



# Erie Co. Fiscal Stability Authority



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May 8, 2017


Honorable John Mills  
Chairman  
Erie County Legislature  
92 Franklin Street  
Buffalo, New York 14202

Dear Chairman Mills:

Enclosed is a copy of the resolution passed unanimously by the Erie County Fiscal Stability Authority (ECFSA) at its meeting on May 3, 2017.

- Resolution 17-12-Approving the 2016 Erie County Fiscal Stability Authority Annual Financial Audit.

Sincerely,

  
Kenneth Vetter  
Executive Director, ECFSA

Enclosures

**Erie County Fiscal Stability Authority**

**Resolution No. 17-12**

**APPROVING THE 2016 ECFSA ANNUAL FINANCIAL AUDIT**

WHEREAS, Chapter 182 of the New York Laws of 2005 created the Erie County Fiscal Stability Authority (“ECFSA”), to serve as a corporate governmental agency and instrumentality of the State of New York, and as a public benefit corporation to “oversee [Erie] County’s budget, financial and capital plans; to issue bonds, notes or other obligations to achieve budgetary savings and to finance short-term cash flow or capital needs; and, if necessary, to develop financial plans on behalf of the County if the County is unwilling or unable to take the required steps toward fiscal stability;” and

WHEREAS, the ECFSA is a public authority of the State of New York and, as such, section 3971(1) of the New York Public Authorities Law (“Public Authorities Law”) requires the ECFSA to select an independent certified accountant to perform its annual financial audit; and

WHEREAS, in adopting Resolution 14-15 on October 28, 2014, the ECFSA, approved the firm of Freed, Maxick, Battaglia, P.C., certified public accountants and an approved vendor for statewide auditing and accounting services by the New York State Office of General Services, to provide audit services to the ECFSA for fiscal years 2014, 2015 and 2016; and

WHEREAS, Freed Maxick, Battaglia, P.C., has completed the ECFSA 2016 annual financial audit and has presented it to the ECFSA Board during an open meeting on; and

WHEREAS, section 2800(3) of the Public Authorities Law further requires the ECFSA to approve a financial audit for fiscal year 2016; and

NOW, THEREFORE, BE IT RESOLVED that the ECFSA hereby approves the 2016 Audit, a copy of which is attached to this resolution; and

BE IT FURTHER RESOLVED that the 2016 Audit be submitted to the Erie County Executive, the Presiding Officer of the Erie County Legislature, the Erie County Comptroller, the Governor, the State Comptroller, the Chair and Ranking Minority Member of the State Senate Finance Committee, and the Chair and Ranking Minority Member of the State Assembly Ways and Means Committee, as required by section 3971(1) of Public Authorities Law.

This resolution shall take effect immediately.



James Sampson  
Chairman  
May 3, 2017

**AUDITED  
BASIC FINANCIAL STATEMENTS**

**ERIE COUNTY FISCAL STABILITY  
AUTHORITY**

**(A COMPONENT UNIT OF ERIE COUNTY, NEW YORK)**

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**DECEMBER 31, 2016**

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

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## 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 financial statements of the governmental activities and each major fund of the Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County, New York, as of and for the year ended December 31, 2016, 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. 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 and each major fund of the Authority, as of December 31, 2016, 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.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 28, 2017 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 28, 2017

**Management's Discussion and Analysis  
Erie County Fiscal Stability Authority  
Fiscal Year ended December 31, 2016**

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, 2016. 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 2016 fiscal year was again highlighted by controlling spending to 79% of it's allocated budget. With a 2016 general fund operating budget of general and administrative expenditures of \$547,500 and actual G & A expenditures of \$434,150 the Authority achieved a savings of \$113,350 or 21%. For the eleventh consecutive year, the Authority has expended less than it's annual operating budget by at least 7% or more, year over year.

The Authority remains committed to conducting its oversight functions of Erie County finances using the lowest level of resources it needs to meet its State mandated responsibilities and reporting requirements.

**Overview of the Financial Statements**

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. 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 and deferred outflows of resources 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, 2016 and 2015.

**Figure A-1**

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

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>
	<u>2016</u>	<u>2015</u>	
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 333	\$ 176	89.2%
Investments	40,002	38,986	2.6%
Sales tax receivable	50,162	53,164	-5.6%
Mirror bonds, loan and interest receivable from Erie County	336,581	388,138	-13.3%
Other assets	16	15	6.7%
Total assets	<u>427,094</u>	<u>480,479</u>	<u>-11.1%</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows-pensions	<u>173</u>	<u>50</u>	<u>246.0%</u>
<b>LIABILITIES:</b>			
Accounts payable	17	-	100.0%
Accrued liabilities	38	35	8.6%
Accrued interest payable on bonds	4,989	4,119	21.1%
Unearned revenues - NYS efficiency grants	10	10	0.0%
Due to Erie County - sales tax	50,162	53,164	-5.6%
Due to Erie County - debt set-asides	39,967	38,919	2.7%
ECFSA funds held for payoff	17	51	-66.7%
Residual accrued interest	3	1	200.0%
Bonds payable	326,293	372,003	-12.3%
Net pension liability	147	31	374.2%
Total liabilities	<u>421,643</u>	<u>468,333</u>	<u>-10.0%</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred inflows-pensions	<u>18</u>	<u>-</u>	<u>100.0%</u>
<b>NET POSITION:</b>			
Restricted for debt service	5,315	12,032	-55.8%
Unrestricted	291	164	77.4%
Total net position	<u>\$ 5,606</u>	<u>\$ 12,196</u>	<u>-54.0%</u>

The Authority's overall total net position decreased 54.0% in 2016 as compared to an increase of 23.5% in 2015 mainly due to decrease in mirror bonds receivables debt offset by decreases in bond anticipation notes payables.

Cash and cash equivalents increased 89.2% due to less than expected expenditures. The Authority withholds \$40,000 each month from the interception of sales tax revenues and interest on sales taxes from New York State to fund it's operations. Cash outflows for operational expenditures each month may or may not exceed the monthly operational funding.

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 from Erie County and made to the ECFA outside bondholders. The Authority has an ongoing requirement to set aside Erie County funds through the interception of sales tax revenues from New York State to make the periodic interest and principal payments on it's outstanding bonds issued. The Authority's "total liabilities" correspondingly decreased primarily as a result of the reduction in outstanding bonds payable (long term debt) and no issuance of Revenue Anticipation Notes (short term debt) in 2016.

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 2016 and 2015 issuance of bonds.

**Figure A-2**

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

	Governmental Activities		Total Percentage Change
	2016	2015	
<b>GENERAL REVENUES:</b>			
Sales tax	\$ 426,261	\$ 425,226	0.2%
Efficiency grant income	-	404	-100.0%
Interest and other income	15,618	17,385	-10.2%
Less - distributions to Erie County	(425,781)	(425,036)	-0.2%
Total revenues	16,098	17,979	-10.5%
<b>EXPENSES:</b>			
General and administrative	434	442	-1.8%
Interest and amortization	21,915	15,211	44.1%
Excess funds distribution	-	4	-100.0%
Other expenses-Bond issuance costs	339	-	100.0%
Total expenses	22,688	15,657	44.9%
Change in net position	(6,590)	2,322	383.8%
Net position - beginning, as previously stated	12,196	9,879	-50.4%
Restatement of net position	-	(5)	100.0%
Net position - beginning, as restated	12,196	9,874	23.5%
Net position - ending	\$ 5,606	\$ 12,196	-54.0%

The slight increase in sales tax revenues of 0.2% while positive is less than expected with that mainly being attributable to the significant decline in gas prices in the area. Efficiency Grant income declined 100% due to the wind down of remaining efficiency grant balances. As of December 31, 2016 there are no more Efficiency Grant funds available for awarding and no unreimbursed claims by Erie County. General and administrative expenses decreased by 1.8% mainly due to a staff position reduction in 2016. Bond issuance costs increased due to the advance refunding of select 2010A bonds with the issuance of 2016A bonds.

## Financial Analysis of the Authority's Funds

### General & Administrative Expenses

For the year ended December 31, 2016, the Authority's general and administrative expenses totaled \$434,150 verses \$441,969 in 2015. General and administrative expenses were 1.9% lower in 2016 compared to 2015 primarily due to the GASB 68 pension adjustment and 25% allocation of 2016's annual pension contribution reconciliation payment to 2017's fiscal year. There were also declines in expenditures relating to office supplies, legal fees, telephone and postage.

**Figure A-3**

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

	Total Cost of Services		Total Percentage Change
	2016	2015	
Wages and employee-related expenses	\$ 359	\$ 384	-6.5%
Professional fees	41	25	64.0%
Office related	24	24	0.0%
Authority meetings	5	4	25.0%
Miscellaneous	5	5	0.0%
Total	<u>\$ 434</u>	<u>\$ 442</u>	<u>-1.8%</u>

Wages and employee related expenses include salaries, payroll taxes, health insurance (net of employee contributions) and New York State and Local Retirement System (NYSLRS) contributions. As of December 31, 2016 there were three Authority employees. Wage and employee related expenses decrease of 6.5% is mainly due to a staff position reduction in 2016.

**Figure A-4**

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

	Total Cost of Services		Total Percentage Change
	2016	2015	
Salaries	\$ 235	\$ 274	-14.2%
Payroll taxes	18	21	-14.3%
Benefits	106	89	19.1%
Total	<u>\$ 359</u>	<u>\$ 384</u>	<u>-6.5%</u>



Professional fees are paid for independent audit, legal, financial advisory, payroll and banking services. There were no legal expenditures in 2015 and an increase in legal fees in 2016 due to legal counsel services. Audit fees increased mainly due to a Board of Directors request of an external professional study of ECFSA's staffing needs. Payroll and banking service fees remain unchanged.

**Figure A-5**

**Professional Fees**  
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2016	2015	
Legal services	\$ 5	\$ -	100.0%
Independent audit services	18	7	157.1%
Payroll and banking services	18	18	0.0%
Total	<u>\$ 41</u>	<u>\$ 25</u>	<u>64.0%</u>

On November 1, 2010 the Authority agreed to continue it's tenancy on a month-to-month basis at the same monthly rate of the original lease. The month-to-month arrangement is still in effect through 2016.

**Figure A-6**

**Office Related Expenses**  
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2016	2015	
Lease and utilities	\$ 16	\$ 16	0.0%
Office supplies	8	8	0.0%
Total	<u>\$ 24</u>	<u>\$ 24</u>	<u>0.0%</u>

### **Factors Bearing on the Authority's Future**

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

#### **Revenues & Sales Tax Distribution**

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

The current sales and compensation use tax rate in the County is 4.75% consisting of a 3.00% base rate and a 1.75% additional rate, which is subject to periodic renewals. The Authority receives all sales tax revenue imposed by the County except for the component that is allocable to the towns, cities, school districts and villages within the County. Sales tax revenue is dependent upon various factors including economic conditions in the County, which has experienced numerous cycles of growth and recession.

Sales tax revenue of the Authority for the year ended December 31, 2016 amounted to \$426,261,000. The Authority received \$80,808 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition the Authority realized \$136 in interest income on cash held in interest-bearing bank accounts and interest income on notes receivable from the County amounting to \$15,536,795.

Revenue of the Authority must be applied first to pay debt service on the Authority bonds, then for Authority operating expenses and finally subject to agreements with the County, the balance is transferred to the County. The Authority transferred \$362,433,157 in net sales tax revenues to the County in the 2016 fiscal year.

### **Contacting the Authority's Financial Management**

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

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Statement of Net Position

December 31, 2016

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 332,794
Investments	40,001,937
Due from other governments - NYS sales tax	50,161,630
Mirror bond receivable - Erie County - due within one year	44,035,000
Loan receivable - Erie County - due within one year	4,420,000
Prepays	16,569
Interest receivable on notes with Erie County	3,739,558
Mirror bond receivable - Erie County	211,102,611
Loan receivable - Erie County	73,283,738
Total assets	<u>427,093,837</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension outflows	172,561
Total deferred outflows of resources	<u>172,561</u>
<b>LIABILITIES</b>	
Accounts payable	17,395
Accrued liabilities	37,999
Accrued interest on bonds	4,989,018
Due to Erie County	
Sales taxes	50,161,630
Debt service set-asides	39,966,269
Interest on debt service set-asides	699
Bonds payable:	
Due within one year	48,455,000
Due beyond one year	277,837,942
Unearned revenues - NYS efficiency grants	10,000
ECFSA funds held for payoff	16,989
Residual accrued interest	2,889
Net pension liability	147,269
Total liabilities	<u>421,643,099</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension inflows	17,534
Total deferred inflows of resources	<u>17,534</u>
<b>NET POSITION</b>	
Restricted for debt service	5,314,719
Unrestricted	291,046
Total net position	<u>\$ 5,605,765</u>

See notes to basic financial statements.

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Statement of Activities

For the year ended December 31, 2016

	<b>Governmental Activities</b>
<b>GENERAL REVENUES</b>	
State sales taxes remitted to Erie County	\$ 362,433,157
State sales taxes set aside for Bonds	63,347,652
State sales taxes retained by ECFSA	480,000
Interest earned on sales tax	80,808
Interest earned on notes with Erie County	15,536,795
Other interest income	136
Total general revenues	<u>441,878,548</u>
<b>EXPENSES</b>	
General and administrative	434,150
Distributions	
Erie County - NYS sales taxes	362,433,157
Debt service set-asides	63,347,652
Interest expense	21,915,672
Bond issuance costs	338,610
Total expenses	<u>448,469,241</u>
Change in net position	(6,590,693)
Net position - beginning	<u>12,196,458</u>
Net position - ending	<u>\$ 5,605,765</u>

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Balance Sheet - Governmental Funds

December 31, 2016

	General Fund	Debt Service Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 332,794	\$ -	\$ 332,794
Investments	19	40,001,918	40,001,937
Due from other governments - NYS sales taxes	50,161,630	-	50,161,630
Prepays	16,569	-	16,569
Total assets	<u>\$ 50,511,012</u>	<u>\$ 40,001,918</u>	<u>\$ 90,512,930</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 17,395	\$ -	\$ 17,395
Accrued liabilities	37,999	-	37,999
Due to Erie County:			
Sales taxes	50,161,630	-	50,161,630
Debt service set-asides	-	39,966,269	39,966,269
Interest revenue on bond set-asides	699	-	699
Unearned revenues - NYS efficiency grants	10,000	-	10,000
ECFSA funds held for payoff	-	16,989	16,989
Residual accrued interest	-	2,889	2,889
Total liabilities	<u>50,227,723</u>	<u>39,986,147</u>	<u>90,213,870</u>
<b>FUND BALANCES</b>			
Nonspendable - prepaid expenses	16,569	-	16,569
Restricted for debt service	-	15,771	15,771
Unassigned	266,720	-	266,720
Total fund balances	<u>283,289</u>	<u>15,771</u>	<u>299,060</u>
Total liabilities and fund balances	<u>\$ 50,511,012</u>	<u>\$ 40,001,918</u>	<u>\$ 90,512,930</u>

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

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

December 31, 2016

<b>Total fund balances - governmental funds</b>	<b>\$ 299,060</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Interest receivable 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.	3,739,558
Purchase of notes and 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.	302,105,000
Deferred outflows are not assets of the current period and therefore are not reported in the funds.	172,561
Unamortized bond premiums for long term debt are reported as a liability in the Statement of Net Position and not reported in the governmental funds balance sheet.	(26,147,942)
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.	(4,989,018)
Unamortized bond discounts for long term debt are reported as an asset in the Statement of Net Position and not reported in the governmental funds balance sheet.	30,736,349
Pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	(147,269)
Deferred inflows are not liabilities of the current period and therefore are not reported in the funds.	(17,534)
Certain liabilities, including bonds payable are not due and payable currently and therefore are not reported as liabilities in the governmental funds balance sheet but for full accrual purposes they are reported in the Statement of Net Position. These liabilities consist of long term debt associated with the the 2016A, 2013A, 2013B, 2013C, 2011A, 2011B, 2011C, 2010A, 2010B and 2010C series bond issuances.	<u>(300,145,000)</u>
<b>Net position of governmental activities</b>	<b>\$ <u>5,605,765</u></b>

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the year ended December 31, 2016

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>			
State sales taxes remitted to Erie County	\$ 362,433,157	\$ -	\$ 362,433,157
State sales taxes set aside for bonds	63,347,652	-	63,347,652
State sales taxes retained by ECFSA	480,000	-	480,000
Interest earned on sales taxes	80,808	-	80,808
Other interest income	136	-	136
Principal payments received on notes with Erie County	-	46,935,000	46,935,000
Interest received on notes with Erie County	-	15,365,297	15,365,297
Total revenues	<u>426,341,753</u>	<u>62,300,297</u>	<u>488,642,050</u>
<b>EXPENDITURES</b>			
General and administrative	423,211	-	423,211
Distributions:			
Erie County - sales taxes	362,433,157	-	362,433,157
Debt service set-asides	63,347,652	-	63,347,652
Debt service:			
Principal	-	46,935,000	46,935,000
Interest	-	22,751,876	22,751,876
Bond issuance costs	-	338,610	338,610
Total expenditures	<u>426,204,020</u>	<u>70,025,486</u>	<u>496,229,506</u>
<b>Excess (deficiency) of revenues over expenditures</b>	137,733	(7,725,189)	(7,587,456)
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from advanced refunding	-	44,335,000	44,335,000
Premium from advanced refunding	-	9,685,189	9,685,189
Payment to refunded bond escrow agent	-	(46,295,000)	(46,295,000)
Total other financing sources(uses)	<u>-</u>	<u>7,725,189</u>	<u>7,725,189</u>
<b>Net change in fund balances</b>	137,733	-	137,733
<b>Fund balances - beginning</b>	<u>145,556</u>	<u>15,771</u>	<u>161,327</u>
<b>Fund balances - ending</b>	<u>\$ 283,289</u>	<u>\$ 15,771</u>	<u>\$ 299,060</u>

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended December 31, 2016

Net change in fund balances - total governmental funds	\$	137,733
Amounts reported for governmental activities in the statement of activities are different because:		
Interest revenue on bonds and loans with Erie County is reported in the governmental funds based on current financial resources received and is adjusted in the Statement of Activities to reflect all revenues earned.		171,498
The repayment of mirror bonds and long-term loan receivable from Erie County is recorded as a revenue in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances but not on the Statement of Activities.		(46,935,000)
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 Statement of Revenue and Expenditures.		(4,793,958)
The issuance of long-term debt (i.e. bonds) provides current financial resources to governmental funds, while the repayment of the principal of the long-term debt consumes the current financial resources of the governmental funds. Also, the governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:		
Repayment of serial bonds	46,935,000	
Premium amortization	<u>6,500,217</u>	53,435,217
Interest expense accrued on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the fund when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(870,055)
The net effect of the current year's bond refunding including the proceeds from the advanced refunding, including the premium, less the payment to the refunded bond escrow agent.		(7,725,189)
Change in the proportionate share of net pension liability reported in the Statement of Net Position does not provide for or require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.		(116,149)
Change in the proportionate share of the net deferred inflow and outflow reported in the Statement of Net Position during the measurement period between the Authority's contributions and its proportionate share to the total contributions to the pension system subsequent to the measurement date do not provide for or require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		105,210
Change in net position of governmental activities	\$	<u>(6,590,693)</u>



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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 1. ORGANIZATION**

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

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

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

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

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

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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 1. ORGANIZATION (Continued)**

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority. Governmental activities normally are supported by sales taxes.

**B. 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.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

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

The Authority reports the following funds as major governmental funds:

General fund - the Authority's primary operating fund and accounts for substantially all activity of the Authority except those required to be accounted for in another fund.

ERIE COUNTY FISCAL STABILITY AUTHORITY  
(A COMPONENT UNIT OF ERIE COUNTY, NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

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

Debt Service fund – this fund is used to account for resources that are restricted, committed, or assigned to the expenditure of principal and interest payments on long-term debt obligations of governmental activities on behalf of the County. Financial resources that are being accumulated for principal and interest payments maturing in future years are also included in this fund including sales tax set-asides.

- D. 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.
- E. 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 other than pensions.
- F. Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, demand deposits and certificates of deposit with original maturities of three months or less, if applicable. The Authority's investment policy complies with the State Comptroller's guidelines for Public Authorities. Investments consist primarily of government obligations stated at fair value on a recurring basis as determined by quoted prices in active markets.
- G. Bond Issuance Costs:** Bond issuance costs are expensed and recognized in the period the debt is issued in the governmental funds. The Authority adopted GASB Statement No. 65 in 2013 which requires bond issuance costs to also be expensed and recognized in the period issued in the government-wide statements.
- H. Bond Premiums:** Premiums received upon the issuance of debt are included as other financing sources in the governmental fund statements when issued. In the government-wide statements, premiums are recognized with the related debt issue and amortized using the effective interest method as a component of interest expense over the life of the related obligation.
- I. Net Position:** GASB requires the classification of net position 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" and therefore are available for general use by the Authority.
- J. Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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

- K. Deferred Outflows/Inflows of Resources:** In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. This is related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's proportion of the collective net pension liability and the difference during the measurement period between the Authority's contributions and its proportional share of total contributions to the pension system not included in pension expense. See details of deferred pension outflows in Note 7.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has only one type of item that qualifies for reporting in this category. This item is related to pensions reported in the government-wide Statement of Net Position. This represents the effect of the net change in the Authority's proportion of the collective net pension liability (ERS) and difference during the measurement periods between the Authority's contributions and its proportional share of total contributions to the pension system not included in pension expense. See details of deferred pension inflows in Note 7.

- L. Accounting Pronouncements:** During the fiscal year ended December 31, 2016, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*.

The primary objective of Statement No. 72 is to define fair value, how fair value is measured, what assets and liabilities should be measured at fair value, and what information about fair value should be reported in the notes to the financial statements.

The GASB has issued the following new statements:

- Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits Other than Pensions*, which will be effective for the year ending December 31, 2018;
- Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, which will be effective for the year ending December 31, 2017;
- Statement No. 81, *Split-Interest Agreements*, which will be effective for the year ending December 31, 2017;
- Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and 73*, which will be effective for the year ending December 31, 2017; and
- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending December 31, 2019.

The Authority is currently reviewing these statements and plans on adoption, as required.

- M. Subsequent Events:** These financial statements have not been updated for subsequent events occurring after March 28, 2017 which is the date these financial statements were available to be issued.



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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 3. DEPOSITS AND INVESTMENTS**

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

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

The Authority's aggregate bank balances were fully collateralized at December 31, 2016.

Investments consist of accounts held at Wilmington Trust 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 \$40,001,937 at December 31, 2016.

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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

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 2016 of \$426,260,809 and the subsequent disbursements of \$362,433,157 were remitted to the County.
- b. The Authority retained \$480,000 of sales tax revenue in 2016 to offset the reduction in interest on sales tax revenue due to historically low interest rates.
- c. Notes, serial bonds and accrued interest receivable in the amount of \$336,724,107 were owed to the Authority by the County at December 31, 2016.

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

Sales tax receivable amounted to \$50,161,630 at December 31, 2016. 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. LONG-TERM LIABILITIES**

Authority serial bonds, as follows:

	January 1, <u>2016</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2016</u>	<u>Due in one year</u>
Series 2010A bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond, a portion refunded in August 2016.	\$ 110,165,000	\$ -	\$ 57,935,000	\$ 52,230,000	\$ 12,160,000
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond	18,680,000	-	7,160,000	11,520,000	6,870,000

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

	<u>January 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2016</u>	<u>Due in one year</u>
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	31,175,000	-	5,675,000	25,500,000	5,935,000
Series 2011A bond, maturing April 2018 with interest ranging from 2.0% to 5.0% over the life of the bond.	20,940,000	-	6,650,000	14,290,000	6,970,000
Series 2011B bond, maturing September 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	12,245,000	-	1,295,000	10,950,000	1,355,000
Series 2011C bond, maturing December 2028 with interest ranging from 4.0% to 5.0% over the life of the bond.	74,565,000	-	4,210,000	70,355,000	4,420,000
Series 2013A bond, maturing March 2024 with interest ranging from 2.0% to 5.0% over the life of the bond.	23,470,000	-	2,230,000	21,240,000	2,295,000
Series 2013B bond, maturing January 2024 with interest ranging from 2.0% to 5.0% over the life of the bond.	27,940,000	-	4,935,000	23,005,000	5,155,000
Series 2013C bond, maturing August 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	29,860,000	-	3,140,000	26,720,000	3,295,000
Series 2016A refunding bond, maturing May 2023 with interest ranging from 3.375% to 5.0% over the life of the bond.	-	44,335,000	-	44,335,000	-
	<u>349,040,000</u>	<u>44,335,000</u>	<u>93,230,000</u>	<u>300,145,000</u>	<u>48,455,000</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 6. LONG-TERM LIABILITIES (Continued)**

	January 1, 2016	Increases	Decreases	December 31, 2016	Due in one year
Premiums:					
2010A	5,748,850	-	1,360,005	4,388,845	-
2010B	572,202	-	300,423	271,779	-
2010C	1,229,200	-	468,265	760,935	-
2011A	721,326	-	442,003	279,323	-
2011B	872,831	-	213,043	659,788	-
2011C	5,921,278	-	1,004,619	4,916,659	-
2013A	2,663,671	-	519,636	2,144,035	-
2013B	2,228,706	-	852,967	1,375,739	-
2013C	3,004,905	-	728,972	2,275,933	-
2016A	-	9,685,189	610,283	9,074,806	-
	<u>22,962,969</u>	<u>9,685,189</u>	<u>6,500,216</u>	<u>26,147,942</u>	<u>-</u>
	<u>\$ 372,002,969</u>	<u>\$ 54,020,189</u>	<u>\$ 99,730,216</u>	<u>\$ 326,292,942</u>	<u>\$ 48,455,000</u>

Debt service requirements:

Year ending December 31,	Principal	Interest	Total
2017	\$ 48,455,000	\$ 13,785,256	\$ 62,240,256
2018	45,095,000	11,470,938	56,565,938
2019	39,535,000	9,462,000	48,997,000
2020	41,195,000	7,554,366	48,749,366
2021	28,060,000	5,855,838	33,915,838
2022-2026	83,045,000	11,679,429	94,724,429
2027-2028	<u>14,760,000</u>	<u>1,116,000</u>	<u>15,876,000</u>
	<u>\$ 300,145,000</u>	<u>\$ 60,923,827</u>	<u>\$ 361,068,827</u>

In August 2016, the Authority issued \$44,335,000 in sales tax and State aid secured bonds with an interest rate of 5.0% to advance refund \$46,295,000 of outstanding Series 2010A serial bonds with interest rates ranging from 2.0% to 5.0%. Proceeds of \$54,020,189 (including a premium of \$9,685,189) were used to purchase U.S. Government Securities of \$53,680,771 and to fund estimated costs of issuance. The securities were placed in an irrevocable trust with an escrow agent to pay for all future debt service payments of the original bonds until their call date of May 15, 2020-2023. As a result, the original bonds are considered to be defeased and the liability has been removed from the financial statements. The amount outstanding on the original bonds at December 31, 2016 was \$46,295,000. The refunding decreased the total debt service payment for the next 7 years by \$2,926,765 with the total estimated net economic impact of \$2,792,972 at net present value.

**NOTE 7. PENSION OBLIGATIONS**

***New York State and Local Employees' Retirement System (ERS)***

**PLAN DESCRIPTION**

The Authority participates in the New York State and Local Employees' Retirement System (ERS), which is referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits.

Comm. 10M-7



ERIE COUNTY FISCAL STABILITY AUTHORITY  
(A COMPONENT UNIT OF ERIE COUNTY, NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

**NOTE 7. PENSION OBLIGATIONS (Continued)**

The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (NYSRSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefit's provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**FUNDING POLICY**

The System is noncontributory except for employees who joined the System after July 27, 1976 who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3 percent of their salary for the entire length of service. For Tier 6 members, the contribution rate varies from 3 percent to 6 percent depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

**PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

At December 31, 2016, the Authority reported a liability of the following for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

<u>ERS</u>	
Measurement date	March 31, 2016
Net pension liability	\$ 147,269
Authority's portion of the Plan's total net pension liability	.0009175%

For the year ended December 31, 2016, the Authority recognized a pension expense of \$57,852. At December 31, 2016 the Authority's reported deferred outflows of resources and deferred inflows of resources related to pensions arose from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 744	\$ 17,456
Changes of assumptions	39,272	-

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION OBLIGATIONS (Continued)**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	87,368	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	13,252	78
Authority's contributions subsequent to the measurement date	<u>31,925</u>	<u>-</u>
Total	<u>\$ 172,561</u>	<u>\$ 17,534</u>

Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:	
2017	\$ 31,400
2018	31,400
2019	31,400
2020	28,902
2021	-
Thereafter	-

**ACTUARIAL ASSUMPTIONS**

The total pension liability as of the March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.8
Investment rate of return (net of investment expense, including inflation)	7.0
Cost of living adjustments	1.3

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION OBLIGATIONS (Continued)**

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

<u>Asset Class:</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	38.0%	7.3%
International equity	13.0	8.6
Private equity	10.0	11.0
Real estate	8.0	8.3
Absolute return strategies	3.0	6.8
Opportunistic portfolio	3.0	8.6
Real assets	3.0	8.7
Bond and mortgages	18.0	4.0
Cash	2.0	2.3
Inflation-indexed bonds	2.0	4.0
Total	<u>100.0%</u>	

**DISCOUNT RATE**

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SENSITIVITY OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO THE DISCOUNT RATE ASSUMPTION**

The following tables presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	<u>ERS</u>		
	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Authority's proportionate share of the net pension liability (asset)	\$ 332,081	\$ 147,269	(\$ 8,889)

**PENSION PLAN FIDUCIARY NET POSITION**

The components of the current-year net pension liability of the employers as of March 31, 2016 were as follows:

	<u>ERS (Dollars in Thousands)</u>
Employers' total pension liability	\$ 172,303,544
Plan net position	<u>156,253,265</u>
Employers' net pension liability	<u>\$ 16,050,279</u>

Ratio of Plan net position to the  
employers' total pension liability

90.7%

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. PENSION OBLIGATIONS (Continued)**

**PREPAIDS TO THE PENSION PLAN**

Employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Prepaid retirement contributions as of December 31, 2016 represent the employer contribution for the period of January 1, 2017 through March 31, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Prepaid retirement contributions as of December 31, 2016 amounted to \$10,642.

**NOTE 8. MIRROR BONDS AND LONG-TERM LOAN RECEIVABLE FROM ERIE COUNTY**

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

	<u>January 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31, 2016</u>	<u>Due in one year</u>
Series 2010A bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	\$ 110,165,000	\$ -	\$ 11,640,000	\$ 98,525,000	\$ 12,160,000
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond	18,680,000	-	7,160,000	11,500,000	6,870,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	31,175,000	-	5,675,000	25,500,000	5,935,000
Series 2011A bond, maturing April 2018 with interest ranging from 2.0% to 5.0% over the life of the bond.	20,940,000	-	6,650,000	14,290,000	6,970,000
Series 2011B bond, maturing September 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	12,245,000	-	1,295,000	10,950,000	1,355,000
Series 2011C loan, maturing December 2028 with interest ranging from 4.0% to 5.0% over the life of the loan.	74,565,000	-	4,210,000	70,355,000	4,420,000

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. MIRROR BONDS AND LONG-TERM LOAN RECEIVABLE FROM ERIE COUNTY (Continued)**

	December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2016</u>	Due in <u>one year</u>
Series 2013A bond, maturing March 2024 with interest ranging from 2.0% to 5.0% over the life of the bond.	23,470,000	-	2,230,000	21,240,000	2,295,000
Series 2013B bond, maturing January 2024 with interest ranging from 2.0% to 5.0% over the life of the bond.	27,940,000	-	4,935,000	23,005,000	5,155,000
Series 2013C bond, maturing August 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	<u>29,860,000</u>	<u>-</u>	<u>3,140,000</u>	<u>26,720,000</u>	<u>3,295,000</u>
	<u>\$ 349,040,000</u>	<u>\$ -</u>	<u>\$ 46,935,000</u>	<u>\$ 302,105,000</u>	<u>\$ 48,455,000</u>

Debt service receivables requirements:

	<u>Mirror bonds</u>		<u>Long-term loan</u>	
Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 44,035,000	\$ 10,267,506	\$ 4,420,000	\$ 3,517,750
2018	40,455,000	8,174,188	4,640,000	3,296,750
2019	34,660,000	6,397,250	4,875,000	3,064,750
2020	36,080,000	4,733,366	5,115,000	2,821,000
2021	23,320,000	3,290,588	5,375,000	2,565,250
2022-2026	53,200,000	3,162,179	31,170,000	8,517,250
2027-2029	-	-	<u>14,760,000</u>	<u>1,116,000</u>
	231,750,000	<u>\$ 36,025,077</u>	70,355,000	<u>\$ 24,898,750</u>
Unamortized discount	<u>23,387,911</u>		<u>7,348,438</u>	
	<u>\$ 255,137,911</u>		<u>\$ 77,703,438</u>	

**NOTE 9. FUND BALANCES**

As of December 31, 2016, fund balances on the fund basis statements are classified as follows:

Nonspendable - amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

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**NOTE 9. FUND BALANCES (Continued)**

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, 2016, 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, 2016, 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

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 funds, and then unassigned funds when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**NOTE 10. SUBSEQUENT EVENTS**

In March 2017, the Authority Board passed two resolutions on behalf of the Authority. The first resolution is authorizing the Authority to issue up to \$120,000,000 in bonds to finance Erie County Medical Center Corporation projects, which may be secured by Erie County's sales tax revenues. Secondly, the Authority Board passed a resolution authorizing the Authority to issue up to \$81,000,000 in bonds to advance refund the Authority's 2011C bonds, which will be secured by Erie County's sales tax revenues.

# ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County, New York)

## Schedule of the Authority's Proportionate Share of the Net Pension Liability - Employees' Retirement System Last Two Fiscal Years

For the years ended December 31,

	2015	2016
Measurement date	March 31, 2015	March 31, 2016
Authority's proportion of the net pension liability	0.0009212%	0.0009175%
Authority's proportionate share of the net pension liability	\$ 31,120	\$ 147,269
Authority's covered-employee payroll	\$ 266,365	\$ 271,693
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	12%	54%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	90.7%



**ERIE COUNTY FISCAL STABILITY AUTHORITY**  
(A Component Unit of Erie County, New York)

**Schedule of the Authority's Contributions - Employees' Retirement System  
Last Ten Fiscal Years**

For the years ended December 31,

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Contractually required contribution	\$ 9,309	\$ 20,432	\$ 12,012	\$ 18,888	\$ 26,242	\$ 63,142	\$ 51,569	\$ 49,588	\$ 53,070	\$ 42,566
Contributions in relation to the contractually required contribution	9,309	20,432	12,012	18,888	26,242	63,142	51,569	49,588	53,070	42,566
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 233,961	\$ 224,803	\$ 232,512	\$ 248,201	\$ 252,350	\$ 262,572	\$ 250,877	\$ 263,553	\$ 266,365	\$ 271,693
Contributions as a percentage of covered-employee payroll	4%	9%	5%	8%	10%	24%	21%	19%	20%	16%



**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 and each major fund 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, 2016, 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 28, 2017.

**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 on the effectiveness of the Authority's internal control. 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 charged 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 the Authority's financial statements are free from 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 28, 2017



## INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the Erie County Fiscal Stability Authority's (the Authority) compliance with the New York State Comptroller's Investment Guidelines for Public Authorities and Section 2925 of the New York State Public Authorities Law (collectively, the "Investment Guidelines") for the year ended December 31, 2016. Management of the Authority is responsible for the Authority's compliance with the specified requirements. Our responsibility is to express an opinion on the Authority's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Authority complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Authority complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2016.

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

*Freed Maxick CPAs, P.C.*

Buffalo, New York  
March 28, 2017