

**AUDITED FINANCIAL STATEMENTS**

**ERIE COUNTY FISCAL STABILITY  
AUTHORITY**

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**DECEMBER 31, 2012**

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

**Contents**

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	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1 - 2
<b>Management's Discussion and Analysis</b> .....	3 - 9
<b>Basic Financial Statements:</b>	
Statement of Net Position .....	10
Statement of Activities.....	11
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
<b>Notes to Financial Statements</b> .....	16 - 26
<b>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 Governmental Auditing Standards</b> .....	27 - 28



## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority'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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Authority'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 Authority'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 opinions.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Authority, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3-9 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 who 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 of America, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013 on our consideration of the Authority'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 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 Authority's internal control over financial reporting and compliance.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 29, 2013

**Management's Discussion and Analysis  
Erie County Fiscal Stability Authority  
Fiscal Year ended December 31, 2012**

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, 2012. 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 2012 fiscal year was again highlighted by spending 91% of its allocated budget. With a 2012 operating budget of \$518,550 and actual expenditures of \$469,859 the Authority achieved a savings of \$48,691 or 9%. For the seventh consecutive year, the Authority has expended less than its annual operating budget by at least 9% or more and has very effectively held the line on operational spending keeping it to a bare minimum.

In 2012 the Authority issued short term bonds in the amount of \$74.735 million on behalf of Erie County for the County's short term capital needs further saving the County and taxpayers \$217,000 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 Position (*Figure A-1*)
- Changes in Net Position 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 position and how they have changed. Net position - 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 position 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 position as of December 31, 2012 and 2011.

**Figure A-1**

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

	Governmental Activities		Total Percentage Change
	2012	2011	
Cash and cash equivalents	\$ 849	\$ 910	-6.7%
Investments	17,699	15,536	13.9%
Sales tax receivable	50,506	50,456	0.1%
Efficiency grants receivable	4,681	7,022	-33.3%
Serial bonds, loan and interest receivable from Erie County	473,788	501,966	-5.6%
Other assets	2,283	2,633	-13.3%
<b>Total assets</b>	<b>549,806</b>	<b>578,523</b>	<b>-5.0%</b>
Accounts payable	-	3	-100.0%
Accrued liabilities	31	34	-8.8%
Accrued interest payable	4,164	5,522	-24.6%
Bond anticipation notes payable	74,735	87,405	-14.5%
Deferred revenues - efficiency grants	3,774	5,185	-27.2%
Unamortized bond premiums	30,843	37,705	-18.2%
Due to Erie County - sales tax	50,506	50,456	0.1%
Due to Erie County - efficiency grants	1,025	1,939	-47.1%
Due to Erie County - debt set-asides	17,659	15,497	14.0%
Due to Erie County - funds held for payoff	24	24	100.0%
Due to Erie County - residual accrued interest	-	93	100.0%
Bonds payable	353,365	368,355	-4.1%
<b>Total liabilities</b>	<b>536,126</b>	<b>572,218</b>	<b>-6.3%</b>
Restricted for debt service	12,704	5,033	152.4%
Unrestricted	976	1,272	-23.3%
<b>Total net position</b>	<b>\$ 13,680</b>	<b>\$ 6,305</b>	<b>117.0%</b>

The decrease in total assets is the result of a decrease in serial "mirror" bonds outstanding between the Authority and the County. As the Authority had issued \$131 million in long term serial bonds in 2011 and \$0 long term bonds in 2012, the Authority has an ongoing requirement 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 2012 and 2011 issuance of bonds.

**Figure A-2**

**Changes in Net Position from Operating Results**  
(in thousands of dollars)

	Governmental Activities		Total Percentage Change
	2012	2011	
General revenues:			
Sales tax	398,272	388,494	2.5%
Efficiency grant income	2,338	1,301	79.7%
Interest and other income	18,630	12,294	51.5%
Less - distributions to Erie County	(400,153)	(389,432)	2.8%
Total revenues	<u>19,087</u>	<u>12,657</u>	<u>51%</u>
Expenses:			
General and administrative	470	417	12.7%
Interest and amortization	11,242	8,894	26.4%
Total expenses	<u>11,712</u>	<u>9,311</u>	<u>25.8%</u>
Increase in net position	7,375	3,346	120.4%
Net position - beginning of year, as previously stated	-	3,053	-100.0%
Prior period adjustment	-	(94)	-100.0%
Net position - beginning of year, as restated	<u>6,305</u>	<u>2,959</u>	<u>113.1%</u>
Net position - end of year	<u>\$ 13,680</u>	<u>\$ 6,305</u>	<u>117.0%</u>

The increase in sales tax revenues of 1% is due to the overall improving economic condition of Erie County residents as well as continuing strong cross border spending from Canadian citizens. Interest income, interest expense and amortization increases of 52% and 26%, respectively, is a result of the Authority's 2012 and 2011 long term and short term bond issuances on the County's behalf. General and administrative expenses increased by 13% mainly due to a one time pension expense adjustment and payment in 2012, rising health insurance costs and additional banking/custodial fees relating to the bond debt set aside trust accounts at M&T Bank.

## Financial Analysis of the Authority's Funds

### General & Administrative Expenses

For the year ended December 31, 2012, the Authority's general and administrative expenses totaled \$470 thousand. General and administrative expenses were 13% higher in 2012 compared to 2011 primarily due to increases in pension expense, banking/custodial fees, and health insurance costs.

**Figure A-3**

**General and Administrative Expenses**  
*(in thousands of dollars)*

	Total Cost of Services		Total Percentage Change
	2012	2011	
Wages and employee-related expenses	\$ 407	\$ 354	15.0%
Professional fees	23	27	-14.8%
Office related	25	26	-3.8%
Authority meetings	6	5	20.0%
Miscellaneous	9	5	80.0%
Total	<u>\$ 470</u>	<u>\$ 417</u>	<u>12.7%</u>

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, 2012 there were four Authority employees. Benefits increased 54% primarily due to increase costs for health insurance premiums and a pension expense adjustment and retirement system payment.

**Figure A-4**

**Wages and Employee Related Expenses**  
*(in thousands of dollars)*

	Total Cost of Services		Total Percentage Change
	2012	2011	
Salaries	\$ 264	\$ 255	3.5%
Payroll taxes	21	20	5.0%
Benefits	122	79	54.4%
Total	<u>\$ 407</u>	<u>\$ 354</u>	<u>15.0%</u>

Professional fees are paid for independent audit, legal, financial advisory, payroll and banking services. Legal fees declined by 86% mainly due to fewer legal consultation and research matters. Audit fees were 14% higher mainly due to a new three year audit contract for the Authority. Payroll and banking services were up 117% mainly due to additional trustee fees with the Authority's bond trustee, M&T Bank.

**Figure A-5**

<b>Professional Fees</b> <i>(in thousands of dollars)</i>			
	Total Cost of Services		Total Percentage Change
	2012	2011	
Legal services	\$ 2	\$ 14	-85.7%
Independent audit services	8	7	14.3%
Payroll and banking services	13	6	116.7%
Total	<u>\$ 23</u>	<u>\$ 27</u>	<u>-14.8%</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 2012. The increase in 2012 lease costs was due to utility and common area maintenance reconciliation charges. Office supplies costs have declined primarily due to reduction in office supply expenditures.

**Figure A-6**

<b>Office Related Expenses</b> <i>(in thousands of dollars)</i>			
	Total Cost of Services		Total Percentage Change
	2012	2011	
Lease and utilities	\$ 17	\$ 16	6.3%
Office supplies	7	9	-22.2%
Insurance	1	1	0.0%
Total	<u>\$ 25</u>	<u>\$ 26</u>	<u>-3.8%</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% consisting of a 3.00% base rate and a 1.75% 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, 2012 amounted to \$389,800,705. The Authority received \$27,819 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition the Authority realized \$290 in interest income on cash held in interest-bearing bank accounts and interest income on notes receivable from the County amounting to \$18,601,640.

The Authority retained \$456,000 of sales tax revenue in 2012 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 \$353,892,480 in net sales tax revenues to the County in the 2012 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](mailto: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 Position

December 31, 2012

### Assets

Cash and cash equivalents	\$	849,293
Investments		17,698,943
Due from other governments -sales tax		50,505,817
Due from other governments - efficiency grants		4,681,027
Prepaid expenses		10,828
Interest receivable on notes with Erie County		3,348,369
Serial bonds receivable - Erie County		267,115,000
Loan receivable from Erie County		86,250,000
Unamortized discount, Erie County serial bonds		31,460,457
Unamortized discount, Erie County loan		10,614,413
Notes receivable - Erie County - due in one year		75,000,000
Unamortized bond issuance costs		2,272,294

Total assets 549,806,441

### Liabilities

Accrued liabilities		30,710
Accrued interest on RANs		4,164,099
Bond anticipation note payable		74,735,000
Due to Erie County		
Sales taxes		50,505,817
Efficiency grants		1,025,104
Debt service set-asides		17,658,928
Interest on bond service set-asides		17
Unamortized bond premiums		30,843,605
Bonds payable		
Bonds due within one year		22,650,000
Bonds due beyond one year		330,715,000
Unearned revenues - efficiency grants		3,773,668
ECFSA funds held for payoff		24,014
Residual accrued interest		230

Total liabilities 536,126,192

### Net Position

Restricted for debt service		12,703,600
Unrestricted		976,649

Total net position \$ 13,680,249

See accompanying notes.

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County)

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## Statement of Activities

Year Ended December 31, 2012

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### General Revenues

State sales taxes transferable to Erie County	\$	362,364,122
State sales taxes retained by ECFSA		455,999
State sales taxes set aside for bonds		35,452,225
State efficiency grants		2,337,854
Interest on sales tax distribution retained by ECFSA		27,819
Interest earned on notes with Erie County		18,601,640
Other interest income		290

Total general revenues 419,239,949

### Expenses

General and administrative		469,845
Distributions		
Erie County - sales taxes		362,364,122
Erie County - efficiency grants		2,337,854
Debt service set-asides		35,452,225
Bond issuance amortization		519,616
Bond interest expense		10,721,590

Total expenses 411,865,252

**Change in net position** 7,374,697

Net position - beginning of year 6,305,552

Net position - end of year \$ 13,680,249

See accompanying notes.

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County)

## Balance Sheet - Governmental Funds

December 31, 2012

	General Fund	Debt Service Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 849,293	\$ -	\$ 849,293
Investments	-	17,698,943	17,698,943
Due from other governments - NYS sales tax	50,505,817	-	50,505,817
Due from other governments - NYS efficiency grants	4,681,027	-	4,681,027
Prepaid expenses	10,828	-	10,828
Notes receivable Erie County - due within one year	75,000,000	-	75,000,000
Total assets	<u>\$ 131,046,965</u>	<u>\$ 17,698,943</u>	<u>\$ 148,745,908</u>
<b>Liabilities</b>			
Accrued liabilities	30,710	-	30,710
Due to Erie County			
Sales taxes	50,505,817	-	50,505,817
Efficiency grants	1,025,104	-	1,025,104
Debt service set-asides	-	17,658,928	17,658,928
Interest revenue on bond set-asides	17	-	17
Bonds anticipation note payable	74,735,000	-	74,735,000
Unearned revenues - efficiency grants	3,773,668	-	3,773,668
ECFSA funds held for payoff	-	24,014	24,014
Residual accrued interest	-	230	230
Total liabilities	<u>130,070,316</u>	<u>17,683,172</u>	<u>147,753,488</u>
<b>Fund Balances</b>			
Restricted for debt service	-	15,771	15,771
Unassigned	976,649	-	976,649
Total fund balances	<u>976,649</u>	<u>15,771</u>	<u>992,420</u>
<b>Total liabilities and fund balances</b>	<u>\$ 131,046,965</u>	<u>\$ 17,698,943</u>	<u>\$ 148,745,908</u>

See accompanying notes.

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County)

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## Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

December 31, 2012

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Total fund balances - governmental funds balance sheet	\$ 992,420
Amounts reported in the statement of net position are different because:	
Interest revenue is recognized when earned in the government-wide statements. In the governmental funds balance sheet interest is accrued only if it will be received within sixty days of year end. This is the portion of interest receivable related to long term debt which will not be received within sixty days of year end.	3,348,369
Purchase of notes relating to long term bonds issued to the Authority by Erie County are reported as assets in the statement of net position but not reported as assets in the governmental funds balance sheet.	395,439,870
Costs associated with the issuance of short term and long term debt (bonds) are capitalized in the statement of net position and not reported as assets of the governmental funds balance sheet.	2,272,294
Unamortized bond premiums and short term and long term debt is recorded is reported as a liability in the statement of net position and not reported in the governmental funds balance sheet.	(30,843,605)
Accrued Interest on long term debt is reported as a liability in the statement of net position and not reported in the governmental funds balance sheet.	(4,164,099)
Certain liabilities, including bonds payable are not due and payable currently and therefore are not reported as liabilities in the governmental funds balance sheet but for accrual basis purposes are reported in the statement of net position. These liabilities consist of long term debt associated with the the 2010A, 2010B, 2010C, 2011A, 2011B, & 2011C serial bond issuances.	<u>(353,365,000)</u>
Net position of governmental activities	<u>\$ 13,680,250</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, 2012

	General Fund	Debt Service Fund	Total
<b>Revenues</b>			
State sales taxes	\$ 362,364,122	\$ -	\$ 362,364,122
State sales taxes set aside for bonds	35,452,225	-	35,452,225
State sales taxes retained by ECFSA	455,999	-	455,999
State efficiency grants	2,337,854	-	2,337,854
Interest earned on sales tax	27,819	-	27,819
Interest received on notes with Erie County	479,353	18,299,931	18,779,284
Principal payments received on notes with Erie County	-	14,990,000	14,990,000
Other interest income	290	-	290
<b>Total revenues</b>	<b>401,117,662</b>	<b>33,289,931</b>	<b>434,407,593</b>
<b>Expenditures</b>			
General and administrative	469,845	-	469,845
Distributions			
Erie County - sales taxes	362,364,122	-	362,364,122
Erie County - efficiency grants	2,337,854	-	2,337,854
Debt service set-asides	35,452,225	-	35,452,225
Debt service			
Principal	-	14,990,000	14,990,000
Interest	1,074,353	18,299,931	19,374,284
<b>Total expenditures</b>	<b>401,698,399</b>	<b>33,289,931</b>	<b>434,988,330</b>
<b>Deficit of revenues over expenditures</b>	<b>(580,737)</b>	<b>-</b>	<b>(580,737)</b>
<b>Other Financing Sources (uses)</b>			
Bond issuance costs	(158,539)	-	(158,539)
Premiums on obligations	443,926	-	443,926
<b>Other financial sources (uses)</b>	<b>285,387</b>	<b>-</b>	<b>285,387</b>
<b>Net change in fund balances</b>	<b>(295,350)</b>	<b>-</b>	<b>(295,350)</b>
Fund balances - beginning of year	1,271,999	15,771	1,287,770
Fund balances - end of year	\$ 976,649	\$ 15,771	\$ 992,420

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, 2012

Net change in net position - total governmental funds	\$ (295,350)
Amounts reported for governmental activities in the statement of activities are different because:	
Interest revenue on notes with Erie County relating to long and short term debt is reported in the Statement of Activities and not reported in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balance	18,601,640
Amortization of 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 funds Statement of Revenue, Expenditures, and Changes in Fund Balances.	(201,026)
Amortization of issuance costs for short term debt are amortized over the term of the debt in the Statement of Activities and are not reported in the governmental funds Statement of Revenue, Expenditures, and Changes in Fund Balances.	(318,590)
Interest expense accrued on long term debt is reported in the Statement of Activities and not reported in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balances.	(10,383,660)
Interest expense accrued on short term debt is reported in the Statement of Activities and not reported in the governmental funds Statement of Revenue, Expenditures and Changes in Fund Balances.	(337,930)
The repayment of RAN notes receivable interest from Erie County is recorded as a revenue in the government funds Statement of Revenues, Expenditures and Changes in Fund Balances but not on the Statement of Activities.	(479,353)
The payment of interest on RAN's is recorded as an expenditure in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances and not recorded in the Statement of Activities.	1,074,353
Premiums are a source of funds in the government funds Statement of Revenue, Expenditures and changes in Fund Balances and recorded as a liability in the Statement of Activities.	(443,926)
Costs associated with the issuance of RAN's are recorded as a use of funds in the Statement of Revenue, Expenditures and changes in Fund Balances and are recorded as an asset and amortized over the term of the bond in the Statement of Activities.	<u>158,539</u>
Change in net position of governmental funds	<u>\$ 7,374,697</u>

See accompanying notes.

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

**NOTES TO FINANCIAL STATEMENTS**

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**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 necessary 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**

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**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 government-wide financial statements titled the statement of net position 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 position – restricted and unrestricted – are displayed in the statement of net position and the amounts of change in each of those classes of net position are displayed in the statement of activities.

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**

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

Restricted Net Position - consists of net positions 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 Position - all other net positions 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**

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**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**New Accounting Pronouncements:** In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net assets applicable to future periods) and deferred inflows of resources (acquisition of net assets applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Authority adopted the provisions of the statement in 2012 on a retroactive basis by renaming certain balance sheet elements for all periods presented. The adoption of GASB Statement No. 63 did not materially affect the Authority's financial statements.

Additionally, during the year ended December 31, 2012, the Authority completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012. GASB Statements No. 57, 60, 62 and 64 have been adopted, as applicable for the year ended December 31, 2012 and did not have a material impact on the Authority's financial position or results from operations.

The GASB has issued the following new statements:

- 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. 65, *Items Previously Reported as Assets and Liabilities*, which will be effective for the year ending December 31, 2013;
- Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and 62*, which will be effective for the year ending December 31, 2013;
- Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, which will be effective for the year ending December 31, 2014; and
- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which will be effective for the year ending December 31, 2015.

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

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

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 \$17,698,943 at December 31, 2012.

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.

**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**

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 2012 of \$389,800,705 and the subsequent disbursements of \$362,364,122 were remitted to the County.
- b. The Authority retained \$456,000 of sales tax revenue in 2012 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 2012 of \$2,337,854 and reimbursement of \$2,337,854 to the County.
- d. Notes, serial bonds and accrued interest receivable in the amount of \$473,788,239 were owed to the Authority by the County at December 31, 2012.

**NOTE 5. SALES TAX RECEIVABLE /DUE TO ERIE COUNTY**

Sales tax receivable amounted to \$50,505,817 at December 31, 2012. 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 2012, the Authority issued a bond anticipation note Series 2012A totaling \$74,735,000, with interest at 1.00%, due July 31, 2013.

**NOTE 7. REVENUE ANTICIPATION NOTES**

In 2012, Erie County issued a revenue anticipation note Series 2012A totaling \$75,000,000, with interest at 0.63%, due August 28, 2013.

**NOTE 8. LONG-TERM LIABILITIES**

Authority serial bonds, as follows:

	<u>December 31,</u> <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2012</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.	\$ 152,355,000	\$ -	\$ 9,960,000	\$ 142,395,000	\$ 10,320,000

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. LONG-TERM LIABILITIES (Continued)**

	December 31, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2012</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	43,590,000	-	3,975,000	39,615,000	7,275,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	42,055,000	-	125,000	41,930,000	130,000
Series 2011A bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	27,295,000	-	5,000	27,290,000	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	-	925,000	15,885,000	1,175,000
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>-</u>	<u>-</u>	<u>86,250,000</u>	<u>3,745,000</u>
	<u>\$ 368,355,000</u>	<u>\$ -</u>	<u>\$ 14,990,000</u>	<u>\$ 353,365,000</u>	<u>\$ 22,650,000</u>

Debt service requirements:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	37,710,000	10,619,180	48,329,180
2018-2022	135,145,000	30,515,938	165,660,938
2023-2027	50,725,000	7,452,440	58,177,440
2028	<u>7,560,000</u>	<u>378,000</u>	<u>7,938,000</u>
	<u>\$ 353,365,000</u>	<u>\$ 106,484,545</u>	<u>\$ 459,849,545</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>2011</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2012</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.	\$ 152,355,000	\$ -	\$ 9,960,000	\$ 142,395,000	\$ 10,320,000
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond	43,590,000	-	3,975,000	39,615,000	7,275,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	42,055,000	-	125,000	41,930,000	130,000
Series 2011A bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	27,295,000	-	5,000	27,290,000	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	-	925,000	15,885,000	1,175,000
Long-term loan, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the loan.	<u>86,250,000</u>	<u>-</u>	<u>-</u>	<u>86,250,000</u>	<u>3,745,000</u>
	<u>\$ 368,355,000</u>	<u>\$ -</u>	<u>\$ 14,990,000</u>	<u>\$ 353,365,000</u>	<u>\$ 22,650,000</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>
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	33,290,000	7,101,430	4,420,000	3,517,750
2018-2022	109,500,000	16,471,688	25,645,000	14,044,250
2023-2027	17,995,000	493,690	32,730,000	6,958,750
2028	-	-	<u>7,560,000</u>	<u>378,000</u>
	267,115,000		86,250,000	
		<u>\$ 65,725,795</u>	\$	<u>\$ 40,758,750</u>
Unamortized discount	<u>31,460,457</u>		<u>10,614,413</u>	
	<u>\$ 298,575,457</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**

The Systems are noncontributory except for employees who joined the Systems after July 27, 1976 who contribute 3.0% to 3.5% of their salary. With the exception of ERS tier V and VI employees, employees in the systems more than ten years are no longer required to contribute. In addition, employees' contribution rates under ERS tier VI vary based on a sliding salary scale. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated 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>
2012	\$ 63,715
2011	40,184
2010	18,888

The Authority's contributions made to the System were equal to 100 percent of the contributions required for each year. The Authority chose to prepay the required contributions by December 15, 2012 and received an overall discount of \$573.

**NOTE 11. FUND BALANCES**

As of December 31, 2012, 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, 2012, 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, 2012, 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, 2012, 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, 2012, fund balances were classified as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
<u>Restricted:</u>			
Debt Service	\$ -	\$ 15,771	\$ 15,771
<u>Unassigned:</u>			
General fund	<u>976,649</u>	<u>-</u>	<u>976,649</u>
<b>Total</b>	<b><u>\$ 976,649</u></b>	<b><u>\$ 15,771</u></b>	<b><u>\$ 992,420</u></b>

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

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 11. FUND BALANCES (Continued)**

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.



**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**

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited, in accordance with the 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, the financial statements of the governmental activities of the Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 29, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over 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 of the effectiveness of the Authority's internal controls over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

Our consideration of the 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 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 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 results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 29, 2013