ERIE COUNTY FISCAL STABILITY AUTHORITY

REPORT TO THE BOARD

DECEMBER 31, 2012

Trust earned.

FreedMaxick™

March 29, 2013

To the Members of the Board of Directors
Erie County Fiscal Stability Authority
295 Main Street Room 946
Buffalo, New York 14203

Members of the Board:

We are pleased to present this report related to our audit of the financial statements of Erie County Fiscal Stability Authority (the Authority) for the year ended December 31, 2012. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Authority's financial reporting process. Also, included is a summary of recently issued accounting standards that may affect future financial reporting by the Authority.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to be of service to the Authority.

Very truly yours,

Freed Maxick CPAs, P.C.

Freed Maxick CPAs, P.C.

One Evans Street
Batavia, New York
585.344.1967
Fax 585.344.4156

Contents

Required Communications

Generally accepted auditing standards require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibility with regard to the Financial Statement Audit.	Our responsibility under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States has been described to you in our arrangement letter dated December 17, 2012.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Authority. In the current year the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*, that provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. An estimate significant to the financial statements includes compensated absences.

Basis of Accounting

The financial statements were prepared on assumption that the entity will continue as a going concern.

Audit Adjustments

There were no audit adjustments to the original trial balance presented to us to begin our audit.

Uncorrected Misstatements

There were no uncorrected misstatements noted during our audit.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management during the audit.

Certain Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of the Authority including the engagement letter and the representation letter are attached as Exhibit A.

Recently Issued Accounting Standards

The GASB has issued the following statements which have not yet been implemented by the Authority. The Authority's management has not yet determined the effect these Statements will have on the Authority's financial statements. However, the Authority plans to implement all standards by the required dates. The Statements which might impact the Authority are as follows:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*

This Statement issued November 2010 will be effective for the Authority beginning with its year ending December 31, 2013. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, The Financial Reporting Entity, and the related financial reporting requirements of Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

The requirements of GASB Statement No. 61 are effective for financial statements for periods beginning after June 15, 2012.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

This Statement issued in April 2012 will be effective for the Authority beginning with its year ending December 31, 2013. It establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of GASB Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*

This statement also issued in April 2012 will be effective for the Authority beginning with its year ending December 31, 2013. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

Statement No. 66 amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

The requirements of GASB Statement No. 66 are effective for financial statements for periods beginning after December 15, 2012.

Summary of Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*

This Statement has been issued in June 2012 and will be effective for the Authority beginning with its year ending December 31, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The requirements of GASB No. 67 are effective for financial statements for periods beginning after June 15, 2013.

Summary of Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*

This Statement has been issued in June 2012 and will be effective for the Authority beginning with its year ending December 31, 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

EXHIBIT A - CERTAIN WRITTEN COMMUNICATIONS BETWEEN MANAGEMENT AND OUR FIRM

Trust earned.

FreedMaxick™

December 17, 2012

Board of Directors
Erie County Fiscal Stability Authority
295 Main Street
Room 946
Buffalo, NY 14203

Attn: Kenneth Vetter, Executive Director

The Objective and Scope of the Audit of the Financial Statements
You have requested that we audit the basic financial statements of the Erie County Fiscal Stability Authority (the Authority), as of and for the year-ended December 31, 2012.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

The Responsibilities of the Auditor
We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS); *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 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. 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS. Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. The determination of abuse is subjective; therefore, *Government Auditing Standards* do not expect us to provide reasonable assurance of detecting abuse.

In making our risk assessments, we consider 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 entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will also communicate to the Board of Directors *(a)* any fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements that becomes known to us during the audit, and *(b)* any instances of noncompliance with laws and regulations that we become aware of during the audit (unless they are clearly inconsequential).

Our report on internal control will include any significant deficiencies and material weaknesses in controls of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with requirements of the standards and circulars identified above. Our report on compliance matters will address material errors, fraud, abuse, violations of compliance obligations, and other responsibilities imposed by state and federal statutes and regulations or assumed by contracts, and any state or federal grant, entitlement, or loan program questioned costs of which we become aware, consistent with requirements of the standards identified above.

The Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
b. For 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;
c. For establishing and maintaining effective internal control over financial reporting and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge;
d. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of its knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others;
e. To provide us with:
   (1) Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
   (2) Additional information that we may request from management for the purpose of the audit;
   (3) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence;

As part of our audit process, we will request from management, and when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit including among other items:

a. That management has fulfilled its responsibilities as set out in the terms of this letter; and
b. That it believes the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for identifying and ensuring that the Authority complies with the laws and regulations applicable to its activities, and for informing us about all known material violations of such laws or regulations. In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud or abuse, and for informing us about all known or suspected fraud or abuse affecting the entity involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance. Management is also responsible for informing us of its knowledge of any allegations of fraud or abuse or suspected fraud or abuse affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.

Management is responsible for the preparation of the required supplementary information (RSI) and supplementary information in accordance with the budget basis of accounting and the accounting principles generally accepted in the United States of America, respectively. Management agrees to include the auditor's report on the RSI and supplementary information in any document that contains the supplementary information and that indicates that the auditor has reported on such RSI and supplementary information. Management also agrees to present the supplementary information with the audited financial statements or, if the supplementary information will not be presented with audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

The Board of Directors is responsible for informing us of its views about the risks of fraud or abuse within the entity, and its knowledge of any fraud or abuse or suspected fraud or abuse affecting the entity.

The Authority agrees that it will not associate us with any public or private securities offering without first obtaining our consent. Therefore, the Authority agrees to contact us before it includes our reports or otherwise makes reference to us, in any public or private securities offering.

You have informed us that you may issue public debt in the future and that you may include our report on your financial statements in the offering statement. You have further informed us that you do not intend that we be associated with the proposed offering.

We agree that our association with any proposed offering is not necessary, providing the Authority agrees to clearly indicate that we are not associated with the contents of any such official statement or memorandum. The Authority agrees that the following disclosure will be prominently displayed in any such official statement or memorandum:

Freed Maxick CPAs, P.C., our independent auditor, has not been engaged to perform, and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Freed Maxick CPAs, P.C., also has not performed any procedures relating to this official statement.

Because Freed Maxick CPAs, P.C. will rely on the Authority and its management and the Board of Diectors to discharge the foregoing responsibilities, the Authority holds harmless and releases Freed Maxick CPAs, P.C., its directors, and employees from all claims, liabilities, losses, and costs arising in circumstances where there has been a knowing misrepresentation by a member of the Authority's management which has caused, in any respect, Freed Maxick CPAs, P.C.'s breach of contract or negligence. This provision shall survive the termination of this arrangement for services.

The Erie County Fiscal Stability Authority's Records and Assistance
If circumstances arise relating to the condition of the Authority's records, the availability of appropriate audit evidence, or indications of a significant risk of material misstatement of the financial statements because of error, fraudulent financial reporting, or misappropriation of assets, which in our professional

judgment, prevent us from completing the audit or forming an opinion, we retain the unilateral right to take any course of action permitted by professional standards, including declining to express an opinion, issue a report, or withdraw from the engagement.

During the course of our engagement, we may accumulate records containing data that should be reflected in the Authority's books and records. The Authority will determine that all such data, if necessary, will be so reflected. Accordingly, the Authority will not expect us to maintain copies of such records in our possession.

The assistance to be supplied by the Authority personnel, including the preparation of schedules and analyses of accounts, has been discussed and coordinated with Gordon Panek, Financial Analyst. The timely and accurate completion of this work is an essential condition to our completion of the audit and issuance of our audit report.

In connection with our audit, you have requested us to perform certain non-audit services necessary for the preparation of the financial statements, including the drafting of financial statements. The independence standards of the *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States *GAS* require that the auditor maintain independence so that opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by reasonable and informed third parties. Before we agree to provide a non-audit service to the Authority, we determine whether providing such a service would create a significant threat to our independence for GAS audit purposes, either by itself or in aggregate with other non-audit services provided. A critical component of our determination is consideration of management's ability to effectively oversee the non-audit service to be performed. The Authority has agreed that Gordon Panek, Financial Analyst, possesses suitable skill, knowledge, or experience and that the individual understands the drafting of financial statements services to be performed sufficiently to oversee them. Accordingly, the management of the Authority agrees to the following:

1. The Authority has designated Gordon Panek, Financial Analyst, a senior member of management, who possesses suitable skill, knowledge, and experience to oversee the services.
2. Gordon Panek, Financial Analyst, will assume all management responsibilities for subject matter and scope of the drafting of financial statements.
3. The Authority will evaluate the adequacy and results of the services performed.
4. The Authority accepts responsibility for the results and ultimate use of the services.
   GAS further requires we establish an understanding with the management (and those charged with governance) of the Authority of the objectives of the non-audit service, the services to be performed, the entity's acceptance of its responsibilities, the auditor's responsibilities, and any limitations of the non-audit service. We believe this letter documents that understanding.

Other Relevant Information
From time to time and depending upon the circumstances, we may use third-party service providers to assist us in providing professional services to you. In such circumstances, it may be necessary for us to disclose confidential client information to them. We enter into confidentiality agreements with all third-party service providers and we are satisfied that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others.

In accordance with *Government Auditing Standards*, a copy of our most recent peer review report has been provided to you for your information.

Fees, Costs, and Access to Workpapers

Our fees for the audit and accounting services described above are based upon the value of the services performed and the time required by the individuals assigned to the engagement. Our fee for the services described in this letter will not exceed $7,910. Our fee estimate and completion of our work is based upon the following criteria:

a. Anticipated cooperation from Authority personnel
b. Timely responses to our inquiries
c. Timely completion and delivery of client assistance requests
d. Timely communication of all significant accounting and financial reporting matters
e. The assumption that unexpected circumstances will not be encountered during the engagement

If any of the aforementioned criteria are not met, then fees may increase. Interim billings are due upon submission.

Our professional standards require that we perform certain additional procedures, on current and previous years' engagements, whenever a director or professional employee leaves the firm and is subsequently employed by or associated with a client in a key position. Accordingly, the Authority agrees it will compensate Freed Maxick CPAs, P.C. for any additional costs incurred as a result of the Authority's employment of a director or professional employee of Freed Maxick CPAs, P.C.

In the event we are requested or authorized by the Authority or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagement for the Authority, the Authority will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

The documentation for this engagement is the property of Freed Maxick CPAs, P.C. However, you acknowledge and grant your assent that representatives of the cognizant or oversight agency or their designee, other government audit staffs, and the U.S. Government Accountability Office shall have access to the audit documentation upon their request and that we shall maintain the audit documentation for a period of at least three years after the date of the report, or for a longer period if we are requested to do so by the cognizant or oversight agency. Access to requested documentation will be provided under the supervision of Freed Maxick CPAs, P.C. audit personnel and at a location designated by our Firm.

Claim Resolution

Erie County Fiscal Stability Authority and Freed Maxick CPAs, P.C. agree that no claim arising out of services rendered pursuant to this agreement shall be filed more than one year after the date of the audit report issued by Freed Maxick CPAs, P.C. or the date of this arrangement letter if no report has been issued. Erie County Fiscal Stability Authority waives any claim for punitive damages. Freed Maxick CPAs, P.C.'s liability for all claims, damages and costs of the Erie County Fiscal Stability Authority arising from this engagement is limited to the amount of fees paid by the Erie County Fiscal Stability Authority to Freed Maxick CPAs, P.C. for the services rendered under this arrangement letter.

Reporting

We will issue a written report upon completion of our audit of the Authority's financial statements. Our report will be addressed to the Board of Directors of the Authority. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In addition to our report on the Authority's financial statements, we will also issue the following types of reports:

- Report on internal control related to the financial statements. This report will describe the scope of testing of internal control and the results of our tests of internal controls.
- Report on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance which could have a material effect on the financial statements.
- A schedule of findings and responses.

This letter constitutes the complete and exclusive statement of agreement between Freed Maxick CPAs, P.C. and Authority, superseding all proposals, oral or written, and all other communication, with respect to the terms of the engagement between the parties.

Laura Landers will be the engagement director and will assume responsibility for its performance and completion.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Freed Maxick CPAs, P.C.

Laura L. Landers

Laura L. Landers, CPA, MPA
Director

Confirmed on behalf of:

The Erie County Fiscal Stability Authority

Authority Executive Director

PHILIP VOGEL & CO. PC
CERTIFIED PUBLIC ACCOUNTANTS

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SUITE 1000
DALLAS, TEXAS 75251-2005
214/346-5800 Fax: 214/346-5899
E-mail: firm@philipvogel.com

SYSTEM REVIEW REPORT

To the Shareholders of
Freed Maxick CPAs, P.C.
(formerly known as Freed Maxick & Battaglia, CPAs, PC)
and the National Peer Review Committee
of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of Freed Maxick CPAs, P.C. (formerly Freed Maxick & Battaglia, CPAs, PC) (the firm) applicable to non-SEC issuers in effect for the year ended June 30, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/Research/Standards/PeerReview/DownloadableDocuments/PRSummary.pdf.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Freed Maxick CPAs, P.C. (formerly Freed Maxick & Battaglia, CPAs, PC) applicable to non-SEC issuers in effect for the year ended June 30, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Freed Maxick CPAs, P.C. (formerly Freed Maxick & Battaglia, CPAs, PC), has received a peer review rating of *pass*.

PHILIP VOGEL & CO., P.C.

Philip Vogel & Co. PC

Dallas, TX

November 17, 2011

ERIE COUNTY FISCAL STABILITY AUTHORITY
295 MAIN STREET, ROOM 946
BUFFALO, NEW YORK 14203

March 29, 2013

Freed Maxick CPAs, P.C.
One Evans Street
Batavia, New York 14020

This representation letter is provided in connection with your audit of the financial statements for the Erie County Fiscal Stability Authority (the Authority) which comprise the statement of net position as of December 31, 2012 and the related statement of activities and notes to the financial statements for the year then ended. We confirm that we are responsible for the fair presentation in the financial statements of financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of March 29, 2012 the following representations made to you during your audit:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated December 17, 2012, for the preparation and fair presentation of the financial statements referred to above in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
7. The following have been properly recorded and/or disclosed in the financial statements:
   a. Related party transactions, including those with other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.
   b. Net positions and fund classifications.
   c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.

d. All significant estimates and material concentrations known to management that are required to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year.

e. Debt issue provisions.

f. Investments to be recorded at fair value.

g. Interfund transactions, including interfund accounts receivables and payables.

Information Provided

8. We have provided you with:

    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;

    b. Additional information that you have requested from us for the purpose of the audit.

    c. Unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

    d. Minutes of the meetings of the governing board and committees of board members, or summaries of actions of recent meetings for which minutes have not yet been prepared.

9. All transactions have been recorded in the accounting records and are reflected in the financial statements.

10. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

11. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:

    a. Management.

    b. Employees who have significant roles in the internal control.

    c. Others where the fraud could have a material effect on the financial statements.

12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Authority's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.

13. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

14. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.

15. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.

16. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Authority's ability to record, process, summarize, and report financial data.

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

18. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:

19. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made to reduce receivables to their estimated net collectable amounts.

20. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have been designated as, or alleged to be, a "potentially responsible party" by the NYS Department of Environmental Conservation (DEC) in connection with violations of certain permit limits.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification.

    c. Lines of credit or similar arrangements.

    d. Agreements to repurchase assets previously sold.

    e. Liabilities that are subordinated to any other actual or possible liabilities of the Authority.

    f. Guarantees, whether written or oral, under which the Authority is contingently liable.

    g. Leases and material amounts of rental obligations under long-term leases.

    h. Impairment of fixed assets.

    i. Risk financing activities.

    j. Authorized but unissued bonds and/or notes.

    k. Liens or encumbrances on assets and all other pledges of assets.

    l. Contractual obligations for plant construction and/or purchase of real property, equipment, other assets, and intangibles.

    m. Security agreements in effect under the Uniform Commercial Code.

21. The Authority has satisfactory title to all owned assets.

22. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

23. With respect to the management's discussion and analysis, presented as required by Government Auditing Standards Board to supplement the basic financial statements:

    a. We acknowledge our responsibility for the presentation of such required supplementary information.

    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.

    c. The methods of measurement or presentation have not changed from those used in the prior period.

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm:

1. We are responsible for:

    a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Authority.

    b. Establishing and maintaining effective internal control over financial reporting.

2. We have identified and disclosed to you:

   a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.

   b. There were no violations (or possible violations) of laws, regulations, or provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor repository or noncompliance.

3. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations, if applicable.

4. We have reviewed, approved, and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

5. We are responsible for determining that significant events or transactions that have occurred since the balance sheet date and through March 29 2013, have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through March 29, 2013 that would require recognition or disclosure in the financial statements. We further represent that as of March 29, 2013, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.

6. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Executive Director

Financial Analyst

AUDITED FINANCIAL STATEMENTS

ERIE COUNTY FISCAL STABILITY AUTHORITY

DECEMBER 31, 2012

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

Contents

FreedMaxick CPAs, P.C.

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

FreedMaxick CPAs, P.C.

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 it's 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 it's 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%
Total assets	549,806	578,523	-5.0%
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%
Total liabilities	536,126	572,218	-6.3%
Restricted for debt service	12,704	5,033	152.4%
Unrestricted	976	1,272	-23.3%
Total net position	$ 13,680	$ 6,305	117.0%

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	19,087	12,657	51%
Expenses:			
General and administrative	470	417	12.7%
Interest and amortization	11,242	8,894	26.4%
Total expenses	11,712	9,311	25.8%
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	6,305	2,959	113.1%
Net position - end of year	$ 13,680	$ 6,305	117.0%

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	$ 470	$ 417	12.7%

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	$ 407	$ 354	15.0%

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

Professional Fees
(in thousands of dollars)

	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	$ 23	$ 27	-14.8%

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

Office Related Expenses
(in thousands of dollars)

	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	$ 25	$ 26	-3.8%

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 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)

Statement of Activities

Year Ended December 31, 2012

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
Assets			
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	$ 131,046,965	$ 17,698,943	$ 148,745,908
Liabilities			
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	130,070,316	17,683,172	147,753,488
Fund Balances			
Restricted for debt service	-	15,771	15,771
Unassigned	976,649	-	976,649
Total fund balances	976,649	15,771	992,420
Total liabilities and fund balances	$ 131,046,965	$ 17,698,943	$ 148,745,908

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 Position

December 31, 2012

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 therfore 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 assiciated with the the 2010A, 2010B, 2010C, 2011A, 2011B, & 2011C serial bond issuances.		(353,365,000)
Net position of governmental activities	$	13,680,250

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
Revenues			
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
Total revenues	401,117,662	33,289,931	434,407,593
Expenditures			
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
Total expenditures	401,698,399	33,289,931	434,988,330
Deficit of revenues over expenditures	(580,737)	-	(580,737)
Other Financing Sources (uses)			
Bond issuance costs	(158,539)	-	(158,539)
Premiums on obligations	443,926	-	443,926
Other financial sources (uses)	285,387	-	285,387
Net change in fund balances	(295,350)	-	(295,350)
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.		158,539
Change in net position of governmental funds	$	7,374,697

See accompanying notes.

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.

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 measureable 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.

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.

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.

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.

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:

	December 31, 2011	Increases	Decreases	December 31, 2012	Due in one year
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

NOTE 8. LONG-TERM LIABILITIES (Continued)

	December 31, 2011	Increases	Decreases	December 31, 2012	Due in one year
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.	86,250,000	-	-	86,250,000	3,745,000
	$ 368,355,000	$ -	$ 14,990,000	$ 353,365,000	$ 22,650,000

Debt service requirements:

Year ending December 31,	Principal	Interest	Total
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	7,560,000	378,000	7,938,000
	$ 353,365,000	$ 106,484,545	$ 459,849,545

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, 2011	Increases	Decreases	December 31, 2012	Due in one year
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.	86,250,000	-	-	86,250,000	3,745,000
	$ 368,355,000	$ -	$ 14,990,000	$ 353,365,000	$ 22,650,000

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

Debt service requirements:

	Serial bonds		Long-term loan	
Year ending December 31,	Principal	Interest	Principal	Interest
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	-	-	7,560,000	378,000
	267,115,000	$ 65,725,795	$ 86,250,000	$ 40,758,750
Unamortized discount	31,460,457		10,614,413	
	$ 298,575,457		$ 96,864,413	

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.

NOTE 10. PENSION PLAN (Continued)

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

	ERS
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:

	General	Debt Service	Total
Restricted:			
Debt Service	$ -	$ 15,771	$ 15,771
Unassigned:			
General fund	976,649	-	976,649
Total	$ 976,649	$ 15,771	$ 992,420

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.

FreedMaxick™ CPAs, P.C.

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