

AUDITED FINANCIAL STATEMENTS

**ERIE COUNTY FISCAL STABILITY
AUTHORITY**

DECEMBER 31, 2011

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of Erie County Fiscal Stability Authority:
Buffalo, New York

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County, as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2011, and the changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 2, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 3, 2012, on our consideration of the Authority's internal control over financial reporting and 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.

The management's discussion and analysis on pages 3 - 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Freed Maxick CPAs, P.C.

Buffalo, New York
April 3, 2012

**Management's Discussion and Analysis
Erie County Fiscal Stability Authority
Fiscal Year ended December 31, 2011**

This section of Erie County Fiscal Stability Authority's (the Authority) annual financial report presents its discussion and analysis of the Authority's financial performance during the fiscal year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

The Erie County fiscal Stability Authority is a corporate governmental agency and instrumentality of the State of New York constituting a public benefit corporation. Although legally separate and independent of Erie County, the Authority is incorporated into the financial statements of the County as a blended component unit. (See notes to financial statements)

Financial Highlights

The Erie County Fiscal Stability Authority's 2011 fiscal year was again highlighted by spending only 81% of it's allocated budget. With a 2011 operating budget of \$514,050 and actual expenditures of \$416,960 the Authority achieved a savings of \$97,090 or 19%. For the sixth consecutive year, the Authority has expended less than it's annual operating budget by at least 19% or more and has very effectively held the line on operational spending keeping it to a bare minimum.

In 2011 the Authority issued \$131 million in serial bonds on behalf of Erie County for the purpose of re-funding old county debt, miscellaneous county capital projects, and the addition of a new "skilled nursing facility" adjacent to the Erie County Medical Center. This issuance by the Authority on behalf of Erie County will save the County and its tax payers \$150 million in financing costs over the term of the bonds. The Authority has also issued short term bonds in the amount of \$87.5 million on behalf of Erie County for the County's short term capital needs further saving the County and taxpayers \$650,000 in financing costs.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority:

- Statement of Net Assets (*Figure A-1*)
- Changes in Net Assets from Operating Results (*Figure A-2*)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the Authority as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements present the financial picture of the Authority from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Authority as well as all liabilities (including long-term debt).

The two government-wide statements report the Authority's net assets and how they have changed. Net assets - the difference between the Authority's assets and liabilities - is one way to measure the Authority's financial health or financial position.

- Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Authority's overall health, you need to consider additional non-financial factors such as changes in the bond interest rates.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's funds. These statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balances.

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

Financial Analysis of the Authority as a Whole

Figure A-1 summarizes the Authority's net assets as of December 31, 2011 and 2010.

Figure A-1

**Condensed Statement of Net Assets
(in thousands of dollars)**

	Governmental Activities		Total Percentage Change
	2011	2010	
Cash and cash equivalents	\$ 910	\$ 841	8.2%
Investments	15,536	9,420	64.9%
Sales tax receivable	50,456	46,218	9.2%
Efficiency grants receivable	7,022	9,666	-27.4%
Serial bonds, loan and interest receivable from Erie County	501,966	319,296	57.2%
Other assets	2,633	1,551	69.8%
Total assets	578,523	386,992	49.5%
Accounts payable	3	7	-57.1%
Accrued liabilities	34	28	21.4%
Accrued interest payable	5,522	2,707	104.0%
Bond anticipation notes payable	87,405	44,815	95.0%
Deferred revenues - efficiency grants	5,185	7,916	-34.5%
Unamortized bond premiums	37,705	25,085	50.3%
Due to Erie County - sales tax	50,456	46,218	9.2%
Due to Erie County - efficiency grants	1,939	1,852	4.7%
Due to Erie County - debt set-asides	15,497	9,296	66.7%
Due to Erie County - funds held for payoff	24	-	100.0%
Due to Erie County - residual accrued interest	93	-	100.0%
Bonds payable	368,355	246,015	49.7%
Total liabilities	572,218	383,939	49.0%
Restricted for debt service	5,033	2,164	132.6%
Unrestricted	1,272	889	43.1%
Total net assets	\$ 6,305	\$ 3,053	106.5%

The significant increase in total assets is a result of an increase in set-aside funds deposited to the Authority's bond trust payment accounts for future debt service activity on the bonds the Authority has issued on Erie County's behalf. As the Authority has issued \$247 million in bonds in 2010 and \$131 million in bonds in 2011, the Authority is required to accumulate Erie County funds through the interception of Sales tax revenues from New York State to make the periodic interest and principal payments on the outstanding bonds. Since the Authority has an arrangement with Erie County to issue bonds on it's behalf and then use the funds to purchase mirror bonds "notes"

from the County, the Authority accrues interest receivable from the County on those mirror bonds and reduces the receivable when payment is received. Accrued interest payable, bond anticipation notes payable, unamortized bond premiums, bonds payable, debt set-asides, due to Erie County, and residual accrued interest due to Erie County all relate as liability components to the Authority's 2011 and 2010 issuance of bonds.

Figure A-2

Changes in Net Assets from Operating Results
(in thousands of dollars)

	Governmental Activities		Total Percentage Change
	2011	2010	
General revenues:			
Sales tax	388,494	371,226	4.7%
Efficiency grant income	1,301	2,224	-41.5%
Interest and other income	12,294	7,387	66.4%
Less - distributions to Erie County	(389,432)	(372,844)	4.4%
Total revenues	<u>12,657</u>	<u>7,993</u>	58%
Expenses:			
General and administrative	417	438	-4.8%
Interest and amortization	8,894	5,000	77.9%
Total expenses	<u>9,311</u>	<u>5,438</u>	71.2%
Increase in net assets	3,346	2,555	31.0%
Net assets - beginning of year, as previously stated	3,053	498	513.1%
Prior period adjustment	(94)	-	-100.0%
Net assets - beginning of year, as restated	<u>2,959</u>	<u>498</u>	494.2%
Net assets - end of year	<u>\$ 6,305</u>	<u>\$ 3,053</u>	<u>106.5%</u>

The increase in sales tax revenues of 4.7% is due to the overall improving economic condition of Erie County residents as well as an increase in cross border spending from Canadian citizens. Interest income, interest expense and amortization increases of 91.5% and 77.9% respectively is a result of the Authority's 2011 and 2010 bond issuances on the County's behalf. General and administrative expenses declined by 4.8% mainly due to a reduction in office and meeting expenses as well as a 50% decline in legal fees.

Financial Analysis of the Authority's Funds

General & Administrative Expenses

For the year ended December 31, 2011, the Authority's general and administrative expenses totaled \$416,960. General and administrative expenses were 4.8% lower in 2011 compared to 2010 primarily due to declines in expenditures related to Professional fees (legal), Authority meetings and office related purchases such as office supplies, postage and telephone.

Figure A-3

General and Administrative Expenses
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2011	2010	
Wages and employee-related expenses	\$ 354	\$ 343	3.2%
Professional fees	27	40	-32.5%
Office related	26	36	-27.8%
Authority meetings	5	13	-61.5%
Miscellaneous	5	6	-16.7%
Total	\$ 417	\$ 438	-4.8%

Wages and employee related expenses include salaries, payroll taxes, health insurance (net of employee contributions) and New York State and Local Retirement System (NYSLRS) contributions. As of December 31, 2011 there were four Authority employees. Benefits increased 3.9% primarily due to increase costs for health insurance premiums and retirement system contributions.

Figure A-4

Wages and Employee Related Expenses
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2011	2010	
Salaries	\$ 255	\$ 247	3.2%
Payroll taxes	20	20	0.0%
Benefits	79	76	3.9%
Total	\$ 354	\$ 343	3.2%

Professional fees are paid for independent audit, legal, financial advisory, payroll and banking services. Legal fees declined by 52% mainly due to fewer legal consultation and research matters. Audit fees were 22% lower mainly due to the lower cost of the 2011 audit for the Authority. Payroll and banking services were up 200% mainly due to trustee fees with the Authority's bond trustee, M & T Bank.

Figure A-5

Professional Fees
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2011	2010	
Legal services	\$ 14	\$ 29	-51.7%
Independent audit services	7	9	-22.2%
Payroll and banking services	6	2	200.0%
Total	<u>\$ 27</u>	<u>\$ 40</u>	<u>-32.5%</u>

On November 1, 2010 the Authority renewed it's lease on a month-to-month basis at the same monthly rate of the original lease. The month-to-month lease arrangement is still in effect through 2011. The decline in 2011 lease costs was due to an extra month of lease costs recorded in 2010. Office supplies costs have declined primarily due to reduction in office supply expenditures.

Figure A-6

Office Related Expenses
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2011	2010	
Lease and utilities	\$ 16	\$ 18	-11.1%
Office supplies	9	15	-40.0%
Insurance	1	3	-66.7%
Total	<u>\$ 26</u>	<u>\$ 36</u>	<u>-27.8%</u>

Factors Bearing on the Authority's Future

The Authority was created on July 12, 2005 by Chapter 182 of the Laws of 2005, and amended by Chapter 183 of the Laws of 2005, to monitor and oversee the finances of the County. The Authority is enacted to operate through December 31, 2039.

Revenues & Sales Tax Distribution

Revenues of the Authority includes the County's share of sales tax revenue and interest income earned on cash held by the Authority, granted to the County. The Authority's enabling legislation grants the Authority a first lien and perfected security interest in net collections from sales and compensating use tax authorized by the State and levied by the County.

The current sales and compensation use tax rate in the County is 4.75 percent consisting of a 3 percent base rate and 1.75 percent additional rate, which is subject to periodic renewals. The Authority receives all sales tax revenue imposed by the County except for the component that is allocable to the towns, cities, school districts and villages within the County. Sales tax revenue is dependent upon various factors including economic conditions in the County, which has experienced numerous cycles of growth and recession.

Sales tax revenue of the Authority for the year ended December 31, 2011 amounted to \$388,493,639. The Authority received \$26,014 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition the Authority realized \$858 in interest income on cash held in interest-bearing bank accounts and interest income on notes receivable from the County amounting to \$12,267,016.

The Authority retained \$456,000 of sales tax revenue in 2011 to offset the reduction in interest on sales tax revenue due to historically low interest rates.

Revenue of the Authority must be applied first to pay debt service on the Authority bonds, then for Authority operating expenses and finally subject to agreements with the County, the balance is transferred to the County. The Authority transferred \$362,481,778 in net sales tax revenues to the County in the 2011 fiscal year.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority by phone at (716)847-7184, by email at info@ecfsa.state.ny.us or by mail at Erie County Fiscal Stability Authority, 295 Main Street, Suite 946, Buffalo, New York 14203.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

STATEMENT OF NET ASSETS
December 31,

ASSETS	<u>2011</u>
Cash and cash equivalents	\$ 909,471
Investments	15,536,419
Due from other governments - sales tax	50,455,924
Due from other governments - efficiency grants	7,022,188
Interest receivable from Erie County	3,526,013
Revenue anticipation note receivable from Erie County	88,000,000
Serial bonds receivable from Erie County	282,105,000
Loan receivable from Erie County	86,250,000
Unamortized discount, Erie County serial bonds	31,470,457
Unamortized discount, Erie County loan	10,614,413
Bond issuance costs, net	<u>2,633,371</u>
 Total assets	 <u>578,523,256</u>
 LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	3,287
Accrued liabilities	34,587
Accrued interest payable	5,521,892
Bond anticipation note payable	87,405,000
Deferred revenues - efficiency grants	5,185,319
Unamortized premiums	37,704,580
Due to Erie County:	
Sales tax	50,455,924
Efficiency grants	1,938,693
Debt service set-asides	15,496,634
Funds held for payoff	24,014
Interest on debt service set-asides	17
Residual accrued interest	92,757
Bonds payable:	
Due within one year	14,990,000
Due after one year	<u>353,365,000</u>
 Total liabilities	 <u>572,217,704</u>
 Net assets:	
Restricted for debt service	5,033,553
Unrestricted	<u>1,271,999</u>
 Total net assets	 <u><u>\$ 6,305,552</u></u>

See accompanying notes.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

STATEMENT OF ACTIVITIES
Year Ended December 31,

	<u>2011</u>
General revenues:	
State sales tax	\$ 362,481,778
State sales tax set-aside for Bonds	25,555,861
State sales tax retained by the Authority	456,000
State efficiency grants	1,301,534
Interest earned on sales tax retained by the Authority	26,014
Interest earned on notes with Erie County	12,267,016
Other interest income	<u>858</u>
 Total general revenues	 402,089,061
Expenses:	
General and administrative	416,960
Distributions to Erie County:	
Sales tax	362,481,778
Efficiency grants	1,301,534
Debt service set-asides	25,555,861
Residual accrued interest	92,757
Bond issuance cost amortization	328,295
Interest expense	<u>8,565,361</u>
 Total expenses	 <u>398,742,546</u>
 Change in net assets	 3,346,515
Net assets - beginning of year, as previously stated	3,052,796
Prior period adjustment	<u>(93,759)</u>
Net assets - beginning of year, as restated	<u>2,959,037</u>
Net assets - end of year	<u><u>\$ 6,305,552</u></u>

See accompanying notes.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011

ASSETS	General Fund	Debt Service Fund	Total
Cash and cash equivalents	\$ 909,471	\$ -	\$ 909,471
Investments	-	15,536,419	15,536,419
Due from other governments - sales tax	50,455,924	-	50,455,924
Due from other governments - efficiency grants	7,022,188	-	7,022,188
Revenue anticipation note receivable from Erie County	88,000,000	-	88,000,000
Total assets	\$ 146,387,583	\$ 15,536,419	\$ 161,924,002
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,287	\$ -	\$ 3,287
Accrued liabilities	34,587	-	34,587
Bond anticipation note payable	87,405,000	-	87,405,000
Deferred revenues - efficiency grants	5,185,319	-	5,185,319
Due to Erie County:			
Sales tax	50,455,924	-	50,455,924
Efficiency grants	1,938,693	-	1,938,693
Debt service set-asides	-	15,496,634	15,496,634
Funds held for payoff	-	24,014	24,014
Interest on debt service set-asides	17	-	17
Residual accrued interest	92,757	-	92,757
Total liabilities	145,115,584	15,520,648	160,636,232
 Fund balances:			
Restricted for debt service	-	15,771	15,771
Unassigned	1,271,999	-	1,271,999
Total fund balances	1,271,999	15,771	1,287,770
Total liabilities and fund balances	\$ 146,387,583	\$ 15,536,419	\$ 161,924,002

See accompanying notes.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
December 31, 2011

Total fund balances - governmental funds balance sheet	\$ 1,287,770
Amounts reported in the statement of net assets are different because:	
Interest receivable is recognized when earned in the government-wide statements. In the governmental fund statements, income is accrued only if it will be received within sixty days of year-end. This is the portion of interest receivable related to notes and bonds receivable from Erie County which will not be received within sixty days of year-end.	3,526,013
Long-term serial bonds and loan issued to the Authority by Erie County are reported as assets in the statement of net assets but are not assets in the governmental funds.	410,439,870
Costs associated with the issuance of long-term debt (bonds) are assets capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued.	2,633,371
Unamortized bond premium is reported as a liability in the statement of net assets but is not in the governmental funds.	(37,704,580)
Accrued interest payable is reported as a liability in the statement of net assets but is not reported in the governmental funds balance sheet.	(5,521,892)
Certain liabilities, including bonds payable, are not due and payable currently and therefore, are not reported as liabilities of the governmental funds.	<u>(368,355,000)</u>
Net assets of governmental activities	<u><u>\$ 6,305,552</u></u>

See accompanying notes.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2011

	General Fund	Debt Service Fund	Total
Revenues:			
State sales tax	\$362,481,778	\$ -	\$362,481,778
State sales tax set-aside for Bonds	25,555,861	-	25,555,861
State sales tax retained by the Authority	456,000	-	456,000
State efficiency grants	1,301,534	-	1,301,534
Interest earned on sales tax retained by the Authority	26,014	-	26,014
Principal payments received on serial bonds with Erie County	-	8,400,000	8,400,000
Interest earned on notes with Erie County	350,542	11,048,544	11,399,086
Other interest income	858	-	858
Total revenues	390,172,587	19,448,544	409,621,131
Expenditures:			
General and administrative	416,960	-	416,960
Distributions to Erie County:			
Sales tax	362,481,778	-	362,481,778
Efficiency grants	1,301,534	-	1,301,534
Debt service set-asides	25,555,861	-	25,555,861
Residual accrued interest	92,757	-	92,757
Debt service:			
Principal	-	8,410,000	8,410,000
Interest	539,958	11,048,544	11,588,502
Total expenditures	390,388,848	19,458,544	409,847,392
Deficit of revenues over expenditures	(216,261)	(10,000)	(226,261)
Other financing sources (uses):			
Interfund transfer in	4,416	-	4,416
Interfund transfer out	-	(4,416)	(4,416)
Purchase of serial bonds from Erie County	-	(50,196,979)	(50,196,979)
Purchase of loan from Erie County	-	(96,864,413)	(96,864,413)
Bond issuance costs	(225,733)	(1,185,013)	(1,410,746)
Proceeds from issuance of bonds	-	130,750,000	130,750,000
Premiums on obligations	820,733	17,496,405	18,317,138
Total other financing sources (uses)	599,416	(4,416)	595,000
Net change in fund balances	383,155	(14,416)	368,739
Fund balances - beginning of year, as previously stated	888,844	123,946	1,012,790
Prior period adjustment	-	(93,759)	(93,759)
Fund balances - beginning of year, as restated	888,844	30,187	919,031
Fund balances - end of year	\$ 1,271,999	\$ 15,771	\$ 1,287,770

See accompanying notes.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
Year Ended December 31, 2011

Net change in net assets - total governmental funds	\$ 368,739
Amounts reported for governmental activities in the statement of activities are different because:	
Issuance costs for long-term debt are amortized over the term of the debt in the statement of activities and are not reported in the governmental statement of revenues, expenditures and changes in fund balances.	(328,295)
Interest revenue on notes with Erie County relating to long-term debt is reported in the statement of activities and not reported in the governmental statement of revenues, expenditures and changes in fund balances.	12,267,016
Interest expense is accrued on long-term debt in the statement of activities and not reported in the governmental statement of revenues, expenditures and changes in fund balances.	(8,565,361)
Repayment of revenue anticipation notes receivable interest from Erie County is recorded as a revenue in the governmental funds but not on the statement of activities.	(350,542)
Payment of interest on revenue anticipation notes is recorded as an expenditure in the governmental funds but not on the statement of activities.	539,958
Payment of principal on long-term debt is recorded as an expenditure in the governmental funds but not recorded in the authority-wide statements.	8,410,000
Repayment of serial bonds and long-term loan from Erie County is recorded as a revenue in the governmental funds statement of revenues, expenditures and changes in fund balances but not on the statement of activities.	(8,400,000)
Premiums received at issuance of revenue anticipation notes are amortized in the statement of activities but are not recognized in the governmental funds.	(820,733)
Costs associated with the issuance of revenue anticipation notes are recorded as a use of funds in the statement of revenues, expenditures and changes in fund balances and are recorded as an asset and amortized over the term of the bond in the authority-wide statements.	<u>225,733</u>
Change in net assets of governmental funds	<u>\$ 3,346,515</u>

See accompanying notes.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

Erie County Fiscal Stability Authority (the Authority) is a corporate governmental agency and instrumentality of the State of New York (the State) constituting a public benefit corporation. The Authority is incorporated into the financial statements of Erie County, New York (the County) as a blended component unit. The Authority was created on July 12, 2005, to monitor and oversee the finances of the County. Agencies and departments to be covered by the Authority's activities include all Erie County Departments, Erie Community College, the Buffalo & Erie County Public Libraries and Erie County Sewer Districts.

The business of the Authority is carried out by the Authority's Board of Directors at public meetings, which are required to be held not less than quarterly during a control period and not less than annually during an advisory period. Board meetings are typically held monthly. No action may be taken by the Authority without a favorable vote of at least four directors. The Authority is to be governed by seven directors, each appointed by the Governor including one each appointed on the written recommendation of the Temporary President of the State Senate, the Speaker of the State Assembly and the State Comptroller. The Governor designates a chair and vice chair from among the directors. One director appointed by the Governor and the directors appointed on the recommendation of the Temporary President of the State Senate, the Speaker of the State Assembly and the State Comptroller must be residents of Erie County. All directors of the Authority serve without salary.

In its oversight capacity, the Authority is vested with control and advisory powers to review County financial plans submitted to it and make recommendations, or if necessary, adverse findings thereon. Annually, the Authority is required to review and approve a budget and four-year financial plan submitted by the County, which details expenditures, revenues and gap closing measures. The Authority may impose a control period upon, make one of several statutory findings concerning the County's financial position and, if necessary, develop financial plans on behalf of the County, if the County is unwilling or unable to take the required steps toward fiscal stability. The Authority is also empowered to make appropriated State aid available as it determines in the form of efficiency grants.

On November 3, 2006, the Authority imposed a control period on the County in accordance with Section 3595(1)(e) of New York Public Authorities Law through resolution 06-49. The resolution empowered the Authority to operate with its maximum authorized compliment of control and oversight powers over County finances. On that date, the Board also imposed a hiring freeze and a contract review process.

On June 2, 2010 the Authority elected to revert from control status to advisory status.

The Authority is required to comment on proposed borrowings by the County and it may issue bonds or other obligations to achieve budgetary savings through debt restructuring, deficit financing or by financing short-term cash flow or capital needs. The aggregate principal amount of long-term general obligation or revenue borrowing by the Authority on behalf of the County shall not exceed \$700 million at any one time excluding any cost of issuance, debt reserve fund or future refunding of bonds net of unearned bond accretion. In addition, the aggregate principal amount of short-term cash flow borrowing by the Authority on behalf of the County shall not exceed \$250 million at any one time.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION (Continued)

Revenue of the Authority consists of sales tax revenue, defined as net collections from sales and compensating use taxes, penalties and interest authorized by the State and imposed by the County on the sale and use of tangible personal property and services in the County, and investment earnings on funds deposited in Authority bank accounts. Sales tax revenue collected by the New York State Office of the State Comptroller (the State Comptroller) for transfer to the Authority are not subject to appropriation by the State or County. Revenues of the Authority that are not required to pay operating expenses and other costs of the Authority are payable to the County as frequently as practicable.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Authority has prepared authority-wide financial statements titled the statement of net assets and statement of activities as well as the required supplementary information titled management's discussion and analysis which precedes the financial statements. The Authority also prepares the fund financial statements, which are the general and debt service fund balance sheet, and statement of revenues, expenditures and changes in fund balances.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. New assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Amounts for each of the two classes of net assets – restricted and unrestricted – are displayed in the statement of net assets and the amounts of change in each of those classes of net assets are displayed in the statement of activities.

For financial accounting and reporting purposes, the Authority follows all pronouncements of the Governmental Accounting Standards Board (GASB), as well as the pronouncements of the Financial Accounting Standards Board (FASB), including those FASB pronouncements issued after November 30, 1989 that does not conflict with or contradict GASB pronouncements.

The Authority follows the modified accrual basis of accounting on its governmental funds, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (sixty days or less). Expenditures and related liabilities are recognized in the accounting period the liability is due and payable.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Authority reports the following funds as governmental funds:

General fund - the Authority's primary operating fund and accounts for substantially all activity of the Authority.

Debt Service fund - this fund accounts for certain sales tax revenue that is set-aside to service the debt service of the Authority's serial bonds.

Revenue Recognition: No revenues are generated from operating activities of the Authority, therefore, all revenues are defined by the Authority as general revenues. Revenues are received in the General Fund. Overhead expenses of the Authority that arise in the course of providing the Authority's oversight services, such as payroll and office expenses, are considered operating expenses and are accounted for in the General Fund.

Postemployment Benefits Other Than Pensions: The Authority has no obligation requiring financial statement reporting under GASB Statement No. 43 or GASB Statement No. 45, as there are no employees of the Authority who are currently entitled to postemployment benefits.

Cash and Cash Equivalents: Cash and cash equivalents include certificates of deposit which mature within 90 days of issuance.

Bond Issuance Costs: Bond issuance costs are expensed and recognized in the period issued in the governmental funds. Within the government-wide statements, the bond issuance costs are capitalized and amortized over the life of the related debt issue and is included as a component of interest expense.

Bond Premiums: In the government-wide statements, proceeds from the issuance of bonds received in excess of face value (premiums) are deferred and added to the bonded liability. These amounts are subsequently amortized on a straight-line basis as an offset of interest expense over the life of the bond. In the fund statements, these amounts are recognized currently as other financing sources.

Net Assets: GASB requires the classification of net assets into three components, of which the Authority uses two, as defined below:

Restricted Net Assets - consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - all other net assets that do not meet the definition of "restricted".

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements: During the year ended December 31, 2011, the Authority adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that the equity of governmental funds be classified into five specific categories which will give greater clarity to the different kinds of constraints that apply. Note 11 contains details behind the categories as they are reported on the financial statements.

The GASB has issued the following new statements:

- Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employers Plans*, which will be effective for the year ending December 31, 2012;
- Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, which will be effective for the year ending December 31, 2013;
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which will be effective for the year ending December 31, 2012;
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which will be effective for the year ending December 31, 2012; and
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which will be effective for the year ending December 31, 2012.

The Authority is currently studying these statements and plans on adoption of these policies as deemed appropriate.

Subsequent Events: These financial statements have not been updated for subsequent events occurring after April 3, 2012 which is the date these financial statements were available to be issued.

NOTE 3. DEPOSITS AND INVESTMENTS

The Authority's investment policies are governed by State statutes as required by New York Public Authority's Law. In addition, the Authority has adopted their own written investment policy. The Authority's monies must be deposited in FDIC insured commercial banks or trust companies located within the State. Permissible investments include demand accounts and certificates of deposit, obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and municipalities and school districts.

Investments consist of accounts held at M&T Bank for set-aside sales tax revenue for the payment of the Authority's debt service requirements. These set-aside funds are held on behalf of Erie County for its payment of mirror serial bonds payable to the Authority in a segregated trust account and not commingled with the assets of the bank. Additionally, they are invested in Treasury Securities which provides for full principal protection in accordance with the Eligible Investments of the Indenture. The balance in these accounts is \$15,536,419 at December 31, 2011.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investment and Deposit Policy

The Authority implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

The Authority currently follows an investment and deposit policy as directed by State statutes, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Board of Directors.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The Authority's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Authority's investment and deposit policy authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Authority's investment and deposit policy, all deposits of the Authority including interest bearing demand accounts and certificates of deposit, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 102% of the aggregate amount of deposits. The Authority restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by the New York State and its localities.

NOTE 4. TRANSACTIONS WITH AND ON BEHALF OF ERIE COUNTY

The Act and other legal documents of the Authority established various financial relationships between the Authority and the County. The resulting financial transactions between the Authority and the County include:

- a. The receipt of sales tax revenues in 2011 of \$388,493,639 and the subsequent disbursements of \$362,481,778 were remitted to the County.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 4. TRANSACTIONS WITH AND ON BEHALF OF ERIE COUNTY (Continued)

- b. The Authority retained \$456,000 of sales tax revenue in 2011 to offset the reduction in interest on sales tax revenue due to historically low interest rates.
- c. The receipt and accrual of New York State Efficiency Grants in 2011 of \$1,301,534 and reimbursement of \$1,301,534 to the County.
- d. Notes, serial bonds and accrued interest receivable in the amount of \$501,965,883 were owed to the Authority by the County at December 31, 2011.
- e. During the year ended December 31, 2011, the amount of \$92,757 represents residual accrued interest from the payoff of a 2005 revenue anticipation note set asides belonging to Erie County.

NOTE 5. SALES TAX RECEIVABLE /DUE TO ERIE COUNTY

Sales tax receivable amounted to \$50,455,924 at December 31, 2011. These amounts are receivable from the State Comptroller and are also due to the County. These amounts were received by the Authority and transferred to the County subsequent to year-end.

NOTE 6. BOND ANTICIPATION NOTES

In 2011, the Authority issued a bond anticipation note Series 2011A totaling \$87,405,000, with interest at 1.50%, due July 31, 2012. The funds were used to finance a note issued to the County in the amount of \$88,000,000.

NOTE 7. REVENUE ANTICIPATION NOTES

In 2011, Erie County issued a revenue anticipation note Series 2011A totaling \$88,000,000, with interest at .75%, due June 29, 2012.

NOTE 8. LONG-TERM LIABILITIES

In 2011, the Authority issued long-term bonds which were used to purchase mirror bonds and finance a long-term loan to the County in the amount of \$86,250,000 (See Note 9.), as follows:

	<u>December 31,</u> <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2011</u>	<u>Due in</u> <u>one year</u>
Series 2010A bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	\$ 157,995,000	\$	-	\$ 152,355,000	\$ 9,960,000

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 8. LONG-TERM LIABILITIES (Continued)

	December 31, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2011</u>	<u>Due in one year</u>
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond	45,845,000	-	2,255,000	43,590,000	3,975,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	42,175,000	-	120,000	42,055,000	125,000
Series 2011A bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	27,690,000	395,000	27,295,000	5,000
Series 2011B bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	16,810,000	-	16,810,000	925,000
Series 2011C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	<u>86,250,000</u>	-	<u>86,250,000</u>	-
	<u>\$ 246,015,000</u>	<u>\$ 130,750,000</u>	<u>\$ 8,410,000</u>	<u>\$ 368,355,000</u>	<u>\$ 14,990,000</u>

Debt service requirements:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 14,990,000	\$ 18,299,931	\$ 33,289,931
2013	22,650,000	16,218,367	38,868,367
2014	27,780,000	15,154,517	42,934,517
2015	35,165,000	13,861,142	49,026,142
2016	36,630,000	12,284,961	48,914,961
2017-2021	150,005,000	37,473,463	187,478,463
2022-2026	66,375,000	10,376,095	76,751,095
2027-2028	<u>14,760,000</u>	<u>1,116,000</u>	<u>15,876,000</u>
	<u>\$ 368,355,000</u>	<u>\$ 124,784,476</u>	<u>\$ 493,139,476</u>

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 9. SERIAL BONDS AND LONG-TERM LOAN RECEIVABLE FROM ERIE COUNTY

Erie County issued mirror bonds and long-term loan to the Authority, as follows:

	December 31, <u>2010</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2011</u>	<u>Due in one year</u>
Series 2010A bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	\$ 157,995,000	\$ -	\$ 5,640,000	\$ 152,355,000	\$ 9,960,000
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond	45,845,000	-	2,255,000	43,590,000	3,975,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	42,165,000	-	110,000	42,055,000	125,000
Series 2011A bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	27,690,000	395,000	27,295,000	5,000
Series 2011B bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	16,810,000	-	16,810,000	925,000
Long-term loan, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the loan.	-	86,250,000	-	86,250,000	-
	<u>\$ 246,005,000</u>	<u>\$ 130,750,000</u>	<u>\$ 8,400,000</u>	<u>\$ 368,355,000</u>	<u>\$ 14,990,000</u>

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 9. SERIAL BONDS AND LONG-TERM LOAN RECEIVABLE FROM ERIE COUNTY (Continued)

Debt service requirements:

Year ending December 31,	<u>Serial bonds</u>		<u>Long-term loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 14,990,000	\$ 12,822,276	\$ -	\$ 5,477,655
2013	18,905,000	12,022,717	3,745,000	4,195,650
2014	23,890,000	11,108,667	3,890,000	4,045,850
2015	31,115,000	9,970,892	4,050,000	3,890,250
2016	32,420,000	8,556,711	4,210,000	3,728,250
2017-2021	125,580,000	22,207,963	24,425,000	15,265,500
2022-2026	35,205,000	1,858,845	31,170,000	8,517,250
2027-2028	<u>-</u>	<u>-</u>	<u>14,760,000</u>	<u>1,116,000</u>
	282,105,000	\$ <u>78,548,071</u>	\$ 86,250,000	\$ <u>46,236,405</u>
Unamortized discount	<u>31,470,457</u>		<u>10,614,413</u>	
	\$ <u>313,575,457</u>		\$ <u>96,864,413</u>	

NOTE 10. PENSION PLAN

PLAN DESCRIPTION

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

FUNDING POLICY

Plan members who joined the Systems before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 who have less than 10 years of service or membership are required to contribute three percent of their annual salary. Employees joining on or after January 1, 2010 are required to contribute three percent of their annual salary throughout their active membership. The Comptroller of the State of New York certifies the rates expressed as proportions of members' payroll annually, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 10. PENSION PLAN (Continued)

The required contributions for the current year and two preceding years were:

	<u>ERS</u>
2011	\$ 40,184
2010	18,888
2009	6,015

The Authority's contributions made to the System were equal to 100 percent of the contributions required for each year.

NOTE 11. FUND BALANCES

As of December 31, 2011, fund balances on the fund basis statements are classified as follows:

Non-spendable - amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. As of December 31, 2011, the Authority has no non-spendable fund balances.

Restricted - amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the Authority's highest level of decision making authority, i.e., the Board of Directors. As of December 31, 2011, the Authority has no committed fund balances.

Assigned - amounts that are constrained by the Authority's intent to be used for specific purposes, but are neither restricted nor committed. The assigned category typically includes funds encumbered and appropriations of fund balances. As of December 31, 2011, the Authority has no assigned fund balances.

Unassigned - all other spendable amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the Authority

As of December 31, 2011, fund balances were classified as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<u>Restricted:</u>			
Debt Service	\$ -	\$ 20,187	\$ 20,187
<u>Unassigned:</u>			
General fund	<u>1,267,583</u>	<u>-</u>	<u>1,267,583</u>
Total	<u>\$ 1,267,583</u>	<u>\$ 20,187</u>	<u>\$ 1,287,770</u>

The Authority has not adopted a formal spending policy, under the provisions of GASB Statement No. 54, stating the Board of Directors will assess the current financial condition of the Authority and then determine the order of application of expenditures to which fund balance classifications will be charged. Under the provisions of GASB Statement No. 54, absent of a formal policy, committed funds will be reduced first, followed by assigned fund, and then unassigned funds when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**ERIE COUNTY FISCAL STABILITY AUTHORITY
(A COMPONENT UNIT OF ERIE COUNTY)**

NOTES TO FINANCIAL STATEMENTS

NOTE 12. PRIOR PERIOD ADJUSTMENT

In the current year, a prior period adjustment was recorded to the debt service fund beginning net assets due to an understatement of the liability for debt service set-asides in the prior year. As a result, the debt service fund net assets were reduced by \$93,759 to reflect the adjustment.



**Independent Auditor's 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**

To the Board of Directors of Erie County Fiscal Stability Authority
City of Buffalo, New York

We have audited the financial statements of the Erie County Fiscal Stability Authority (the Authority) as of and for the year ended December 31, 2011 and have issued our report thereon dated April 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on 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 over financial reporting 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 Authority'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 that are required to be reported under *Government Auditing Standards*.

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

Freed Maxick CPAs, P.C.

Buffalo, New York
April 3, 2012



INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors of the
Erie County Fiscal Stability Authority

We have examined the Erie County Fiscal Stability Authority's (the Authority) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") for the year ended December 31, 2011. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2011.

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

Freed Maxick CPAs, P.C.

Buffalo, New York
April 3, 2012