash at end of year	\$ 664	\$ 983

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,	
	2018	2017
(In thousands)		
Reconciliation of net operating revenue to net cash provided by operating activities:		
Operating income	\$ 1,268	\$ 1,812
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of deferred loss on defeasance	(3,813)	3,813
Investment income	(11)	(11)
Interest paid on bonds	20,179	14,326
Changes in assets and liabilities:		
Advances from municipalites	32,400	30,905
Bonds purchased from municipalities	23,013	21,705
Interest receivable and other	1,013	1,074
Due from (to) the Tobacco Settlement Financing Corporation	77	(107)
Accounts payable	(36)	44
Due (to) from the New York State Housing Finance Agency	(153)	597
Net cash provided by operating activities	\$ 73,937	\$ 74,158

See notes to financial statements.

State of New York Municipal Bond Bank Agency

(A Component Unit of the State of New York)

Notes to the Financial Statements

Fiscal Years Ended October 31, 2018 and 2017

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 ("GAAP") 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.

Use of Net Position

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

Deferred Outflows of Resources

Gains or losses in connection with advanced refundings are recorded as either a deferred inflows (gain) or a deferred outflows (loss) 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 funds received 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 payments and all other revenue and expenses are considered non-operating.

Adoption of New GASB Accounting Pronouncements

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (“GASB No. 86”). The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The adoption of this pronouncement has not had an effect on the Agency’s financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Exclosures Related to Debt, Including Direct Borrowings and Direct Placements* (“GASB No. 88”). The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. The Agency is currently evaluating the impact this standard will have on its 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, 2018 and 2017, all Agency monies were invested in accordance with the Agency's formal investment policy or resolution. At October 31, 2018 and 2017, investments held by trustees in the Agency's name amounted to \$1.2 million and \$1.6 million at October 31, 2018 and October 2017, respectively. Cash on deposit amounted to \$664 thousand and \$983 thousand at October 31, 2018 and October 31, 2017, respectively. All amounts above the FDIC insured limits are collateralized by the Trustee.

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 the Federal National Mortgage Association.

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.

3. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is minimal due to the short term duration of the Agency's investments. 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.

All of the Agency's investments are held by its trustees and in its name. As of October 31, 2018, the Agency's investments were all held in U.S. Treasury Bills that mature in less than one year.

4. Fair Value Measurement

The Agency categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the evaluation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of October 31, 2018 and 2017, the Agency held all of its investments in the form of U.S. Treasury Bills. All such investments are measured at fair value.

U.S. Treasury Bills held are valued at \$1.2 million and \$1.6 million, as of October 31, 2018 and 2017, respectively, and are within the Level 2 inputs category of the fair value hierarchy, using a matrix pricing technique.

5. Bond Indebtedness

No bonds were issued in fiscal 2018. As of October 31, 2018 and 2017, the outstanding bonds issued by the Agency are listed below:

	<u>Original Face Amount</u>	<u>Balance October 31, 2017</u>	<u>Principal Payment/ Retired</u>	<u>Balance October 31, 2018</u>
Special Program (City of Buffalo) Revenue Bonds,				
2012 Series A, 3%-5%, maturing in varying annual installments to 2031	\$ 13,860	\$ 11,530	\$ 630	\$ 10,900
Special School Purpose Revenue Bonds (Prior Year Claims)				
2012 Series A, 2%-5%, maturing in varying semi-annual installments to 2022	281,315	203,375	31,770	171,605
Recovery Act Bonds,				
2009 Series A				
Sub-Series 2009A1 (Tax Exempt), 2%-4.5%, maturing in varying annual installments to 2020	35,090	10,470	2,625	7,845
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	19,080	935	18,145
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

5. **Bond Indebtedness (continued)**

	<u>Original Face Amount</u>	<u>Balance October 31, 2017</u>	<u>Principal Payment/ Retired</u>	<u>Balance October 31, 2018</u>
2009 Series C				
Sub-Series 2009C1 (Tax Exempt), 4%-5%, maturing in varying annual installments to 2024	97,172	29,950	6,990	22,960
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	3,065	3,065	-
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	1,740	31,825
2010 Series B				
Sub-Series 2010B1 (Tax Exempt), 3%-5%, maturing in varying annual installments to 2021	30,765	10,765	3,370	7,395
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

5. Bond Indebtedness (continued)

	<u>Original Face Amount</u>	<u>Balance October 31, 2017</u>	<u>Principal Payment/ Retired</u>	<u>Balance October 31, 2018</u>
2010 Series C				
Sub-Series 2010C1 (Tax Exempt), 3.86%-5%, maturing in varying annual installments to 2018	1,590	500	245	255
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	745	335	410
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	2,980	25,000
Total Bond Indebtedness	646,577	402,315	54,685	347,630
Unamortized bond premium	—	21,340	6,118	15,222
Total Net Bond Indebtedness	\$ 646,577	\$ 423,655	\$ 60,803	\$ 362,852

6. Debt Service Requirements

The schedule of total annual maturities at October 31, 2018 was as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	(\$ In thousands)		
Fiscal year ending October 31,			
2019	\$ 56,275	16,599	\$ 72,874
2020	57,325	13,999	71,324
2021	57,425	11,076	68,501
2022	56,315	8,231	64,546
2023	47,380	5,611	52,991
2024 - 2028	44,780	13,585	58,365
2029 - 2033	21,175	5,266	26,441
2034 - 2035	6,955	495	7,450
Total	\$ 347,630	\$ 74,862	\$ 422,492

7. Transfers from the State of New York Mortgage Agency and Transfers to Municipalities of the State of New York

For the years ended October 31, 2018 and 2017, the Agency received funds from the State of New York Mortgage Agency totaling \$9 million and \$12.5 million, respectively. Pursuant to the State's annual enacted budgets, the Agency was directed to transfer such funds to various municipalities of the State.

8. 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 \$530,000 and \$592,000 for the years ended October 31, 2018 and 2017, respectively. As of October 31, 2018 and 2017 respectively, the amounts of \$671,000 and \$824,000 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 \$577,000 and \$659,000 for the years ended October 31, 2018 and 2017, respectively. As of October 31, 2018 and 2017 the Corporation owed the Agency the amounts of \$176,000 and \$253,000 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, 2018, 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, 2019.

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 effectiveness of the Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

January 28, 2019