

**AUDITED
BASIC FINANCIAL STATEMENTS**

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

DECEMBER 31, 2018

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

Contents

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis	3 - 10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities	12
Fund Basis Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Notes to Basic Financial Statements	17 - 29
Required Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability – Employees' Retirement System	30
Schedule of the Authority's Contributions - Employees' Retirement System	31
Note to Required Supplementary Information.....	32
INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33 - 34

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
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, 2018, 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.

Opinions

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, 2018, 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 26, 2019 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 solely 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 effectiveness of the Authority's 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 26, 2019

**Management's Discussion and Analysis
Erie County Fiscal Stability Authority
(a Component Unit of Erie County, New York)
Fiscal Year Ended December 31, 2018**

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, 2018. 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 2018 fiscal year was again highlighted by controlling spending to 90% of its allocated budget. With a 2018 general fund operating budget of general and administrative expenditures of \$467,864 and actual G & A expenditures of \$422,961 the Authority achieved a savings of \$44,902 or 9.6%. For the thirteenth consecutive year, the Authority has expended less than its annual operating budget by at least 5% 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, 2018 and 2017.

	Governmental Activities		Total Percentage Change
	<u>2018</u>	<u>2017</u>	
	ASSETS:		
Cash and cash equivalents	\$ 620	\$ 462	34.2%
Restricted cash and cash equivalents	34,539	39,049	-11.5%
Restricted investments	4,214	8,234	-48.8%
Sales tax receivable	54,286	52,296	3.8%
Mirror bonds, loan and interest receivable from Erie County	383,946	434,516	-11.6%
Other assets	9	9	0.0%
Total assets	<u>477,614</u>	<u>534,566</u>	<u>-10.7%</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows - pensions	90	88	2.3%
Deferred outflows - advance refunding	3,290	3,629	-9.3%
	<u>3,380</u>	<u>3,717</u>	<u>-9.1%</u>
LIABILITIES:			
Accounts payable and accrued liabilities	42	40	5.0%
Accrued interest payable on bonds	3,751	9,435	-60.2%
Due to Erie County - sales tax	54,785	52,773	3.8%
Due to Erie County - debt set-asides	34,010	38,523	-11.7%
Due to Erie County - CAPI funds	4,140	8,281	-50.0%
Bonds payable	380,304	431,893	-11.9%
Net pension liability	17	80	-78.8%
Other liabilities	25	42	-40.5%
Total liabilities	<u>477,074</u>	<u>541,067</u>	<u>-11.8%</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows-pensions	69	14	392.9%
Deferred inflows - advance refunding	582	643	-9.5%
	<u>651</u>	<u>657</u>	<u>-0.9%</u>
NET POSITION:			
Restricted for debt service	4,046	-	100.0%
Unrestricted (deficit)	(777)	(3,441)	77.4%
Total net position (deficit)	<u>\$ 3,269</u>	<u>\$ (3,441)</u>	<u>195.0%</u>

The Authority's overall total net position increased 195.0% in 2018 as compared to an decrease of 161.4% in 2017 mainly due to the reduction of the interest payable accrued at the end of 2018 and the lack of a transfer to Erie County related to CAPI Funds.

Cash and cash equivalents increased 34.2% due to less than expected expenditures and an increase in sales tax interest income received by the Authority. 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 its operations. In 2018, the Authority withheld \$40,000 for only 6 out of 12 months due to the better than expected receipts on sales tax interest income. 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 its 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 payments are made to the ECFSA's 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 its outstanding bonds issued.

Accrued interest 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 bonds.

Figure A-2

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

	Governmental Activities		Total Percentage Change
	2018	2017	
GENERAL REVENUES:			
Sales tax	\$ 459,138	\$ 439,840	4.4%
Interest and other income	16,969	13,643	24.4%
Less - distributions to Erie County	(458,898)	(439,440)	-4.4%
Total revenues	<u>17,209</u>	<u>14,043</u>	<u>22.5%</u>
EXPENSES:			
General and administrative	412	442	-6.8%
Interest and amortization	10,087	13,023	-22.5%
Other expenses-bond issuance costs	-	1,344	-100.0%
Transfer to Erie County - CAPI funds	-	8,281	-100.0%
Total expenses	<u>10,499</u>	<u>23,090</u>	<u>-54.5%</u>
Change in net position	6,710	(9,047)	174.2%
Net position - beginning	<u>(3,441)</u>	<u>5,606</u>	<u>-161.4%</u>
Net position (deficit) - ending	<u>\$ 3,269</u>	<u>\$ (3,441)</u>	<u>195.0%</u>

The increase in sales tax revenues of 4.4% is attributable to improving economic conditions throughout 2018. General and administrative expenses decreased by 6.8% mainly due to additional legal and consulting expenditures in 2017 that were not necessary in 2018. The decline in bond issuance costs and the CAPI Fund transfer is due to the issuance of 2017A – B – C – D series bonds in 2017 and no new bond issuances in 2018.

Financial Analysis of the Authority's Funds

General & Administrative Expenses

For the year ended December 31, 2018, the Authority's general and administrative expenses totaled \$412,481 verses \$442,303 in 2017. General and administrative expenses were 6.8% lower in 2018 compared to 2017 primarily due to decreases in professional fees and Authority meeting costs.

Figure A-3

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

	Total Cost of Services		Total Percentage Change
	2018	2017	
Wages and employee-related expenses	\$ 331	\$ 347	-4.6%
Professional fees	37	58	-36.2%
Office related	35	27	29.6%
Authority meetings	4	6	-33.3%
Miscellaneous	5	4	25.0%
Total	<u>\$ 412</u>	<u>\$ 442</u>	<u>-6.8%</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, 2018 there were three Authority employees. Wage and employee related expenses decrease of 4.6% is mainly due to a reduction in the net pension liability allocated to the Authority by the NYSLRS.

Figure A-4

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

	Total Cost of Services		Total Percentage Change
	2018	2017	
Salaries	\$ 228	\$ 224	1.8%
Payroll taxes	18	17	5.9%
Benefits	85	106	-19.8%
Total	<u>\$ 331</u>	<u>\$ 347</u>	<u>-4.6%</u>

Professional fees are paid for independent audit, legal, financial advisory, payroll and banking services. Legal fees decreased in 2018 due to lower legal counsel services needs. Audit fees decreased due to higher fees in 2017 attributable to 2017 Bond issuance accounting related consulting. No additional debt was issued in 2018 and no additional accounting consultation was needed. Payroll and banking service fees increase due to additional trustee fee charges relating to new debt issuances.

Figure A-5

Professional Fees
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2018	2017	
Legal services	\$ 1	\$ 30	-96.7%
Independent audit services	12	9	33.3%
Payroll and banking services	24	19	26.3%
Total	<u>\$ 37</u>	<u>\$ 58</u>	<u>-36.2%</u>

On November 1, 2010 the Authority agreed to continue its 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 2018. Lease & Utilities expenses increased mainly due to telephone charge corrections received from NYS IT services in 2017.

Figure A-6

Office Related Expenses
(in thousands of dollars)

	Total Cost of Services		Total Percentage Change
	2018	2017	
Lease and utilities	\$ 27	\$ 20	35.0%
Office supplies	8	7	14.3%
Total	<u>\$ 35</u>	<u>\$ 27</u>	<u>29.6%</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, 2018 amounted to \$459,137,914. The Authority received \$337,668 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition the Authority realized \$743 in interest income on cash held in interest-bearing bank accounts and interest income on notes receivable from the County amounting to \$16,509,904.

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 \$405,831,556 in net sales tax revenues to the County in the 2018 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) 608-2271, 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, NEW YORK)**

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 620,327
Restricted cash and cash equivalents	34,539,205
Restricted investments	4,213,974
Due from other governments - NYS sales tax	54,285,677
Mirror bond receivable - Erie County - due within one year	36,875,000
Loans receivable - Erie County - due within one year	3,130,000
Prepays	8,650
Interest receivable on receivables with Erie County	3,750,976
Mirror bond receivable - Erie County	175,446,785
Loans receivable - Erie County	164,743,177
Total assets	<u>477,613,771</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension outflows	89,919
Deferred outflows - advance refunding	3,290,182
Total deferred outflows of resources	<u>3,380,101</u>
LIABILITIES	
Accrued liabilities	42,447
Accrued interest on bonds	3,750,976
Due to Erie County:	
Sales taxes	54,785,065
Debt service set-asides	34,008,302
Capitalized interest set-asides	4,139,551
Interest on debt service set-asides	1,368
Bonds payable:	
Due within one year	40,005,000
Due beyond one year	340,299,481
Unearned revenues - NYS efficiency grants	10,000
ECFSA funds held for payoff	14,670
Net pension liability	16,717
Total liabilities	<u>477,073,577</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	69,236
Deferred inflows - advance refunding on loan	582,497
Total deferred inflows of resources	<u>651,733</u>
NET POSITION	
Restricted for debt service	4,046,000
Unrestricted (deficit)	(777,438)
Total net position	<u>\$ 3,268,562</u>

See accompanying 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, 2018**

	Governmental Activities
GENERAL REVENUES	
State sales taxes remitted to Erie County	\$ 405,831,556
State sales taxes set aside for Bonds	53,066,358
State sales taxes retained by ECFSA	240,000
Interest earned on sales tax	337,668
Interest earned on notes with Erie County	16,509,904
Other interest income	743
Net change in fair value of investments	121,073
Total general revenues	<u>476,107,302</u>
EXPENSES	
General and administrative	412,481
Distributions:	
Erie County - NYS sales taxes	405,831,556
Debt service set-asides	53,066,358
Interest expense	10,086,965
Total expenses	<u>469,397,360</u>
Change in net position	6,709,942
Net position (deficit) - beginning	<u>(3,441,380)</u>
Net position - ending	<u>\$ 3,268,562</u>

See accompanying notes to basic financial statements.

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

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 620,327	\$ -	\$ 620,327
Restricted cash and cash equivalents	499,990	34,039,215	34,539,205
Restricted investments	-	4,213,974	4,213,974
Due from other governments - NYS sales taxes	54,285,677	-	54,285,677
Prepays	8,650	-	8,650
Total assets	<u>\$ 55,414,644</u>	<u>\$ 38,253,189</u>	<u>\$ 93,667,833</u>
LIABILITIES			
Accrued liabilities	\$ 42,447	\$ -	\$ 42,447
Due to Erie County:			
Sales taxes	54,785,065	-	54,785,065
Debt service set-asides	-	34,008,302	34,008,302
Capitalized interest set-asides	-	4,139,551	4,139,551
Interest revenue on bond set-asides	1,190	178	1,368
Unearned revenues - NYS efficiency grants	10,000	-	10,000
ECFSA funds held for payoff	-	14,670	14,670
Total liabilities	<u>54,838,702</u>	<u>38,162,701</u>	<u>93,001,403</u>
FUND BALANCES			
Nonspendable - prepaid expenses	8,650	-	8,650
Unassigned	567,292	90,488	657,780
Total fund balances	<u>575,942</u>	<u>90,488</u>	<u>666,430</u>
 Total liabilities and fund balances	 <u>\$ 55,414,644</u>	 <u>\$ 38,253,189</u>	 <u>\$ 93,667,833</u>

See accompanying notes to basic financial statements.

**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, 2018**

Amounts reported for governmental activities in the Statement of Net Position (page 11) are different because:

Total fund balances - governmental funds (page 13)	\$ 666,430
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.	3,750,976
Purchase of loans and long-term bonds issued to the Authority for Erie County are reported as assets in the Statement of Net Position but not reported as assets in the governmental funds balance sheet.	341,925,000
Deferred outflows are not assets of the current period and therefore are not reported in the funds.	3,380,101
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.	(40,339,481)
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.	(3,750,976)
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.	38,269,962
Pension liabilities are not due and payable in the current period and therefore are not reported in the funds.	(16,717)
Deferred inflows are not liabilities of the current period and therefore are not reported in the funds.	(651,733)
Long-term liabilities (bonds payable) are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(339,965,000)</u>
Net position of governmental activities	\$ <u>3,268,562</u>

**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, 2018**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
State sales taxes remitted to Erie County	\$ 405,831,556	\$ -	\$ 405,831,556
State sales taxes set aside for bonds	53,066,358	-	53,066,358
State sales taxes retained by ECFA	240,000	-	240,000
Interest earned on sales taxes	337,668	-	337,668
Other interest income	743	-	743
Principal payments received on notes with Erie County	-	43,865,000	43,865,000
Interest received on notes with Erie County	-	17,857,634	17,857,634
Net change in fair value of investments	-	121,073	121,073
Total revenues	<u>459,476,325</u>	<u>61,843,707</u>	<u>521,320,032</u>
EXPENDITURES			
General and administrative	422,961	-	422,961
Distributions:			
Erie County - sales taxes	405,831,556	-	405,831,556
Debt service set-asides	53,066,358	-	53,066,358
Debt service:			
Principal	-	43,865,000	43,865,000
Interest	-	17,857,634	17,857,634
Total expenditures	<u>459,320,875</u>	<u>61,722,634</u>	<u>521,043,509</u>
Net change in fund balances	155,450	121,073	276,523
Fund balances (deficit) - beginning	<u>420,492</u>	<u>(30,585)</u>	<u>389,907</u>
Fund balances - ending	<u>\$ 575,942</u>	<u>\$ 90,488</u>	<u>\$ 666,430</u>

See accompanying notes to basic financial statements.

**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, 2018**

Amounts reported for governmental activities in the statement of activities (page 12) are different because:

Net change in fund balances - total governmental funds (page 15)	\$ 276,523
Interest revenue accrued 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.	(1,347,730)
The issuance of long-term receivables (i.e. bonds/loans) reduces current financial resources to governmental funds while the repayment of the principal of the long-term receivables provides the current financial resources of the governmental funds. Also, the governmental funds report the effect of discounts provided when the receivables are first recognized, 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 receivables and related items:	
Deferred outflow - advance refunding - amortization	\$ (339,050)
Repayment of bonds/loans to the Authority	(43,865,000)
Discount amortization	<u>(5,357,371)</u>
	(49,561,421)
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:	
Deferred inflow - advance refunding - amortization	\$ 60,026
Repayment of bonds	43,865,000
Premium amortization	<u>7,723,522</u>
	51,648,548
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.	5,683,542
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.	63,545
Change in the proportionate share of the net deferred pension 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.	(53,065)
Change in net position of governmental activities	\$ <u><u>6,709,942</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

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

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

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

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Basis of Presentation:

- 1. Government-Wide Statements:** The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major funds). The statement of net position and the statement of activities present financial information about the reporting government as a whole. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are supported by sales tax.

The government-wide focus is on the sustainability of the Authority as an entity and the change in the Authority's net position resulting from the current year's activities.

- 2. Fund Financial Statements:** Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues and expenditures. Funds are organized into one major category: governmental. An emphasis is placed on major funds within this governmental category.

Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon determination of financial position and changes in financial position. The following are the Authority's major governmental fund types:

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.

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.

Measurement Focus and Basis of Accounting: The government-wide 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. Nonexchange transactions, in which the Authority receives value directly without giving equal value in exchange, include State aid and sales taxes. Revenue is recognized in the fiscal year for which taxes and State aid are earned or designated. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

The governmental fund statements are reported using the current financial resources measurement focus and 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 Authority receives sales tax revenue several times each month, and receives interest earnings from time to time as investments mature. Funds for debt service are required to be set aside from revenues on a monthly basis. The Authority also withholds, as necessary, amounts which in its judgment are required for operations and operating reserves. Residual sales tax revenues and investment earnings are then transferred to the County.

- B. 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.
- C. 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.
- D. Restricted Assets:** Restricted assets consist of unspent proceeds from debt transactions and sales tax set-asides for purposes of future debt payments.
- E. Investments:** 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.
- F. 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 has two items that qualify for reporting in this category. The first item relates to pensions reported in the government-wide statement of net position. It 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 subsequent to the measurement date. See details of deferred pension outflows in Note 7. The second item relates to deferred charges on an advanced refunding. A deferred charge on refunding results from the difference in the net carrying value of the refunded debt and its reacquisition price. This amount is then amortized over the shorter of the life of the refunded or refunding debt. See details of refunding in Note 8.

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 two types of items that qualifies for reporting in this category. The first item is related to pensions reported in the government-wide statement of net position. It represents the effect of the net change in the Authority's proportion of the collective net pension liability 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. The second item relates to deferred charges on an advanced refunding. A deferred charge on refunding results from the difference in the net carrying value of the refunded debt and its reacquisition price. This amount is then amortized over the shorter of the life of the refunded or refunding debt. See details of refunding in Note 6.

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

NOTES TO BASIC FINANCIAL STATEMENTS

G. 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.

H. Equity Classification

Government-Wide Statements: 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.

Fund Statements: GASB requires the classification of fund balance of governmental funds is reported in up to five categories based on the nature of any limitations requiring the use of resources for specific purposes, as defined below:

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

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

Restricted for debt service: represents funds to be used toward the future repayment of bonded debt.

Committed – represents amounts that are subject to a purpose constraint imposed by a formal action of the Authority's highest level of decision-making authority. As of December 31, 2018, the Authority had no committed fund balances.

Assigned – represents amounts that are constrained by the Authority's intent to be used for the specified purposes noted below, but are neither restricted nor committed.

Unassigned – represents all amounts not included in other spendable classifications. The General fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of other governmental funds would also be reported as unassigned.

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.

I. 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

J. Fair Value Measurements: In accordance with GASB Statement No. 72, investments are reported at fair value. U.S. GAAP establishes a framework for measuring fair value of assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets that the Organization has ability to access.

Level 2: Valuation is based upon quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Valuation is based upon unobservable inputs that are significant to the fair value measurement.

Where quoted prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated using quoted prices of securities with similar characteristics or inputs other than quoted prices that are observable for the security, and would be classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities would be classified within Level 3 of the valuation hierarchy.

Following is a description of valuation methodology used at December 31, 2018:

U.S. Treasury Notes: Valued at the closing price reported on the active market on which the individual securities are traded.

K. Accounting Pronouncements: During the fiscal year ended December 31, 2018, the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; Statement No. 85, *Omnibus 2017*; and Statement No. 86, *Certain Debt Extinguishment Issues* became effective.

The Authority has evaluated these Statements and determined that they have no significant impact on the Authority's financial statements for the year ending December 31, 2018.

The following are GASB Statements that have been issued recently and are currently being evaluated, by the Authority, for their potential impact in future years.

- Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending December 31, 2019.
- Statement No. 84, *Fiduciary Activities*, which will be effective for the year ending December 31, 2019.
- Statement No. 87, *Leases*, which will be effective for the year ending December 31, 2020.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which will be effective for the year ending December 31, 2019.
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which will be effective for the year ending December 31, 2020.
- Statement No. 90, *Majority Equity Interests-an Amendment of GASB Statements No. 14 and 61*, which will be effective for the year ending December 31, 2019.

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

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, 2018.

Restricted cash and cash equivalents consist of money market funds 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/loans payable to the Authority in a segregated trust account and not commingled with the assets of the bank. The balance in these accounts is \$34,539,205 at December 31, 2018.

Additionally, funds set aside in a "capitalized interest fund" with the Trustee were invested into Treasury Securities on behalf of the Authority. The following table presents the investments and maturities of the Authority's securities with interest rate risk as of December 31, 2018:

Investment Type	Cost	Fair Value	Investment Maturities			
			Less than 6 months	6 months to 1 year	1-5 years	More than 5 years
U.S. Treasury Notes	\$ 4,240,064	\$ 4,213,974	\$ 2,104,986	\$ 2,108,988	\$ -	\$ -

All of the Authority's investments were valued based on Level 1 inputs.

Investment and Deposit Policy

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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

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 2018 of \$459,137,914 and the subsequent disbursements of \$405,831,556 were remitted to the County.
- b. The Authority retained \$240,000 of sales tax revenue in 2018 to offset the reduction in interest on sales tax revenue due to historically low interest rates.
- c. Loans, serial bonds and accrued interest receivable in the amount of \$385,303,284 were owed to the Authority by the County at December 31, 2018.

NOTE 5. DUE FROM OTHER GOVERNMENTS

Sales tax receivable amounted to \$54,285,677 at December 31, 2018. 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.

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

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM LIABILITIES

The Authority's serial bonds are as follows as of December 31, 2018:

<u>Bond Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>01/01/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/18</u>	<u>Due within one year</u>
Series 2010A bond	2.00-5.00%	05/2020	\$ 40,070,000	\$ -	\$ 12,725,000	\$ 27,345,000	\$ 13,350,000
Series 2010B bond	2.00-5.00%	07/2022	4,650,000	-	1,535,000	3,115,000	1,545,000
Series 2010C bond	2.25-5.24%	03/2020	19,565,000	-	6,215,000	13,350,000	6,515,000
Series 2011A bond	2.00-5.00%	04/2018	7,320,000	-	7,320,000	-	-
Series 2011B bond	2.00-5.00%	09/2023	9,595,000	-	1,420,000	8,175,000	1,485,000
Series 2013A bond	2.00-5.00%	03/2024	18,945,000	-	2,375,000	16,570,000	2,465,000
Series 2013B bond	2.00-5.00%	01/2024	17,850,000	-	5,420,000	12,430,000	5,685,000
Series 2013C bond	2.00-5.00%	08/2023	23,425,000	-	3,445,000	19,980,000	3,615,000
Series 2016A refunding bond	3.375-5.00%	05/2023	44,335,000	-	-	44,335,000	-
Series 2017A bond	4.00-5.00%	06/2031	32,075,000	-	-	32,075,000	1,800,000
Series 2017B bond	2.00-5.00%	11/2036	11,140,000	-	405,000	10,735,000	415,000
Series 2017C refunding bond	3.00-5.00%	09/2034	62,745,000	-	2,505,000	60,240,000	2,630,000
Series 2017D bond	3.00-5.00%	09/2039	92,115,000	-	500,000	91,615,000	500,000
			<u>383,830,000</u>	<u>-</u>	<u>43,865,000</u>	<u>339,965,000</u>	<u>40,005,000</u>
<u>Premiums:</u>							
2010A			946,846	-	491,611	455,235	-
2010B			112,161	-	60,706	51,455	-
2010C			401,746	-	252,284	149,462	-
2011A			45,330	-	45,330	-	-
2011B			479,219	-	147,788	331,431	-
2013A			1,664,006	-	424,021	1,239,985	-
2013B			729,405	-	439,167	290,238	-
2013C			1,657,060	-	517,190	1,139,870	-
2016A			7,425,940	-	1,666,496	5,759,444	-
2017A			6,575,673	-	1,137,983	5,437,690	-
2017B			1,454,490	-	189,180	1,265,310	-
2017C			11,220,447	-	1,319,225	9,901,222	-
2017D			15,350,680	-	1,032,541	14,318,139	-
			<u>48,063,003</u>	<u>-</u>	<u>7,723,522</u>	<u>40,339,481</u>	<u>-</u>
			<u>\$ 431,893,003</u>	<u>\$ -</u>	<u>\$ 51,588,522</u>	<u>\$ 380,304,481</u>	<u>\$ 40,005,000</u>

Debt service requirements:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 40,005,000	\$ 15,556,168	\$ 55,561,168
2020	41,665,000	13,672,234	55,337,234
2021	29,990,000	11,952,831	41,942,831
2022	31,430,000	10,440,547	41,870,547
2023	32,905,000	8,845,993	41,750,993
2024-2028	49,295,000	33,185,340	82,480,340
2029-2033	51,165,000	20,785,865	71,950,865
2034-2038	51,995,000	10,018,768	62,013,768
2039	11,515,000	575,750	12,090,750
	<u>\$ 339,965,000</u>	<u>\$ 125,033,496</u>	<u>\$ 464,998,496</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

Prior Years Defeasance of Debt

In prior years, the Authority defeased serial bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority’s financial statements. At December 31, 2018, \$107,590,000 of defeased bonds remain outstanding.

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 defined benefit retirement system. 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 fiduciary 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 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 after July 27, 1976 who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010, who generally contribute three percent (3%) to three and one half percent (3.5%) of their salary for their entire length of service. In addition, employee contribution rates under Tier VI vary based on a sliding salary scale. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the system’s fiscal year ending March 31st.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018, the Authority reported the following liability for its proportionate share of the net pension liability to the System. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2017. 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. This information was provided by the ERS System in reports provided to the Authority.

	<u>ERS</u>
Measurement date	03/31/18
Net pension liability	\$ 16,717
Authority’s portion of the Plan’s total net pension liability	0.0005180 %
Change in proportion since the prior measurement date	(0.0003362)

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

NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended December 31, 2018, the Authority recognized a pension expense of \$24,076. At December 31, 2018 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	\$ 5,963	\$ 4,927
Change of assumptions	11,085	-
Net difference between projected and actual earnings on pension plan investments	24,280	47,927
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	22,641	16,382
Authority's contributions subsequent to the measurement date	<u>25,950</u>	<u>-</u>
Total	<u>\$ 89,919</u>	<u>\$ 69,236</u>

Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>ERS</u>
<u>Year ended March 31:</u>	
2019	\$ 7,442
2020	5,639
2021	(11,816)
2022	(6,532)
2023	-
Thereafter	-

Actuarial Assumptions

The total pension liability as of the March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuation used the following actuarial assumptions:

	<u>ERS</u>
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

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

NOTES TO BASIC FINANCIAL STATEMENTS

Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on the Society of Actuaries’ Scale MP-2014. The actuarial assumptions used in the April 1, 2017 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.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 are summarized below:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Asset Class:		
Domestic equity	36.0 %	4.6 %
International equity	14.0	6.4
Private equity	10.0	7.5
Real estate	10.0	5.6
Absolute return strategies	2.0	3.8
Opportunistic funds/portfolio	3.0	5.7
Real assets	3.0	5.3
Bonds and mortgages	17.0	1.3
Cash	1.0	-0.3
Inflation-indexed bonds	4.0	1.3
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 present 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>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)	\$ 126,487	\$ 16,717	\$ (76,144)

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

NOTES TO BASIC FINANCIAL STATEMENTS

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2018 were as follows:

	<u>(Dollars in Thousands)</u>
	<u>ERS</u>
Employer' total pension liability	\$ 183,400,590
Plan net position	<u>180,173,145</u>
Employers' net pension liability	<u>\$ 3,227,445</u>
Ratio of plan net position to the employers' total pension liability	98.2%

Prepaid to Pension Plan

Employer contributions are paid annually based on the System fiscal year which ends on March 31st. Prepaid retirement contributions as of December 31, 2018 represent the employer contribution for the period of January 1, 2019 through March 31, 2019. Prepaid retirement contributions as of December 31, 2018 amounted to \$8,650.

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>Bond/Loan Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>01/01/18</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/18</u>	<u>Due within one year</u>
Series 2010A bond	2.00-5.00%	05/2023	\$ 86,365,000	\$ -	\$ 12,725,000	\$ 73,640,000	\$ 13,350,000
Series 2010B bond	2.00-5.00%	07/2022	4,650,000	-	1,535,000	3,115,000	1,545,000
Series 2010C bond	2.25-5.24%	03/2020	19,565,000	-	6,215,000	13,350,000	6,515,000
Series 2011A bond	2.00-5.00%	04/2018	7,320,000	-	7,320,000	-	-
Series 2011B bond	2.00-5.00%	09/2023	9,595,000	-	1,420,000	8,175,000	1,485,000
Series 2013A bond	2.00-5.00%	03/2024	18,945,000	-	2,375,000	16,570,000	2,465,000
Series 2013B bond	2.00-5.00%	01/2024	17,850,000	-	5,420,000	12,430,000	5,685,000
Series 2013C bond	2.00-5.00%	08/2023	23,425,000	-	3,445,000	19,980,000	3,615,000
Series 2017A bond	4.00-5.00%	06/2031	32,075,000	-	-	32,075,000	1,800,000
Series 2017B bond	2.00-5.00%	11/2036	11,140,000	-	405,000	10,735,000	415,000
Series 2017C refunding loan	3.00-5.00%	09/2034	62,745,000	-	2,505,000	60,240,000	2,630,000
Series 2017D loan	3.00-5.00%	09/2039	92,115,000	-	500,000	91,615,000	500,000
			<u>\$ 385,790,000</u>	<u>\$ -</u>	<u>\$ 43,865,000</u>	<u>\$ 341,925,000</u>	<u>\$ 40,005,000</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

Debt service receivables:

Year ending December 31,	Mirror bonds receivables		Long-term loan receivables	
	Principal	Interest	Principal	Interest
2019	\$ 36,875,000	\$ 8,410,668	\$ 3,130,000	\$ 7,145,500
2020	38,405,000	6,646,934	3,260,000	7,025,300
2021	25,760,000	5,085,531	4,865,000	6,867,300
2022	26,995,000	3,816,497	5,085,000	6,624,050
2023	28,270,000	2,476,193	5,310,000	6,369,800
2024-2028	18,860,000	5,570,840	30,435,000	27,614,500
2029-2033	13,015,000	1,426,715	38,150,000	19,359,150
2034-2038	1,890,000	-	50,105,000	9,922,850
2039	-	-	11,515,000	575,750
	<u>190,070,000</u>	<u>\$ 33,433,378</u>	<u>151,855,000</u>	<u>\$ 91,504,200</u>
Unamortized discount	<u>22,251,785</u>		<u>16,018,177</u>	
	<u>\$ 212,321,785</u>		<u>\$ 167,873,177</u>	

In September 2017, the Authority entered into a loan agreement with Erie County in the amount of \$62,745,000, secured by sales tax and State aid with interest rates ranging from 3.0% to 5.0% to advance refund \$70,355,000 of the outstanding Series 2011C loan with an interest rate of 5.0%. As this is a mirror loan, related to the 2011C bond and 2017C refunding bond, the details of the defeased debt is further disclosed in Note 6.

NOTE 9. SUBSEQUENT EVENTS

These financial statements have not been updated for subsequent events occurring after March 26, 2019 which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**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 FOUR FISCAL YEARS ***

	Year Ended December 31,			
	2015	2016	2017	2018
<u>Employees' Retirement System (ERS)</u>				
Measurement date	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Authority's proportion of the net pension liability	0.0009212%	0.0009175%	0.0008542%	0.0005180%
Authority's proportionate share of the net pension liability	\$ <u>31,120</u>	\$ <u>147,269</u>	\$ <u>80,262</u>	\$ <u>16,717</u>
Authority's covered payroll	\$ 273,682	\$ 235,494	\$ 219,709	\$ 222,258
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	11%	63%	37%	8%
Plan fiduciary net position as a percentage of the total pension liability	97.9%	90.7%	94.7%	98.2%

* Data prior to 2015 is unavailable.

**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**

	Year ended December 31, 2018									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Employees' Retirement System (ERS)</u>										
Contractually required contribution	\$ 12,012	\$ 18,888	\$ 26,242	\$ 63,142	\$ 51,569	\$ 49,588	\$ 53,070	\$ 42,566	\$ 36,458	\$ 34,556
Contributions in relation to the contractually required contribution	<u>12,012</u>	<u>18,888</u>	<u>26,242</u>	<u>63,142</u>	<u>51,569</u>	<u>49,588</u>	<u>53,070</u>	<u>42,566</u>	<u>36,458</u>	<u>34,556</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Authority's covered payroll	\$ 232,512	\$ 248,201	\$ 252,350	\$ 262,572	\$ 250,877	\$ 263,553	\$ 266,365	\$ 271,693	\$ 221,491	\$ 224,814
Contributions as a percentage of covered payroll	5%	8%	10%	24%	21%	19%	20%	16%	16%	15%

The note to the required supplementary information is an integral part of the schedule.

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – FACTORS AFFECTING TRENDS IN PENSIONS

The Authority's proportionate share of the net pension liability of the pension system is significantly dependent on the performance of the stock market and the funds that the retirement system invest in. In addition to this performance variable, the discount factor has varied from 7.5% to 7.0% over the past four years.

INTERNAL CONTROL AND COMPLIANCE

**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 the
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, 2018, 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 26, 2019.

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 26, 2019