

ERIE COUNTY FISCAL
STABILITY AUTHORITY
(A Component Unit of Erie County)
Financial Statements and Management's
Discussion and Analysis
December 31, 2005
(With Independent Auditor's Report thereon)

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Erie County Fiscal Stability Authority:

We have audited the accompanying financial statements of the governmental activities and general fund of the Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County, as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and general fund of the Authority, as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2006, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 and 4 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 19, 2006

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

Management's Discussion and Analysis

December 31, 2005

The Erie County Fiscal Stability Authority, a component unit of Erie County, is a New York State authority empowered to monitor and oversee the finances of Erie County, New York (the County). In its oversight capacity, the Authority is empowered to, among other things, review County financial plans submitted to it; make recommendations or, if necessary, adverse findings thereon; make State aid available as it determines; comment on proposed borrowings by the County and certain affiliated organizations; and impose a "control period" upon making one of several statutory findings concerning the County's financial position. To date, the Authority has not imposed a control period and is considered to be a "soft" control board.

Revenues to fund Authority operations are provided by a portion of the sales tax revenues of the County on which the Authority has a first lien. The Authority has no other operating income or taxing power.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial statements of the Authority consist of the following components: management's discussion and analysis (this section), financial statements and the notes to the financial statements.

Management's discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2005. The overview, which covers the most important financial events of the period, should be read in conjunction with the Authority's financial statements, including the notes to the financial statements.

Government-wide financial statements of the Authority are in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." The government-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting entity as a whole. The statement of net assets presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. The statement of activities presents information showing how the Authority's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Governmental fund financial statements are not required as there is only one fund (the general fund) and there were no differences in the net assets and fund balances under the modified accrual basis of accounting and the accrual basis of accounting.

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

Management's Discussion and Analysis, Continued

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS

The single most critical factor in the Authority's financial position is sales tax revenue, which provides 100% of the Authority's 2005 revenue. The State legislation that created the Authority in July 2005 granted the Authority a first lien and perfected security interest in net collections from sales and compensating use taxes authorized by the State and imposed by the County, currently at the rate of 4¾%, on the sales and use of personal property and services in the County, excluding the component that is allocable to towns, cities, school districts and villages within the County.

The amount of sales tax revenues to be collected depends upon various factors including the economic conditions in the County, which has experienced numerous cycles of growth and recession. In addition, specific goods and services can be exempted from the imposition of sales tax, and the rate of taxation can be changed. Of the current 4¾% sales tax rate, 3% is a base rate and the remaining 1¾% is subject to periodic renewals.

Sales tax revenue of the Authority for the year ended December 31, 2005 amounted to \$158,315,381, of which \$157,163,852 was distributed or payable to Erie County.

The Authority's administration expenses amounted to approximately \$1,116,000 and consisted primarily of professional fees of \$996,000 and general operating expense of \$120,000. The Authority had an increase in its net assets of approximately \$35,000 for the year ended December 31, 2005.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This report is designed to provide the citizens of Erie County and various government officials with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about the report or need additional financial information, please contact the authority at:

Erie County Fiscal Stability Authority
295 Main Street
Room 978
Buffalo, New York 14203

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Statement of Net Assets - General Fund
December 31, 2005

Assets

Cash and equivalents	\$ 88,596
Sales tax receivable	33,484,523
Prepaid expenses	<u>1,533</u>
Total assets	<u>\$ 33,574,652</u>

Liabilities and Net Assets

Liabilities:

Accounts payable	54,598
Due to Erie County - sales tax	<u>33,484,523</u>
Total liabilities	33,539,121
Unrestricted net assets - general fund	<u>35,531</u>
Total liabilities and net assets	<u>\$ 33,574,652</u>

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
 (A Component Unit of Erie County)
 Statement of Activities and Changes in Net Assets
 Year ended December 31, 2005

Expenses:

General and administrative:

Payroll	\$ 65,570
Payroll taxes and employee benefits	8,768
Consulting fees	864,340
Legal fees	131,414
Insurance	1,512
Rent	5,153
Office supplies	17,676
Meeting expense	7,727
Travel	13,813
Miscellaneous	<u>25</u>
Total expenses	<u>1,115,998</u>

General revenue:

Sales tax	158,315,381
Less distributions to Erie County	<u>(157,163,852)</u>
Total general revenue	<u>1,151,529</u>

Increase in net assets	35,531
Net assets at beginning of year	<u>-</u>
Net assets at end of year	<u><u>\$ 35,531</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

December 31, 2005

(1) Organization

The Erie County Fiscal Stability Authority (the Authority), a component unit of Erie County is a corporate governmental agency and instrumentality of the State of New York (the State) constituting a public benefit corporation created by the Erie County Fiscal Stability Authority Act in July 2005. Although legally separate and independent of Erie County (the County), the Authority is a component unit of the County for financial reporting purposes and, accordingly, is included in the County's financial statements.

The Authority is governed by seven directors, each appointed by the Governor, including one each appointed upon the recommendation of the Majority Leader of the State Senate, the Speaker of the Assembly and the State Comptroller. The Governor also designates the chairperson and vice chairperson from among the directors.

The Authority has power under the Act to monitor and oversee the finances of Erie County, and upon declaration of a "Control Period" as defined in the Act, provide additional oversight authority.

Revenues of the Authority consist solely 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. Sales tax revenues collected by 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The government-wide financial statements of the Authority, which include the statement of net assets and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statement of net assets and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

(b) Basis of Presentation

The Authority uses one governmental fund (the General Fund) to report its financial position and the results of operations. The General Fund accounts for sales tax revenues received by the Authority and for general operating expenses of the Authority. In 2005, there is no material difference between the net assets of the entity wide statements and the general fund statements.

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

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(c) Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Revenue Recognition

No revenues are generated from operating activities of the Authority, therefore, all revenues are defined by the Authority as non-operating 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.

(3) Transactions with and on Behalf of Erie County

The Act and other legal documents of the Authority establish various financial relationships between the Authority and the County. The resulting financial transactions between the Authority and the County include the receipt and use of sales tax revenues. The receipt and remittance of sales tax revenues for the year ended December 31, 2005 amounted to \$137,477,482, of which \$136,325,953 was remitted to Erie County. The balance was retained for Authority operations.

(4) Cash and Cash Equivalents

The Authority invests in accordance with the guidelines required by New York Public Authorities Law. As of December 31, 2005 the Authority only held cash.

All bank deposits of Authority funds are required to be fully collateralized or insured. Collateral for the Authority's cash and certificates of deposit (in amounts in excess of Federal deposit insurance) is 102% of the amount of the cash or certificate of deposit amount, is held by a third party custodian in the Authority's account, and consists of U.S. government or agency obligations. At December 31, 2005, all of the Authority's cash balance was Federally insured.

(5) Sales Tax Receivable

Sales tax receivable amounted to \$33,484,523 at December 31, 2005 and is receivable from the New York Office of the State Comptroller and due to Erie County. This amount was transferred in and out subsequent to year-end.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Erie County Fiscal Stability Authority:

We have audited the financial statements of Erie County Fiscal Stability Authority (A Component Unit of Erie County), as of and for the year ended December 31, 2005, and have issued our report thereon dated May 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the use of the Audit Committee, the Board of Directors, management of the Authority, the Erie County Comptroller, the New York State Governor, the New York State Senate Finance Committee, the New York State Assembly Ways and Means Committee and the Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Scheepers & Co., P.C.

Williamsville, New York
May 19, 2006

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH INVESTMENT GUIDELINES

To the Board of Directors
Erie County Fiscal Stability Authority:

We have audited the financial statements of Erie County Fiscal Stability Authority (A Component Unit of Erie County), as of and for the year ended December 31, 2005, and have issued our report thereon dated May 19, 2006.

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 and whether management has complied with the Investment Guidelines for Public Authorities.

Compliance with the Investment Guidelines for Public Authorities applicable to the Erie County Fiscal Stability Authority is the responsibility of the Authority's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with Investment Guidelines for Public Authorities. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the Authority complied, in all material respects, with the provisions referred to in the proceeding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

This report is intended solely for the use of the Audit Committee, the Board of Directors, management of the Authority, the Erie County Comptroller, the New York State Governor, the New York State Senate Finance Committee, the New York State Assembly Ways and Means Committee and the Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 19, 2006