

ERIE COUNTY FISCAL
STABILITY AUTHORITY
(A Component Unit of Erie County)
Financial Statements and Management's
Discussion and Analysis
December 31, 2006 and 2005
(With Independent Auditor's Report thereon)

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

Contents

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Financial Statements:	
Statements of Net Assets - General Fund	7
Statements of Activities and Changes in Net Assets - General Fund	8
Notes to Financial Statements	9 - 12
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 <u>Government Auditing Standards</u>	13 - 14
Independent Auditor's Report on Compliance with Investment Guidelines	15

* * * * *

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
555 INTERNATIONAL DRIVE
WILLIAMSVILLE, NEW YORK 14221
TELEPHONE (716) 634-0700
FAX (716) 634-0764

INDEPENDENT AUDITOR'S 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 years ended December 31, 2006 and 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 audits.

We conducted our audits 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 audits provide 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, 2006 and 2005, and the respective changes in financial position thereof for the years 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 March 9, 2007, 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 to 6 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. This information is the responsibility of the Authority's management. 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
March 9, 2007

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

Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS AND ANALYSIS

Financial Highlights

The Erie County Fiscal Stability Authority's (the Authority) 2006 fiscal year was highlighted by a 57 percent decrease in operating expenses. Operating expenses totaled \$484,894, a decrease of \$631,104 compared to the \$1,115,998 incurred during the fiscal year ended December 31, 2005. The 2005 fiscal year began on July 12, 2005, the effective date of the Authority's enabling legislation. Operating expenses decreased despite a change in the Authority's oversight status from advisory to control on November 3, 2006 and a lawsuit against the Authority filed by the County on November 6, 2006 challenging the imposition of a control period. The Authority's motion to dismiss the County's suit was granted on January 26, 2007.

Other financial highlights include realization of interest income totaling \$1,223,681, with \$596,717 coming from interest on sales tax transferred to the Authority by the Office of the New York State Comptroller and \$626,964 in interest income realized on cash held in interest bearing bank accounts. The Authority transferred \$355,383,774 to the County in the 2006 fiscal year, including \$2,991,667 to pay for interest charges on the County's 2005 Revenue Anticipation Note as required by its enabling legislation. The \$80 million note was repaid in full during 2006 using County funds. Unrestricted net assets of the Authority increased \$357,120, from \$35,531 as of December 31, 2005 to \$392,651 as of December 31, 2006, due to interest income offset by general and administrative expenses.

The Authority's basic financial statements consist of two government-wide financial statements and accompanying notes, an integral part of the financial statements. The *Statement of Net Assets* presents the Authority's assets, liabilities, and net assets. The *Statement of Activities and Changes in Net Assets* presents the Authority's revenues, expenses and the resulting change in net assets. These statements are prepared 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" using the economic resource measurement focus and accrual basis of accounting to display information about the reporting entity as a whole. Governmental fund financial statements are not prepared or required for the Authority as only one fund - the Authority's General Fund - is used for operation and there were no differences in the Authority's fund balances under the modified accrual basis of accounting and its net assets under the accrual basis of accounting. Comparative and financial statement line item analyses are presented below.

Although legally separate and independent of Erie County, New York (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. A discussion of the County's fiscal activities and financial condition is available in the County's 2006 Financial Statements and Management's Discussion and Analysis.

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

Management's Discussion and Analysis, Continued

Comparative Analysis

Table 1 summarizes the Authority's net assets as of December 31, 2006 and December 31, 2005.

Table 1
Net Assets as December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and equivalents	\$ 466,707	88,598
Sales tax receivable	41,563,102	33,484,523
Prepaid expenses	<u>7,304</u>	<u>1,533</u>
Total assets	<u>42,037,113</u>	<u>33,574,652</u>
Liabilities:		
Accounts payable	74,276	54,598
Accrued liabilities	7,084	-
Due to Erie County - sales tax	<u>41,563,102</u>	<u>33,484,523</u>
Total Liabilities	<u>41,644,462</u>	<u>33,539,121</u>
Net Assets:		
Unrestricted	<u>392,651</u>	<u>35,531</u>
Total net assets	<u>\$ 42,037,113</u>	<u>33,574,652</u>

Table 2 summarizes the change in the Authority's net assets during the fiscal year ended December 31, 2006 and 2005. The Authority's 2005 fiscal year began on July 12, the effective date of its enabling legislation.

Table 2
Changes in Net Assets for the Years
ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Sales tax	\$ 355,002,107	158,163,852
Interest income	1,223,681	151,529
Less- distributions to Erie County	<u>(355,383,774)</u>	<u>(157,163,852)</u>
Total revenues	<u>842,014</u>	<u>1,151,529</u>
Expenses- General and administrative	<u>484,894</u>	<u>1,115,998</u>
Change in Net Assets	357,120	35,531
Net Assets at Beginning of Year	<u>35,531</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 392,651</u>	<u>35,531</u>

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

Management's Discussion and Analysis, Continued

General and Administrative Expense

During the year ended December 31, 2006, the Authority's general and administrative expenses totaled \$484,894, a decrease of \$631,104 compared to the \$1,115,998 incurred during the fiscal year ended December 31, 2005. General and administrative expenses were lower than the \$1,826,000 budgeted, primarily due to lower than expected professional fees. The Authority budgeted \$700,000 for professional fees in 2006. Actual 2006 professional fees were \$125,784. The Authority's general and administrative consist of the following expense categories:

2006 General and Administrative Expenses

<i>Category</i>	<i>Expense</i>
Wages and Employee-Related	\$311,228
Professional Fees	125,784
Office Related	32,900
Authority Meetings	11,937
Travel	3,045
Total	\$ 484,894

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, 2006, there were three Authority employees. The Authority's directors serve without compensation, but are reimbursed for any Authority-related expenses.

2006 Wages and Employee-Related Expenses

<i>Sub-Category</i>	<i>Expense</i>
Salaries	\$ 260,564
Payroll Taxes	22,600
Benefits	28,064
Total	\$ 311,228

Professional fees were paid for independent audit, legal, financial advisory and payroll services as follows:

2006 Professional Fees

<i>Sub-Category</i>	<i>Expense</i>
Legal Services	\$ 98,171
Financial Advisory Services	21,402
Audit Services	5,240
Payroll and Banking Services	971
Total	\$ 125,784

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

Management's Discussion and Analysis, Continued

The Authority signed a five year, two month lease for office space with Ellicott Development in August 2005. Office-related expenses were incurred for the Authority's lease of office space, insurance, and office supplies as follows:

2006 Office Related	
<i>Sub-Category</i>	<i>Expense</i>
Rent	\$20,409
Office supplies	12,491
Total	\$32,900

Revenues and Sales Tax Distributions

Revenues of the Authority include the County's share of Erie County sales tax revenues and, to a much smaller extent, interest income earned on cash held by the Authority. 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 compensating use tax rate in the County is 4.75 percent consisting of a 3 percent base rate and 1.75 percent, which is subject to periodic renewals. The Authority receives all sales tax revenues imposed by the County except for the component that is allocable to the towns, cities, school districts and villages within the County. Sales tax revenues are 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, 2006 was \$355,002,107. The Authority received \$596,717 in interest on sales tax transferred to the Authority by the Office of the New York State Comptroller. In addition, the Authority realized \$626,964 in interest income on cash held in interest-bearing bank accounts.

Revenues of the Authority must be applied first to pay debt service on 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 \$355,383,774 to the County in the 2006 fiscal year, including \$2,991,667 to pay for interest charges on the County's 2005 Revenue Anticipation Note as required by its enabling legislation.

Contacting the Authority

The Authority's financial statements and management's discussion and analysis are designed to provide citizens, taxpayers and government officials with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Authority by phone at (716) 847-7184, by e-mail at info@ecfsa.state.ny.us or by mail at 295 Main Street, Suite 946, Buffalo, New York 14203.

ERIE COUNTY FISCAL STABILITY AUTHORITY
 (A Component Unit of Erie County)
 Statements of Net Assets - General Fund
 December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Cash and equivalents	\$ 466,707	88,596
Sales tax receivable	41,563,102	33,484,523
Prepaid expenses	7,304	1,533
Total assets	\$ 42,037,113	33,574,652
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	74,276	54,598
Accrued liabilities	7,084	-
Due to Erie County - sales tax	41,563,102	33,484,523
Total liabilities	41,644,462	33,539,121
Unrestricted net assets - general fund	392,651	35,531
Commitment (note 7)		
Total liabilities and net assets	\$ 42,037,113	33,574,652

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
 (A Component Unit of Erie County)
 Statements of Activities and Changes in Net Assets - General Fund
 Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Expenses:		
General and administrative:		
Payroll	\$ 260,564	65,570
Payroll taxes and employee benefits	50,664	10,057
Consulting fees	21,402	864,340
Legal fees	98,171	131,414
Audit fees	5,240	-
Rent	20,409	5,153
Office supplies	12,491	17,676
Meeting expense	11,937	7,727
Travel	3,045	13,813
Payroll and bank service fees	971	248
Total expenses	484,894	1,115,998
General revenue:		
Sales tax	355,002,107	158,163,852
Interest income	1,223,681	151,529
Less distributions to Erie County	(355,383,774)	(157,163,852)
Total general revenue	842,014	1,151,529
Increase in net assets	357,120	35,531
Net assets at beginning of year	35,531	-
Net assets at end of year	\$ 392,651	35,531

See accompanying notes to financial statements.

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

Notes to Financial Statements

December 31, 2006 and 2005

(1) Organization

The Erie County Fiscal Stability Authority (the Authority) is as a corporate governmental agency and instrumentality of the State of New York 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 by Chapter 182 of the Laws of 2005 (the Act), as amended by Chapter 183 of the Laws of 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 making 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 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.

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

Notes to Financial Statements, Continued

(1) Organization, Continued

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.

Revenues of the Authority consist 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 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 statements of net assets and the statements of activities and changes in net assets, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statements of net assets and the statements of activities and changes in net assets 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 2006, there is no material difference between the net assets of the government-wide financial statements and the fund balance of the general fund financial statements.

(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.

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

Notes to Financial Statements, Continued

(2) Summary of Significant Accounting Policies, Continued

(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.

(e) Reclassifications

Reclassifications were made to 2005 balances in order to conform them to the 2006 presentation.

(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 accrual of sales tax revenues in 2006 and 2005 of \$355,002,107 and \$158,163,852, respectively. In 2006 and 2005 \$355,383,774 and \$157,163,852, respectively, was remitted to the County.

(4) Cash and Equivalents

The Authority invests in accordance with the guidelines required by New York Public Authorities Law. As of December 31, 2006 and 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, 2006 and 2005, all of the Authority's cash balance was Federally insured.

(5) Sales Tax Receivable/Due to Erie County

Sales tax receivable amounted to \$41,563,102 and \$33,484,523 at December 31, 2006 and 2005, respectively. These amounts are receivable from the New York State Office of the State Comptroller and are also due to Erie 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)

Notes to Financial Statements, Continued

(6) Retirement Plan

(a) Plan Description

The Authority participates in the New York State and Local Employees' Retirement System (the System), a cost sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issued a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Governor Alfred E. Smith State Office Building, Albany, NY 12244.

(b) Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Employees in the System more than ten years are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The Authority is required to contribute at an actuarially determined rate. The Authority paid the required contribution of \$9,220 for the period April 1, 2006 to March 31, 2007.

(7) Commitment

The Authority is obligated under an operating lease agreement for office and parking space which expires in September 2010. Obligations related to this lease are accounted for in the statements of activities and changes in net assets, and amounted to \$20,409 and \$5,153 for the years ended December 31, 2006 and 2005, respectively. Future minimum lease payments are as follows:

2007	\$ 19,476
2008	19,476
2009	19,476
2010	<u>14,607</u>
Total	\$ <u>73,035</u>

TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DRIVE

WILLIAMSVILLE, NEW YORK 14221

TELEPHONE (716) 634-0700

FAX (716) 634-0764

**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, 2006, and have issued our report thereon dated March 9, 2007. 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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

We noted certain matters that we reported to management of the Authority in a separate letter dated March 9, 2007.

This report is intended solely for the information and use of the management of the Authority, the Audit Committee, the Board of Directors, 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
March 9, 2007

TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DRIVE

WILLIAMSVILLE, NEW YORK 14221

TELEPHONE (716) 634-0700

FAX (716) 634-0764

**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, 2006, and have issued our report thereon dated March 9, 2007.

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 preceding 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 information and use of the management of the Authority, the Audit Committee, the Board of Directors, 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
March 9, 2007