ERIE COUNTY FISCAL STABILITY AUTHORITY

(A Component Unit of Erie County)

Financial Statements and Management's
Discussion and Analysis

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

Contents

	Page
Independent Auditors' 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 - 14
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	15 - 16
Independent Accountants' Report on Investment Compliance	17

* * * * *

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

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, 2009 and 2008, 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. An audit also includes 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, 2009 and 2008, 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 April 9, 2010, 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 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.

Williamsville, New York
April 9, 2010

FINANCIAL HIGHLIGHTS AND ANALYSIS

Financial Highlights

The Erie County Fiscal Stability Authority's (the Authority) 2009 fiscal year was highlighted by spending of only $493,012 of its allocated $696,000 operating budget. Most of the unspent funds were returned to Erie County (the County). The Authority spent approximately 71% of its allocated budget, despite being in a control status for the entire year.

Other financial highlights include the transfer of $1,328,261 in New York State efficiency grant monies to the County primarily for costs related to renovations of the 1st and 16th floors of the Rath Building for more efficient space utilization and to off-set costs required to secure a new collective bargaining agreement between the County and the New York State Nurses Association.

The Authority issued two bond anticipation notes (BAN's) in 2009 totaling $167,480,000. The funds were used to purchase a BAN issued by the County in May of 2009 in the amount of $103,534,867 and a revenue anticipation note issued by the County in October of 2009 in the amount of $65,000,000.

The Authority has brought almost $13 million in efficiency grant monies to Erie County over the past four years with another $4.1 million available for future awarding.

The Authority has established a four year planning cycle to provide reasonable assurance that short-term benefits are not made at a cost to long-term stability. The Authority, through its financial oversight, hiring freeze and contract review process, has contributed significantly to five straight years of surpluses for the County.

The Authority's basic financial statements consist of two government-wide financial statements and accompanying notes. 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 revenue, 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 operations 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 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 will be available in the County's 2009 Financial Statements and Management's Discussion and Analysis.

Comparative Analysis

Table 1 summarizes the Authority's net assets as of December 31, 2009 and 2008.

Table 1
Net Assets as of December 31, 2009 and 2008

	2009	2008
Assets:		
Cash and equivalents	$ 649,845	719,411
Sales tax receivable	43,106,355	42,495,367
Efficiency grants receivable	4,293,345	142,337
Prepaid expenses	-	9,107
Notes and interest receivable	169,374,283	-
Other assets	118,008	-
Total assets	$ 217,541,836	43,366,222
Liabilities:		
Accounts payable	12,924	24,151
Accrued liabilities	41,096	24,046
Due to Erie County - sales tax	43,106,355	42,495,367
Efficiency grants payable to Erie County	4,395,170	423,253
Bond anticipation notes payable	167,480,000	-
Accrued interest payable	1,406,489	-
Unamortized bond premiums	601,827	-
Total liabilities	217,043,861	42,966,817
Net Assets - unrestricted	497,975	399,405
Total liabilities and net assets	$ 217,541,836	43,366,222

Table 2 summarizes the change in the Authority's net assets during the years ended December 31, 2009 and 2008.

Table 2
Increase (Decrease) in Net Assets for the Years ended December 31, 2009 and 2008

	2009	2008
Revenue:		
Sales tax	$ 362,704,918	386,851,388
Efficiency grant income	5,300,178	710,676
State aid incentives	668,332	668,332
Interest and other income	905,023	375,943
Less - distributions to Erie County	(368,151,428)	(388,230,396)
Total revenue	1,427,023	375,943
Expenses	1,328,453	487,738
Increase (decrease) in net assets	98,570	(111,795)
Net assets at beginning of year	399,405	511,200
Net assets at end of year	$ 497,975	399,405

General and Administrative Expenses

During the year ended December 31, 2009, the Authority's general and administrative expenses totaled $493,012. General and administrative expenses were $202,988 lower than the $696,000 budgeted, primarily due to lower than expected professional fees and wage expense. The Authority budgeted $232,700 for professional fees and $392,800 for wage expense in 2009. Actual 2009 professional fees were $144,347 and actual wage expense was $302,522. The Authority's general and administrative expenses consist of the following categories:

Table 3 - 2009 and 2008 General and Administrative Expenses

Category	*2009*	*2008*
Wages and employee-related	$ 302,522	306,378
Professional fees	144,347	127,801
Office related	29,272	34,476
Authority meetings	11,680	17,920
Travel	271	1,163
Miscellaneous	4,920	-
Total	**$ 493,012**	**487,738**

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, 2009, there were four Authority employees. The Authority's directors serve without compensation, but are reimbursed for any Authority-related expenses.

Table 4 - 2009 and 2008 Wages and Employee-Related Expenses

Sub-Category	*2009*	*2008*
Salaries	$ 234,650	225,687
Payroll taxes	18,986	17,983
Benefits	48,886	62,708
Total	**$ 302,522**	**306,378**

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

Table 5 - 2009 and 2008 Professional Fees

Sub-Category	*2009*	*2008*
Legal services	$ 110,293	74,022
Financial advisory services	25,880	45,400
Independent audit services	6,386	6,386
Payroll and banking services	1,788	1,993
Total	**$ 144,347**	**127,801**

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:

Table 6 - 2009 and 2008 Office Related Expenses

Sub-Category	*2009*	*2008*
Lease and utilities	$ 15,450	23,707
Office supplies	10,563	8,541
Insurance	3,259	2,228
Total	**$ 29,272**	**34,476**

Revenue and Sales Tax Distributions

Revenue of the Authority includes the County's share of sales tax revenue and, to a much smaller extent, interest income earned on cash held by the Authority and state aid, if any, 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 percent consisting of a 3 percent base rate and 1.75 percent, 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, 2009 amounted to $362,704,918. The Authority received $51,799 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition, the Authority realized $1,442 in interest income on cash held in interest-bearing bank accounts and accrued interest income on notes receivable from the County amounting to $839,416.

The Authority retained $522,000 of sales tax revenue in 2009 to offset the reduction in interest on sales tax revenue due to historically low interest rates.

Revenue of the Authority must be applied first to pay debt service on 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 $368,151,428 to the County in the 2009 fiscal year.

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, 2009 and 2008

Assets	2009	2008
Cash and equivalents	$ 649,845	719,411
Sales tax receivable	43,106,355	42,495,367
Efficiency grants receivable	4,293,345	142,337
Notes receivable	168,534,867	-
Accrued interest receivable	839,416	-
Unamortized issuance costs	118,008	-
Prepaid expenses	-	9,107
Total assets	$ 217,541,836	43,366,222
Liabilities and Net Assets		
Liabilities:		
Accounts payable	12,924	24,151
Accrued liabilities	41,096	24,046
Due to Erie County - sales tax	43,106,355	42,495,367
Efficiency grants payable to Erie County	4,395,170	423,253
Bond anticipation notes payable	167,480,000	-
Accrued interest payable	1,406,489	-
Unamortized bond premiums	601,827	-
Total liabilities	217,043,861	42,966,817
Unrestricted net assets - general fund	497,975	399,405
Commitment (note 8)		
Total liabilities and net assets	$ 217,541,836	43,366,222

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, 2009 and 2008

	2009	2008
Expenses:		
General and administrative:		
Payroll	$ 234,650	225,687
Payroll taxes and employee benefits	67,872	80,691
Consulting fees	25,880	45,400
Legal fees	110,293	74,022
Audit fees	6,386	6,386
Rent and parking	13,893	21,159
Insurance	3,259	2,228
Electricity	1,557	2,548
Office supplies	10,563	8,541
Meeting expense	11,680	17,920
Travel	271	1,163
Payroll and bank service fees	1,788	1,993
Miscellaneous	4,920	-
Total general and administrative expenses	493,012	487,738
Debt service:		
Interest expense	720,439	-
Amortization of issuance costs	115,002	-
Total debt service	835,441	-
Total expenses	1,328,453	487,738
General revenue:		
Sales tax	362,704,918	386,851,388
Efficiency grant income	5,300,178	710,676
State aid incentives	668,332	668,332
Interest earned on sales tax revenue while held by New York State	51,799	368,315
Interest and other income	853,224	7,628
Less - amounts transferable to Erie County	(368,151,428)	(388,230,396)
Total general revenue	1,427,023	375,943
Increase (decrease) in net assets	98,570	(111,795)
Net assets at beginning of year	399,405	511,200
Net assets at end of year	$ 497,975	399,405

See accompanying notes to financial statements.

(1) Organization

The Erie County Fiscal Stability Authority (the Authority) is as 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 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. The remainder of efficiency grants available from the State is approximately $4.1 million at December 31, 2009.

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.

(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.

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.

(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 Governmental Accounting Standards Board (GASB) Statement 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 revenue received by the Authority and for general operating expenses of the Authority. In 2009, 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.

(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) Subsequent Events

The Authority has evaluated events after December 31, 2009, and through April 9, 2010, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(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:

(a) The receipt and accrual of sales tax revenues in 2009 and 2008 of $362,704,918 and $386,851,388, respectively, and the subsequent disbursements of $362,182,918 and $386,851,388, respectively, were remitted to the County.
(b) The receipt from the State of State aid incentives in both 2009 and 2008 of $668,332, and transfer of that aid to the County.
(c) The receipt and accrual of a New York State Efficiency Grant in 2009 and 2008 of $5,300,178 and $710,676, respectively, and reimbursement of $1,328,261 and $287,423, respectively, to the County.
(d) The Authority retained $522,000 of sales tax revenue in 2009 to offset the reduction in interest on sales tax revenue due to historically low interest rates.
(e) Notes receivable and accrued interest in the amount of $169,374,283 were owed to the Authority by the County at December 31, 2009.

(4) Cash and Equivalents

The Authority invests in accordance with the guidelines required by New York Public Authorities Law. As of December 31, 2009 and 2008, 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, 2009 and 2008, all of the Authority's cash balance was Federally insured.

(5) Sales Tax Receivable/Due to Erie County

Sales tax receivable amounted to $43,106,355 and $42,495,367 at December 31, 2009 and 2008, respectively. 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.

(6) Efficiency Grants Receivable/Payable

The Authority approves efficiency grants that are payable to the County. At December 31, 2009 revenues and expenses of the grants were as follows:

	Authority	Erie County
Revenue	$ 5,442,514	5,723,431
Less receipts	(1,149,169)	(1,328,261)
Grant receivable	$ 4,293,345	4,395,170
Expense	5,723,431	
Less amount paid to the County	(1,328,261)	
Grant payable to the County	$ 4,395,170	

(7) 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 State Comptroller serves as sole trustee and administrative head of the System. The State 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, 110 State Street, Albany, NY 12244.

(7) Retirement Plan, Continued

(b) Funding Policy

The System is noncontributory except for employees who joined the System after July 27, 1976 who contribute 3% of their salary. The State legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years or more of credited service. Additionally, members who meet certain eligibility requirements will receive an additional one-month service credit for each completed year of service, up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the State 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 $6,015 and $20,432 for the periods April 1, 2009 to March 31, 2010 and April 1, 2008 to March 31, 2009, respectively.

(8) Commitment

The Authority is obligated under an operating lease agreement for office and parking space which expires in October 2010. Expenses related to this lease are accounted for in the statements of activities and changes in net assets, and amounted to $13,893 and $21,159 for the years ended December 31, 2009 and 2008, respectively. Future minimum lease payments are as follows:

2010	$ 12,630

(9) Postemployment Benefits

The Authority has no obligation requiring financial statement reporting under GASB Statement 43 or GASB Statement 45, as there are no employees of the Authority who are currently entitled to postemployment benefits.

(10) Bond Anticipation Notes

The Authority issued two bond anticipation notes (BANs) in 2009 totaling $167,480,000. The funds were used to purchase a BAN issued by the County in May of 2009 in the amount of $103,534,867 and a revenue anticipation note issued by the County in October of 2009 in the amount of $65,000,000.

(10) Bond Anticipation Notes, Continued

	Series 2009A	Series 2009B	
Closing date:	May 20, 2009	October 27, 2009	
Maturity date:	May 19, 2009	July 30, 2010	
Interest rate:	2.00%	1.25%	Total
Sources of funds:			
Par	$ 102,675,000	64,805,000	167,480,000
Issue premium	1,116,077	332,450	1,448,527
Less: Underwriter's discount	(86,247)	(62,213)	(148,460)
	$ 103,704,830	65,075,237	168,780,067
Use of funds:			
BAN purchased from Erie County	$ 103,534,867	65,000,000	168,534,867
Issuance costs	158,010	75,000	233,010
Cash held by Authority	11,953	237	12,190
	$ 103,704,830	65,075,237	168,780,067

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

The Board of Directors
Erie County Fiscal Stability Authority:

We have audited the financial statements of the Erie County Fiscal Stability Authority (the Authority), a Component Unit of Erie County, as of and for the year ended December 31, 2009, and have issued our report thereon dated April 9, 2010. 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 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 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.

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 Authority's financial statements will not be prevented, detected and corrected, on a timely basis.

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 other matters that we reported to management of the Authority in a separate letter dated April 9, 2010.

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.

Williamsville, New York
April 9, 2010

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

INDEPENDENT ACCOUNTANTS' REPORT ON INVESTMENT COMPLIANCE

Board of Directors
Erie County Fiscal Stability Authority:

We have examined the Erie County Fiscal Stability Authority's (the Authority) compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York during the year ended December 31, 2009. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2009.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the Authority's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Authority complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

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.

Williamsville, New York
April 9, 2010