



SCHEDULE OF INVESTMENTS

State of New York Municipal Bond Bank Agency
(A Component Unit of the State of New York)
October 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP



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

Schedule of Investments

Years Ended October 31, 2012 and 2011

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Report of Independent Auditors

State of New York Municipal Bond Bank Agency
New York, New York

We have audited the financial statements of the State of New York Municipal Bond Bank Agency (a component unit of the State of New York) (the “Agency”) as of and for the years ended October 31, 2012 and 2011, and have issued our report thereon dated January 29, 2013. We also have audited the accompanying Schedule of Investments of the Agency as of October 31, 2012 and 2011. This schedule is the responsibility of the Agency’s management. Our responsibility is to express an opinion on this schedule based on our audit.

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 audit to obtain reasonable assurance about whether the Schedule of Investments is free of material misstatement. We were not engaged to perform an audit of the Agency’s internal control over financial reporting. Our audits included 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, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the investments of the Agency at October 31, 2012 and 2011, in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2013 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* and should be considered in assessing the results of our audit.



January 29, 2013

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards*

State of New York Municipal Bond Bank Agency
New York, New York

We have audited the financial statements of the State of New York Municipal Bond Bank Agency (a component unit of the State of New York) (the “Agency”), as of and for the year ended October 31, 2012, and have issued our report thereon dated January 29, 2013. We have also audited the Schedule of Investments of the Agency as of October 31, 2012. We conducted our 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.

Internal Control Over Financial Reporting

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, grant agreements and investment policies established by the Agency and the New York State Comptroller investment guideline requirements as presented in Section 201.3(c) of the *Accounting, Reporting and Supervision Requirements for Public Authorities*, 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*.

This report is intended solely for the information and use of management, the Board Members, others within the entity and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

January 29, 2013

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

Schedule of Investments
(In Thousands of Dollars)

	October 31	
	2012	2011
Restricted	\$ 27,036	\$ 26,392
Unrestricted	653	650
Total investments	<u>\$ 27,689</u>	<u>\$ 27,042</u>

The accompanying notes are an integral part of this schedule.

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

Notes to Schedule of Investments

October 31, 2012

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 provide for 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.

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

Notes to Schedule of Investments (continued)

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

As of October 31, 2012 and 2011, investments other than investment agreements are recorded at their fair value. Investment agreements are reported at an amount equal to principal plus accrued interest.

3. 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 above investments that are 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, 2012 and 2011, all Agency monies were invested in accordance with the Agency's formal investment policy or resolution. At October 31, 2012 and 2011, investments, held by trustees in the Agency's name amounted to \$27 million and \$26.4 million, respectively.

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

Notes to Schedule of Investments (continued)

3. Investments (continued)

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

All bond proceeds and revenues can only be invested in Securities [defined as (i) obligations the principal of and interest on which are guaranteed by the United States of America; (ii) obligations of the United States of America; (iii) obligations the principal of and interest on which are guaranteed by the State; (iv) obligations of the State; (v) obligations of any agency of the United States of America; (vi) obligations of any agency of the State; and (vii) obligations the principal of and interest on which are guaranteed by an agency or instrumentality of the United States of America; provided, however, that notwithstanding anything to the contrary herein, the Agency shall not be authorized to Invest in Securities set forth in clause (vi) hereof, unless specifically authorized under authority of Section 98 of the State Finance Law]; Time Deposits; Collateralized Investment Agreements; Repurchase Agreements; and obligations which the Comptroller is authorized to invest in under Section 98 of the State Finance Law. Securities are only purchased from Primary Dealers, and Securities are delivered to the applicable Custodian/Trustee who records the interest of the Agency. Time Deposits, Collateralized Investment Agreements and Repurchase Agreements may only be entered into with institutions rated at least within the second highest rating category without regard to gradations within such category by Moody's Investors Service or Standard & Poor's. Time Deposits and Collateralized Investment Agreements are collateralized at a minimum of 100% of the principal amount of the agreement and marked to market weekly. The collateral is delivered to the Custodian and held for the benefit of the Agency.

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

Notes to Schedule of Investments (continued)

3. Investments (continued)

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. During the fiscal year ended October 31, 2012 this standard was waived by the President and Chief Executive Officer. One fully collateralized investment agreement with MBIA in the amount of \$12.0 million as of October 31, 2012 represents 43.3% of total invested funds. This investment agreement represented less than 35% of the Agency's funds at the time of its execution in fiscal 2004.

Interest Rate Risk

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

All of the Agency's investments are held by a trustee in the Agency's name.

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

Notes to Schedule of Investments (continued)

3. Investments (continued)

As of October 31, 2012, the Agency had the following investments and maturities in two categories: Restricted Funds, and Unrestricted Funds.

Values below are at fair value excluding accrued interest as of October 31, 2012:

	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
	<i>(In Thousands)</i>				
Restricted Funds:					
Investment type:					
Collateralized Investment					
Agreements	\$ 11,980	\$ -	\$ -	\$ -	\$ 11,980
U.S. Treasury Bills	15,056	15,056	-	-	-
	26,668	14,688	-	-	11,980
Unrestricted Funds:					
Investment type:					
U.S. Treasury Bills	653	653	-	-	-
	653	653	-	-	-
Grand Total:					
Investment type:					
Collateralized Investment					
Agreements	11,980	-	-	-	11,980
U.S. Treasury Bills	15,709	15,709	-	-	-
	<u>\$ 27,689</u>	<u>\$ 15,709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,980</u>

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