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

Financial Statements and Management's
Discussion and Analysis

December 31, 2010

(With Independent Auditors' Report Thereon)

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Erie County Fiscal Stability Authority:

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, as of and for the year ended December 31, 2010, 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. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of December 31, 2010, 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 April 12, 2011, 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 7 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.

Toski, Schaefer & Co. P.C.

Williamsville, New York
April 12, 2011

FINANCIAL HIGHLIGHTS AND ANALYSIS

Financial Highlights

The Erie County Fiscal Stability Authority's (the Authority) 2010 fiscal year was highlighted by spending of only $437,945 of its allocated $633,180 operating budget. Having spent only 69% of its allocated budget, the Authority in 2010 reduced its monthly operating allocation from County sales tax revenues by 34%.

Other financial highlights include the transfer of $2,213,689 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 three serial bonds in 2010 totaling $246,535,000. The funds were used to purchase mirror bonds issued by the County in May and June of 2010 in the amounts of $157,995,000 and $88,540,000 respectively. The Authority also issued a bond anticipation note (BAN) totaling $44,815,000 to fund the purchase of a revenue anticipation note issued by the County in July of 2010 in the amount of $45,000,000.

The Authority has brought over $17 million in efficiency grant monies to Erie County over the past five years with $2.2 million received in 2010.

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. Due to the improved financial condition of the County, the Authority has maintained an advisory position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements and 3) notes to the basic financial statements. Required and other supplementary information is included in addition to the basic financial statements.

Authority-wide financial statements are designed to provide readers with a broad overview of Authority finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all Authority assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the most recent fiscal 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. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods (debt service payments).

Both of these government-wide financial statements distinguish functions of the Authority that are principally supported by sales taxes. The governmental activities of the Authority include general and administrative expenses and distributions to Erie County.

Fund financial statements are grouping or related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the authority-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Authority's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the authority-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the authority's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Comparative Analysis - Authority-wide Statements

Table 1 summarizes the Authority's net assets as of December 31, 2010 and 2009.

Table 1
Net Assets as of December 31, 2010 and 2009

	2010	2009
Assets:		
Cash and equivalents	$ 10,260,672	649,845
Sales tax receivable	46,218,545	43,106,355
Efficiency grants receivable	9,665,996	4,293,345
Notes and interest receivable from Erie County	319,295,942	169,374,283
Other assets	1,550,922	118,008
Total assets	$ 386,992,077	217,541,836

	2010	2009
Liabilities:		
Accounts payable	$ 7,595	12,924
Accrued liabilities	27,904	41,096
Due to Erie County - sales tax	46,218,545	43,106,355
Due to Erie County - debt payment set-asides	9,295,559	-
Efficiency grants payable to Erie County	1,851,668	4,395,170
Bond anticipation notes payable	44,815,000	167,480,000
Bonds payable	246,015,000	-
Accrued interest payable	2,706,636	1,406,489
Unamortized bond premiums	25,085,222	601,827
Deferred revenues - efficiency grants	7,916,152	-
Total liabilities	383,939,281	217,043,861
Net Assets - unrestricted	3,052,796	497,975
Total liabilities and net assets	$ 386,992,077	217,541,836

Table 2 summarizes the change in the Authority's net assets during the years ended December 31, 2010 and 2009.

Table 2
Increase (Decrease) in Net Assets for the Years ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Sales tax	$ 371,225,852	362,704,918
Efficiency grant income	2,223,689	5,300,178
State aid incentives	-	668,332
Interest and other income	7,387,360	905,023
Less - distributions to Erie County	(372,843,541)	(368,151,428)
Total revenue	7,993,360	1,427,023
Expenses - Interest and amortization	(5,000,594)	(835,441)
General and administrative	(437,945)	(493,012)
Increase in net assets	2,554,821	98,570
Net assets at beginning of year	497,975	399,405
Net assets at end of year	$ 3,052,796	497,975

General and Administrative Expenses

During the year ended December 31, 2010, the Authority's general and administrative expenses totaled $437,945. General and administrative expenses were $195,235 lower than the $633,180 budgeted, primarily due to lower than expected professional fees and wage expense. The Authority budgeted $183,924 for professional fees and $383,256 for wage expense in 2010. Actual 2010 professional fees were $39,735 and actual wage expense was $343,556. The Authority's general and administrative expenses consist of the following categories:

Table 3 - 2010 and 2009 General and Administrative Expenses

Category	*2010*	*2009*
Wages and employee-related	$ 343,556	302,522
Professional fees	39,735	144,347
Office related	36,034	29,272
Authority meetings	13,040	11,680
Travel	-	271
Miscellaneous	5,580	4,920
Total	**$ 437,945**	**493,012**

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, 2010, there were four Authority employees. The Authority's directors serve without compensation, but are reimbursed for any Authority-related expenses.

Table 4 - 2010 and 2009 Wages and Employee-Related Expenses

Sub-Category	*2010*	*2009*
Salaries	$ 247,645	234,650
Payroll taxes	19,739	18,986
Benefits	76,172	48,886
Total	**$ 343,556**	**302,522**

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

Table 5 - 2010 and 2009 Professional Fees

Sub-Category	*2010*	*2009*
Legal services	$ 28,808	110,293
Financial advisory services	-	25,880
Independent audit services	8,500	6,386
Payroll and banking services	2,427	1,788
Total	**$ 39,735**	**144,347**

The Authority signed a five year, two month lease for office space with Ellicott Development in August 2005 with an expiration date of October 31, 2010. The lease was renewed on November 1, 2010 on a month-to-month basis at the same monthly rate of the original lease. Office-related expenses were incurred for the Authority's lease of office space, insurance, and office supplies as follows:

Table 6 - 2010 and 2009 Office Related Expenses

Sub-Category	*2010*	*2009*
Lease and utilities	$ 17,987	15,450
Office supplies	15,310	10,563
Insurance	2,737	3,259
Total	**$ 36,034**	**29,272**

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, 2010 amounted to $371,225,852. The Authority received $32,824 in interest on sales tax transferred to the Authority by the New York State Office of the State Comptroller. In addition, the Authority realized $1,023 in interest income on cash held in interest-bearing bank accounts and interest income on notes receivable from the County amounting to $7,353,513.

The Authority retained $596,000 of sales tax revenue in 2010 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 $370,629,852 to the County in the 2010 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)
Statement of Net Assets
December 31, 2010

Assets:	
Cash and equivalents	$ 841,167
Restricted cash and equivalents	9,419,505
Due from other governments - sales tax	46,218,545
Due from other governments - efficiency grants	9,665,996
Interest receivable from Erie County	2,517,465
Revenue anticipation note receivable from Erie County	45,000,000
Serial bonds receivable from Erie County	246,005,000
Unamortized discount, Erie County serial bonds	25,773,477
Bond issuance costs, net	1,550,922
Total assets	386,992,077
Liabilities:	
Accounts payable	7,595
Accrued liabilities	27,904
Unamortized premiums	25,085,222
Accrued interest on revenue anticipation notes	2,706,636
Due to Erie County:	
Sales taxes	46,218,545
Efficiency grants	1,851,668
Debt service set-asides	9,295,559
Bond anticipation note payable	44,815,000
Bonds payable:	
Bonds due within one year	8,015,000
Bonds due beyond one year	238,000,000
Deferred revenues - efficiency grants	7,916,152
Total liabilities	383,939,281
Net assets:	
Restricted for debt service	2,163,952
Unrestricted	888,844
Total net assets	$ 3,052,796

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Statement of Activities
For the year ended December 31, 2010

Expenses:	
General and administrative	$ 437,945
Distributions to Erie County:	
Sales tax	370,629,852
Efficiency grants	2,213,689
Bond issuance cost amortization	263,367
Interest expense	4,737,227
Total expenses	378,282,080
General revenue:	
State sales tax	370,629,852
State sales tax retained by Authority	596,000
State efficiency grants	2,223,689
Interest earned on sale tax retained by Authority	32,824
Interest earned on notes with Erie County	7,353,513
Other interest income	1,023
Total revenue	380,836,901
Change in net assets	2,554,821
Net assets at beginning of year	497,975
Net assets at ending of year	$ 3,052,796

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Balance Sheet - Governmental Funds
December 31, 2010

	General Fund	Debt Service Fund	Total
Assets:			
Cash and equivalents	$ 841,167	9,419,505	10,260,672
Notes receivable - Erie County due within one year	45,000,000	-	45,000,000
Due from other governments:			
New York State sales tax	46,218,545	-	46,218,545
New York State efficiency grants	9,665,996	-	9,665,996
Total assets	$ 101,725,708	9,419,505	111,145,213
Liabilities:			
Accounts payable	7,595	-	7,595
Accrued liabilities	27,904	-	27,904
Due to Erie County:			
Sales taxes	46,218,545	-	46,218,545
Efficiency grants	1,851,668	-	1,851,668
Debt service set-asides	-	9,295,559	9,295,559
Revenue anticipation notes payable	44,815,000	-	44,815,000
Deferred revenue - efficiency grants	7,916,152	-	7,916,152
Total liabilities	100,836,864	9,295,559	110,132,423
Fund balances:			
Restricted for debt service	-	123,946	123,946
Unrestricted	888,844	-	888,844
Total fund balances	888,844	123,946	1,012,790
Total liabilities and fund balances	$ 101,725,708	9,419,505	111,145,213

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
December 31, 2010

Total fund balances - governmental funds balance sheet	$	1,012,790
Amounts reported in the statement of net assets are different because:		
Interest receivable is recognized when earned in the authority-wide statements. In the governmental fund statements income is accrued only if it will be received within sixty days of year-end. This is the portion of interest receivable related to notes and bonds receivable from Erie County which will not be received within sixty days of year-end.		2,517,465
Long-term bonds purchased by the Authority from Erie County are reported as assets in the statement of net assets but are not assets in the governmental funds.		271,778,477
Costs associated with the issuance of long term debt (bonds) are assets capitalized in the statement of net assets but are not assets of the governmental funds.		1,550,922
Unamortized bond premium is reported as a liability in the statement of net assets but is not in the governmental funds.		(25,085,222)
Accrued interest payable is reported as a liability in the statement of net assets but is not reported in the governmental funds balance sheet.		(2,706,636)
Certain liabilities, including bonds payable, are not due and payable currently and therefore, are not reported as liabilities of the governmental funds. These liabilities consist of long-term debt associated with the 2010A, 2010B and 2010C serial bond issuance.		(246,015,000)
Total net assets - statement of net assets	$	3,052,796

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Statement of Revenue, Expenditures and
Changes in Fund Balances - Governmental Funds
For the year ended December 31, 2010

	General Fund	Debt Service Fund	Total Governmental Funds
Revenue:			
State sales tax	$ 370,629,852	-	370,629,852
State sales tax retained by Authority	596,000	-	596,000
State efficiency grants	2,223,689	-	2,223,689
Interest earned on sales tax	32,824	-	32,824
Interest earned on notes with County	1,595,036	4,080,428	5,675,464
Principal payments received on notes with County	-	530,000	530,000
Other interest income	1,023	-	1,023
Total revenue	375,078,424	4,610,428	379,688,852
Expenditures:			
General and administrative	437,945	-	437,945
Distributions to Erie County:			
Sales tax	370,629,852	-	370,629,852
Efficiency grants	2,213,689	-	2,213,689
Debt service:			
Principal	-	520,000	520,000
Interest	2,662,094	3,966,482	6,628,576
Total expenditures	375,943,580	4,486,482	380,430,062
Excess of revenue over (under) expenditures	(865,156)	123,946	(741,210)
Other financing sources (uses):			
Purchase of serial bonds from Erie County	-	(272,308,477)	(272,308,477)
Bond issuance costs	(169,072)	(1,527,209)	(1,696,281)
Proceeds from issuance of bonds	-	246,535,000	246,535,000
Premiums on obligations	374,205	27,300,686	27,674,891
Other financial sources	205,133	-	205,133
Net change in fund balances	(660,023)	123,946	(536,077)
Fund balances at beginning of year	1,548,867	-	1,548,867
Fund balances at end of year	$ 888,844	123,946	1,012,790

See accompanying notes to financial statements.

ERIE COUNTY FISCAL STABILITY AUTHORITY
(A Component Unit of Erie County)
Reconciliation of the Governmental Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the year ended December 31, 2010

Total net change in fund balances - governmental funds	$	(536,077)
Amounts reported for governmental activities in the statement of activities are different because:		
Issuance costs for long-term debt are amortized over the term of the debt in the statement of activities and are not reported in the governmental statement of revenue, expenditures and changes in fund balances.		(263,367)
Costs associated with the issuance of long-term debt (bonds) are capitalized in the statement of net assets and not reported as assets of the governmental funds.		1,696,281
Purchase of serial bonds by the Authority from Erie County are reported as uses of funds in the governmental funds and not on the statement of activities.		272,308,477
The repayment of long-term notes receivable from Erie County is recorded as revenue in the statement of revenue, expenditures and changes in fund balances but not on the statement of activities.		(530,000)
Interest revenue on notes with Erie County relating to long-term debt is reported in the statement of activities and not reported in the governmental statement of revenue, expenditures and changes in fund balances.		1,678,049
Premiums are a source of funds in the statement of revenue, expenditures and changes in fund balances and recorded as a liability in the statement of net assets in the authority-wide statements and amortized in the statement of activities in the authority-wide financial statements.		(27,674,891)
Premiums received at issuance of long-term debt are amortized in the statement of activities but are not recognized in the governmental funds.		3,191,496
Interest expense is accrued on long-term debt in the statement of activities and not reported in the governmental statement of revenue, expenditures and changes in fund balances.		(1,300,147)
Issuance of long-term debt is recorded as a source of funds in the governmental funds but is recorded as a long-term liability in the authority- wide statements.		(246,535,000)
Payment of principal of long-term debt is recorded as an expenditure in the governmental funds but is recorded as a reduction of the liability in the authority-wide statements.		520,000
Change in net assets - governmental activities	$	2,554,821

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.

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.

(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 Presentation

The Authority has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Authority has prepared authority-wide financial statements titled statement of net assets and statement of activities as well as the required supplementary information titled management's discussion and analysis which precedes the financial statements. The Authority also prepares the fund financial statements, which are the general and debt service fund balance sheet, and statement of revenue, expenditures and changes in fund balances.

(b) Measurement Focus and Basis of Accounting

The Authority utilizes the full accrual basis of accounting, which focuses on changes in the total economic resources, in preparation of the authority-wide financial statements. Under the full accrual basis of accounting changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared on a different measurement focus and basis of accounting than the authority-wide financial statements, reconciliation statements are prepared to transform the fund based financial statements into the authority-wide financial statements.

(2) Summary of Significant Accounting Policies, Continued

(b) Measurement Focus and Basis of Accounting, Continued

The Authority follows the modified accrual basis of accounting in its governmental funds, which focuses on changes in available resources, in preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measureable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (ninety days or less). Expenditures and related liabilities are recognized in the accounting period the liability is due and payable.

The Authority reports the following funds as governmental funds:

- The General Fund is the Authority's primary operating fund and accounts for substantially all activity of the Authority.
- The Debt Service Fund accounts for certain sales tax revenue that is set-aside to service the debt service of the Authority's serial bonds.

(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 general revenues. Revenues are received in the General Fund. Overhead expenses of the Authority that arise in the course of providing the Authority's oversight services, such as payroll and office expenses, are considered operating expenses and are accounted for in the General Fund.

(e) Postemployment Benefits Other Than Pensions

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

(f) Subsequent Events

The Authority has evaluated events after December 31, 2010, and through April 12, 2011, 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 of sales tax revenues in 2010 of $371,225,852 and the subsequent disbursements of $370,629,852 were remitted to the County.
(b) The Authority retained $596,000 of sales tax revenue in 2010 to offset the reduction in interest on sales tax revenue due to historically low interest rates.
(c) The receipt and accrual of New York State Efficiency Grants in 2010 of $2,223,689 and reimbursement of $2,213,689 to the County.
(d) Notes, serial bonds and accrued interest receivable in the amount of $319,295,942 were owed to the Authority by the County at December 31, 2010.

(4) Cash and Equivalents

The Authority invests in accordance with the guidelines required by New York Public Authorities Law. As of December 31, 2010 and 2009, 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 and certificates 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, 2010, all of the Authority's cash balance was Federally insured or collateralized.

Restricted cash consists of accounts held at M&T Bank for set-aside sales tax revenue for the payment of the Authority's debt service requirements. These set-aside funds are held on behalf of Erie County for its payment of mirror serial bonds payable to the Authority. The balance in these accounts is $9,419,505 at December 31, 2010.

(5) Sales Tax Receivable/Due to Erie County

Sales tax receivable amounted to $46,218,545 at December 31, 2010. 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) 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.

(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 for the first ten years of membership and employees who joined on or after January 1, 2010 (ERS) who generally contribute 3% of their salary for the entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressed used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

The required contributions for the current year and two preceding years were as follows:

	ERS
2010	$ 18,888
2009	6,015
2008	20,432

The Authority's contributions in 2010 were equal to 100% of the contributions required for the period.

(7) Bond Anticipation Notes

In 2010, the Authority issued a bond anticipation note Series 2010A totaling $44,815,000, with interest at 1.25%, due July 29, 2011. The funds were used to finance a note issued to the County in the amount of $45,000,000.

(8) Long-Term Liabilities

In 2010, the Authority issued long-term bonds which were used to purchase minor bonds issued by the County at $246,535,000 (note 9), as follows:

	December 31, 2009	Increases	Decreases	December 31, 2010	Due in one year
Series 2010A bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	$ -	157,995,000	-	157,995,000	5,640,000
Series 2010B bond, maturing July 2022 with interest ranging from 2.0% to 5.0% over the life of the bond.	-	46,365,000	(520,000)	45,845,000	2,255,000
Series 2010C bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	42,175,000	-	42,175,000	120,000
	$ -	246,535,000	(520,000)	246,015,000	8,015,000

Debt service requirements:

Year ending December 31,	Principal	Interest	Total
2011	$ 8,015,000	10,865,168	18,880,168
2012	14,060,000	10,556,218	24,616,218
2013	17,725,000	10,007,742	27,732,742
2014	22,670,000	9,129,092	31,799,092
2015	23,525,000	8,186,342	31,711,342
2016 - 2020	113,510,000	24,759,014	138,269,014
2021 - 2023	46,510,000	3,527,947	50,037,947
	$ 246,015,000	77,031,523	323,046,523

(9) Serial Bonds Receivable from Erie County

Erie County issued three mirror bonds to the Authority, as follows:

	December 31, 2009	Increases	Decreases	December 31, 2010	Due in one year
Series 2010AB bond, maturing May 2023 with interest ranging from 2.0% to 5.0% over the life of the bond.	$ -	157,995,000	-	157,995,000	5,640,000
Series 2010C bond, maturing July 2020 with interest ranging from 2.0% to 5.0% over the life of the bond.	-	46,365,000	(520,000)	45,845,000	2,255,000
Series 2010D bond, maturing March 2020 with interest ranging from 2.25% to 5.24% over the life of the bond.	-	42,175,000	(10,000)	42,165,000	110,000
	$ -	246,535,000	(530,000)	246,005,000	8,005,000

Year ending December 31,	Principal	Interest	Total
2011	$ 8,005,000	10,874,712	18,879,712
2012	14,060,000	10,555,762	24,615,762
2013	17,725,000	10,007,286	27,732,286
2014	22,670,000	9,128,637	31,798,637
2015	23,525,000	8,186,344	31,711,344
2016 - 2020	113,510,000	24,759,017	138,269,017
2021 - 2023	46,510,000	3,527,943	50,037,943
	246,005,000	77,039,701	323,044,701
Unamortized premium	25,773,477		
	$ 271,778,477		

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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

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, 2010, and have issued our report thereon dated April 12, 2011. 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.

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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.

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
April 12, 2011

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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, 2010. 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, 2010.

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.

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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, Scheafer & Co. P.C.

Williamsville, New York
April 12, 2011