COUNTY OF ERIE, NEW YORK

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2004

Prepared by:

Erie County Comptroller's Office

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Acting County Comptroller

COUNTY OF ERIE, NEW YORK

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INDEPENDENT AUDITORS' REPORT

Honorable County Executive and Members of the County Legislature
County of Erie, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of County of Erie, New York (the "County"), as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Erie Community College Foundation, Inc., and the Auxiliary Services Corporation of Erie Community College, Inc., which are shown as aggregate discretely presented component units. Additionally, we did not audit the financial statements of ECMC Lifeline Foundation, Inc. or Research for Health in Erie County, Inc., which in total represents 1.6% and 0.3%, respectively, of the assets and revenues of the Erie County Medical Center Corporation, a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion insofar as it related to amounts included for those aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2004, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I to the financial statements, effective January 1, 2004 the County adopted Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity,* and retroactively restated the opening net asset balance as of January 1, 2004.

As discussed in Note XX, in recent years the County has experienced severe financial difficulties including substantial recurring operating deficits and deterioration of its credit ratings. The County management's plans with regard to these matters are also described in Note XX. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note XIX, net assets of the governmental activities within the government-wide financial statements, and fund balance of the General Fund and other Governmental Funds within the fund financial statements, have been restated as of January 1, 2004. Additionally, net assets of the business-type activities within the government-wide financial statements and net assets of the Erie Community College enterprise fund have been restated as of January 1, 2004.

The management's discussion and analysis as listed in the forgoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

September 26, 2005

<u>COUNTY OF ERIE, NEW YORK</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

This section of the County of Erie, New York's (the "County") Basic Financial Statements and Management's Discussion and Analysis presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2004, and incorporates December 31, 2003, for comparative analysis purposes. Please read it in conjunction with the County's basic financial statements following this section. **All amounts in this *<u>Management's Discussion and Analysis</u>*, unless otherwise indicated, are expressed in thousands of dollars.**

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the 2004 fiscal year by $177,475 *(net assets*). This consists of $118,461 restricted for specific purposes *(restricted net assets*), $460,029 invested in capital assets, net of related debt, and deficit unrestricted net assets of $401,015, at December 31, 2004.

- The government's total net assets decreased by $226,553. Governmental activities decreased the County's net assets by $196,662. Business type activities decreased the County's net assets by $29,891.

- As of December 31, 2004, the County's governmental funds reported combined fund balances of $165,161, a decrease of $127,866 in comparison with the prior year. Approximately 32% of the total combined governmental funds fund balance, $52,625, is available to meet the County's current and future needs *(unreserved fund balance).*

- At the end of the fiscal year, unreserved fund balance for the general fund was a deficit of $10,774.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts – *Management's Discussion and Analysis* (this section) and the *Basic Financial Statements.*

Basic Financial Statements

Government-Wide Financial Statements are two statements designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

The *<u>statement of net assets</u>* presents information on all County 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 County is improving or deteriorating.

The *<u>statement of activities</u>* 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 related cash flows.* Thus, revenues and expenses are reported

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or in part a portion of their costs through user fees and charges *(business-type activities)*. The governmental activities of the County include general government, public safety, health, transportation, economic assistance and opportunity, culture and recreation, education, and home and community services. The business-type activities of the County include Erie Community College ("College") and the Utilities Aggregation Fund.

On January 1, 2004, operation of the Erie County Medical Center ("ECMC") was transferred to a new public benefit corporation, Erie County Medical Center Corporation ("ECMCC") concurrent with the sale of certain assets from the County to ECMCC. The former ECMC is included as a business-type activity in the Statement of Activities to show the asset sale and transfer to governmental activities.

The government-wide financial statements include not only the County itself (*known as the primary government*) but also the legally separate Buffalo and Erie County Public Library (the "Library"), ECMCC, and other component units. Financial information for these *component units* of the County is reported separately from the financial information presented for the primary government itself. The Library does not issue separate financial statements.

The government-wide financial statements can be found on pages 16-17 of this report.

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All funds of the County can be divided into three categories: *governmental funds, proprietary funds,* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-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 a county's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-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 government'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.*

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

The County maintains fourteen individual governmental funds. Additionally, the County reports the activities of its blended component units within its other governmental funds. In accordance with recent accounting pronouncements, the Erie Tobacco Asset Securitization Corporation and Erie Tax Certificate Corporation have been blended with the financial statements of the County effective January 1, 2004. As a result of this, prior year net assets and fund balance have been restated to reflect the prior period adjustment. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and Tobacco Proceeds Capital Project Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund.

The basic governmental fund financial statements can be found on pages 18-23 of this report.

Proprietary funds – The County maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the College and the Utilities Aggregation Fund, which is used to account for the bulk purchase and resale of gas, oil, and electric utilities. As discussed previously, the activities of the ECMC fund are reported in the current year to show the asset sale and transfer to governmental activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The College is considered to be a major proprietary fund of the County.

The basic proprietary fund financial statements can be found on pages 24-27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The County has one fiduciary fund, the Agency Fund, which is used to account for funds held by the County as agent for employee withholdings, guarantee and bid deposits, court funds, monies due to other governments, and other miscellaneous items. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary funds financial statements can be found on page 28 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes can be found on pages 29-84 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $177,475 at the close of the most recent fiscal year.

Summary of Erie County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 530,898	577,651	$ 32,050	$ 66,725	$ 562,948	$ 644,376
Capital Assets	811,204	737,582	6,670	89,908	817,874	827,490
Total assets	1,342,102	1,315,233	38,720	156,633	1,380,822	1,471,866
Long-term liabilities	790,810	663,648	6,125	51,236	796,935	714,884
Other liabilities	386,916	290,547	19,496	62,407	406,412	352,954
Total liabilities	1,177,726	954,195	25,621	113,643	1,203,347	1,067,838
Net assets:						
Invested in capital assets, net of related debt	453,359	424,596	6,670	73,099	460,029	497,695
Restricted	118,461	136,309		3,893	118,461	140,202
Unrestricted	(407,444)	(199,867)	6,429	(34,002)	(401,015)	(233,869)
Total net assets	$ 164,376	361,038	$ 13,099	$ 42,990	$ 177,475	$ 404,028

The largest portion of the County's net assets, at December 31, 2004, $460,029, reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding and any unspent proceeds from bond issues. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the County's net assets, $118,461, represents resources that are subject to external restrictions on how they may be used.

The remaining component of the County's net assets, a deficit of $401,015, represents *unrestricted net assets* which reflect all liabilities that are not related to the County's capital assets and which are not expected to be repaid from restricted resources. Accordingly, the County will have to allocate future revenues towards the payment of these liabilities.

At the end of the current fiscal year, the County is able to report positive balances in two of the three categories of net assets for the County as a whole, and both categories for its business-type activities. Governmental activities has an unrestricted net asset deficit of $407,444 at December 31, 2004.

The County's net assets decreased by $226,553 during the current fiscal year which is further explained in the next section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table indicates the changes in net assets for governmental and business-type activities:

Summary of Erie County's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues						
Charges for services	$ 75,544	$ 71,199	$ 60,725	$ 350,902	$ 136,269	$ 422,101
Operating grants and contributions	411,334	386,698	27,857	24,552	439,191	411,250
Capital grants and contributions	12,962	14,459		67	12,962	14,526
General revenues						
Property taxes	157,440	146,543			157,440	146,543
Sales taxes	270,860	265,977			270,860	265,977
State and local appropriations			26,089		26,089	
Non-operating revenue				24,042		24,042
Interest earnings not restricted to specific programs	1,235	5,659			1,235	5,659
Unrestricted interest earnings	2,885	2,981	201	307	3,086	3,288
Miscellaneous and other	60,276	9,136			60,276	9,136
Total revenues	992,536	902,652	114,872	399,870	1,107,408	1,302,522
Expenses:						
General government	146,767	94,031			146,767	94,031
Public safety	123,046	118,182			123,046	118,182
Health	97,512	70,099			97,512	70,099
Transportation	55,014	60,438			55,014	60,438
Economic assistance and opportunity	607,721	555,221			607,721	555,221
Culture and recreation	37,374	28,431			37,374	28,431
Education	57,304	52,520			57,304	52,520
Home and community service	43,121	42,510			43,121	42,510
Interest and Fiscal Charges	34,630	30,620			34,630	30,620
Medical Center			1,847	276,369	1,847	276,369
College			91,388	82,899	91,388	82,899
Utilities Aggregation			38,051	35,925	38,051	35,925
Total expenses	1,202,489	1,052,052	131,286	395,193	1,333,775	1,447,245
Excess (deficiency) before transfers	(209,953)	(149,400)	(16,414)	4,677	(226,367)	(144,723)
Intergovernment transfer		44,429		(44,429)		
Transfers	13,291	(35,296)	(13,477)	35,588	(186)	292
Change in net assets	(196,662)	(140,267)	(29,891)	(4,164)	(226,553)	(144,431)
Net assets - beginning(restated)	361,038	501,305	42,990	47,154	404,028	548,459
Net assets - ending	$ 164,376	$ 361,038	$ 13,099	$ 42,990	$ 177,475	$ 404,028

Governmental activities

Governmental activities decreased the County's net assets by $196,662. Key elements of this decrease are as follows:

Governmental Activities expenses increased by $150,437. The three major categories that contributed to this increase were: General Government expense ($52,736); Health ($27,413) and Economic Assistance and Opportunity ($52,500). All of these categories were impacted by increases in New York State mandated

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concluded)

expenses such as medicaid and pension expenses. Other expenses in these categories that increased were various salary and fringe benefit accounts, as well as health and mental health mandated programs.

Governmental Activities revenues increased by $89,884. The three major categories that contributed to this increase were Operating Grants and Contributions ($24,636), Property Taxes ($10,897) and Miscellaneous and other ($51,140). The increase in the operating grants category was primarily the result of receiving an additional $22,898 in grant revenues from New York State to offset certain mandated expenses. Property taxes increased by $11,196 as a result of the County selling only 2004 tax liens in the current year, thus reducing the amount of negative revenue reported in this category compared to 2003. The Miscellaneous and Other category now includes $54,710 of Intergovernmental Transfer ("IGT") revenues received from ECMCC because it is reported as a discretely presented component unit in the 2004 financial statements. Intergovernmental transfer ("IGT") revenue of $44,429 was reported as an other financing source in 2003 because ECMC was a part of the primary government in that year.

Business-type activities.

Business-type activities decreased the County's net assets by $29,891. The main reason for the decrease was the County's decision to sell the Erie County Medical Center ("ECMC") to the Erie County Medical Center Corporation ("ECMCC"). The sale resulted in the elimination of ECMC from the Business-type activity section and ECMCC being reported as a component unit. Total transfers out of the ECMC fund of $29,174 are reported in 2004 to reflect the asset sale and transfer to governmental activities.

The College's net assets increased by $1,391 due mainly to increased enrollment of 6.7%, resulting in increased tuition and fee revenue and state aid. The County sponsorship share of support to the College for the College fiscal year ended August 31, 2004 was approximately $15,670 and is reported as a 2004 operating transfer to the College in the County's General Fund. However, $186 of the 2004 transfers occurred subsequent to the end of the College fiscal period reported in these statements.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses ***fund accounting*** to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2004, the County's governmental funds reported combined fund balances of $165,161, a decrease of $127,866 in comparison with the prior year. Approximately 32% of the combined fund balances, $56,625, constitutes *unreserved fund balance,* which is available to meet the County's current and future operational and capital needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period ($49,611); (2) to pay debt service ($48,198); (3) to reflect prepaid items and advances to other funds that are long-term in nature and thus do not represent available spendable resources ($7,110); and (4) for a variety of other restricted purposes ($7,617).

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

The general fund is the chief operating fund of the County. At December 31, 2004, unreserved fund balance of the general fund was a deficit of $10,774 while total fund balance was $4,933.

Revenues for governmental functions totaled approximately $1,003,795 in fiscal year 2004, which represents a decrease of approximately .54% from fiscal year 2003.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year:

Revenues Classified by Source
Governmental Funds

Revenues:	2004 Amount	Percent of Total	2003 Amount	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Real property taxes and tax items	$ 159,001	15.84%	$ 175,033	$ (16,032)	-9.16%
Sales, use and transfer taxes	270,860	26.98%	265,977	4,883	1.84%
Intergovernmental	423,443	42.19%	394,333	29,110	7.38%
Interfund revenue	9,876	0.98%	40,697	(30,821)	-75.73%
Departmental	72,465	7.22%	67,996	4,469	6.57%
Interest	8,052	0.80%	10,944	(2,892)	-26.43%
Miscellaneous	60,098	5.99%	9,847	50,251	510.32%
Total revenues	$ 1,003,795	100.0%	$ 964,827	$ 38,968	

The following provides an explanation of revenues by source that changed significantly over the prior year:

- Real property taxes and tax items – the $16,032 decrease is due primarily to the fact that 2003 reflected the sale of 2003 and all prior-year tax liens, with a revenue impact of $16,830, while in 2004 only one year of tax liens was sold, with a revenue impact of $1,103.

- Intergovernmental – the $29,110 increase was primarily due to the fact that the increase in State mandated expenses was offset to a degree by increased State and Federal reimbursement.

- Interfund Revenue – the $30,821 decrease in Interfund Revenue was principally attributable to a reduction in the amount of inter-departmental charges. This is equally offset by a reduction in expenditures associated with such charges.

- Interest Income – the $2,892 decrease in Interest Income was primarily due to the decline in cash balances experienced in 2004.

- Miscellaneous – the $50,251 increase resulted from the inclusion of $54,710 of IGT revenue received from ECMCC (a discretely presented component unit) in this category, rather than as an Other Financing Source as it was in 2003 when its predecessor entity was part of the primary government.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

The following table presents expenditures by function compared to prior-year amounts:

Expenditures by Function
Governmental Funds

Expenditures:	2004 Amount	Percent of Total	2003 Amount	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Current:					
General government support	$ 97,538	7.72%	$ 81,423	$ 16,115	19.79%
Public Safety	119,412	9.45%	120,907	(1,495)	-1.24%
Health	93,095	7.37%	71,190	21,905	30.77%
Transportation	43,274	3.42%	37,336	5,938	15.90%
Economic Assistance and opportunity	605,809	47.95%	581,654	24,155	4.15%
Culture and recreation	23,849	1.89%	18,215	5,634	30.93%
Education	55,417	4.38%	50,963	4,454	8.74%
Home and Community Service	34,182	2.71%	38,224	(4,042)	-10.57%
Capital outlay	133,815	10.59%	148,630	(14,815)	-9.97%
Debt service:					
Principal retirement	21,988	1.74%	21,124	864	4.09%
Interest and fiscal charges	35,068	2.78%	29,628	5,440	18.36%
Total expenditures	$ 1,263,447	100.0%	$ 1,199,294	$ 64,153	

The following provides an explanation of the expenditures by function that changed significantly over the prior year:

- General government support – the $16,115 increase in General government support was primarily due to reporting the subsidy to ECMCC ($12,666) as an expenditure in 2004 compared to 2003 when the subsidy was recorded as a transfer out to the ECMC proprietary fund that was closed out in 2004.

- Health – the $21,905 increase is mainly due to an increase in the accounts receivable reserve resulting from the transfer of patient receivables from the closed out ECMC proprietary fund to the General Fund (18,103).

- Economic Assistance and Opportunity – the $24,155 increase in Economic Assistance and Opportunity expenditures was due to higher Medicaid and other State mandated program costs.

- Culture and recreation – the $5,634 increase in Culture and recreation was primarily due to the takeover of the City of Buffalo's parks system), which was partially offset by increased Departmental revenues.

- Home and Community Service – the $4,042 decrease was mainly due to a decrease in costs to operate and maintain the County's sanitary sewer system ($2,752
- Capital outlay costs – the $14,815 decrease in Capital outlay was due to a number of major projects coming to an end.

- Interest and fiscal charges – the $5,440 increase was due to the growth of 2004 interest for short-term and long-term borrowings.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

Other financing sources and uses are presented below to illustrate changes from the prior year:

Other Financing Sources (Uses)
Governmental Funds

Other Financing Sources (Uses)

	2004 Amount	2003 Amount	Amount of Change
Proceeds of general obligation debt	$ 99,222	$ 98,011	$ 1,211
Premium on bond issuance	7,624	10,140	(2,516)
Proceeds of refunding bonds		16,375	(16,375)
Payments to refunded bond escrow		(16,411)	16,411
Sale of property	941	275	666
Intergovernmental transfers in		44,429	(44,429)
Transfers in	118,131	116,207	1,924
Transfers out	(94,132)	(151,503)	57,371
	$ 131,786	$ 117,523	$ 14,263

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented below:

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds

	Major Funds		Nonmajor Funds			
	General	Tobacco Proceeds	Special Revenue	Debt Service	Capital Projects	Total
Revenues	$ 836,680	$ 1,235	$ 147,432	$ 3,921	$ 14,527	$ 1,003,795
Expenditures	(947,178)		(142,713)	(39,741)	(133,815)	(1,263,447)
Other financing sources (uses), net	7,331	(43,106)	40	31,952	135,569	131,786
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(103,167)	(41,871)	4,759	(3,868)	16,281	(127,866)
Fund balances - January 1, 2004	108,100	114,956	44,590	18,404	6,977	293,027
Fund balances - December 31, 2004	$ 4,933	$ 73,085	$ 49,349	$ 14,536	$ 23,258	$ 165,161

***Proprietary funds*.** The County's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

- The ECMC had unrestricted net assets of $0 at December 31, 2004 as this fund was sold to a new public benefit corporation, ECMCC. Certain assets and liabilities were retained by the County and are reported as transfers out of ECMC into governmental activities.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Concluded)

- The College had unrestricted net assets of $5,519 at August 31, 2004, that comprises 45% of the total net assets of the College.

The following table shows actual revenues, expenses, and results of operations for the current fiscal year:

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

	Major Funds		Nonmajor Fund	
	Medical Center	College 8/31/2004	Utilities Aggregation	Total
Operating revenues	$	$ 50,819	$ 37,763	$ 88,582
Operating expenditures		91,359	38,051	129,410
Operating loss	0	(40,540)	(288)	(40,828)
Non-operating revenues (expenses), net	(1,847)	26,261		24,414
Net income (loss) before contributions and transfers	(1,847)	(14,279)	(288)	(16,414)
Contributions and transfers	(29,147)	15,670		(13,477)
Change in net assets	$ (30,994)	$ 1,391	$ (288)	$ (29,891)

The net loss before contributions and transfers of enterprise funds of $16,414 is comprised of net losses of $1,847 for ECMC, $14,279 for the College and $288 for the Utilities Aggregation Fund.

Other factors concerning the financing of these funds have already been addressed in the discussion of the County's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in a $94,873 increase in appropriations. The majority of the increase was due management's decision to report the activities of certain grants within the General Fund, as opposed to the Grant Fund where previously such activities were reported.

The total unfavorable budget to actual variance of $37,282 was mainly due to the following items:

- The salary and fringe benefit portion of this excess was due to the failure of the State of New York to authorize an early-retirement program that the County included in the 2004 Budget and the County not meeting its goal of reengineering and normal turnover savings. These three "turnover" savings accounts were budgeted at a total of approximately $32,000, none of which materialized.

- The County failed to meet its Sales tax budget by approximately $10,200 due to lack of any growth in this budget item from 2003.

- The budget for Real Property Taxes and Tax Items fell short of its budget by approximately $12,700 due to expected payments from the sale of tax liens falling short of budgeted expectations.

- The County did recognize an unbudgeted transfer in of $35,962 from the sale of the ECMC facilities.

GENERAL FUND BUDGETARY HIGHLIGHTS (Concluded)

- The large negative variance in Economic Assistance and Opportunity was mainly due to the County's policy of not budgeting for the Intergovernmental Transfer and Disproportionate Share expenses that are offset by an equal amount of revenue.
- Transfers out were less than budget by $15,012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets for its governmental and business-type activities as of December 31, 2004, amounted to $817,874 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings and improvements, improvements other than buildings, equipment, and construction in progress. The total decrease in the County's investment in capital assets for the current period was 1%.

Major capital asset events during the current fiscal year included the following:

- Infrastructure assets of $73,102 were added during the year.
- Substantially all of the capital assets of the ECMC proprietary fund were sold to the ECMCC, a component unit of the County. This accounts for the significant decline in Business-type Activities capital assets.

Capital assets net of depreciation for the governmental and business-type activities are presented below:

Summary of Erie County's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 28,040	$ 27,304	$	$ 444	$ 28,040	$ 27,748
Buildings and Improvements	198,593	191,354	266	53,206	198,859	244,560
Improvements other than Buildings	9,321	8,591		1,425	9,321	10,016
Sewer and Transportation Networks	418,075	362,768			418,075	362,768
Machinery and Equipment	45,131	27,181	5,093	19,765	50,224	46,946
Library Collections			1,311	1,331	1,311	1,331
Construction in Progress	112,044	120,384		15,016	112,044	135,400
Total	$ 811,204	$ 737,582	$ 6,670	$ 91,187	$ 817,874	$ 828,769

The County's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. The County has elected to depreciate their infrastructure assets. Additional information on the County's capital assets can be found in Note I(G) on page 39 and Note VIII on pages 56-58 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concluded)

Long-term Debt

At December 31, 2004, the County had total bonded debt outstanding of $691,209 as compared to $627,066 in the prior year. During the year, retirement of debt amounted to $45,219. Additions, accretions and other adjustments amounted to $109,362. New York State statutes limit the amount of general obligation debt a governmental entity may issue to 7% of its five-year valuation.

The current debt-limitation for the County is $1,808,974, which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in Note XII on pages 63-73 of this report.

SUBSEQUENT EVENTS

As described in Notes XVIII and XX on pages 82 and 84, respectively, of this report, the Governor of the State of New York signed legislation creating the Erie County Fiscal Stability Authority to assist the County in balancing its budget and in creating and following four-year plans designed to stabilize the County's fiscal situation. The Board has been appointed and the process has begun. Balancing the 2005 budget and the 2006 budget will be the first products of this partnership.

As also described in Notes XVIII and XX on pages 82 and 84, respectively, of this report, the Erie Tobacco Asset Securitization Corporation, a component unit of the County, refinanced approximately $319,000 of tobacco settlement asset-backed bonds in August 2005.

As described in Note XVIII on pages 81-82 of this report, the County issued $3,436 and $2,660 in general obligation serial bonds in March and July 2005, respectively, and a total of $160,000 in Revenue Anticipation Notes in March and July 2005.

Finally, as described in Note XVIII on page 82 of this report the County, after State approval, increased its sales tax by ¼ of one percent effective July 1, 2005.

Request for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Office of Comptroller of Erie County, 95 Franklin Street, Buffalo, New York 14202.

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COUNTY OF ERIE, NEW YORK
Statement of Net Assets
December 31, 2004
(amounts expressed in thousands)

	Primary Government					Other
	Governmental Activities	Business - Type Activities	Total	Component Unit Library	Component Unit ECMCC	Component Units
ASSETS						
Cash and cash equivalents	$ 119,245	$ 22,180	$ 141,425	$ 4,152	$ 601	$ 1,163
Investments	105,692		105,692		1,314	662
Patient trust cash					668	
Restricted cash and cash equivalents					12,687	
Receivables (net of allowances)	297,443	9,603	307,046	950	43,841	165
Due from primary government				52	27,966	
Internal balances	1,408	173	1,581			
Inventories					3,597	35
Prepaid items	7,110	94	7,204		714	
Other assets					3,945	854
Capital assets						
Land, rare books and construction in progress	140,084		140,084	8,635	668	
Other capital assets, net of depreciation	671,120	6,670	677,790	11,520	74,038	305
Total assets	1,342,102	38,720	1,380,822	25,309	170,039	3,184
LIABILITIES						
Accounts payable	48,493	4,980	53,473	110	16,282	85
Accrued liabilities	129,224	4,496	133,720	1,374	47,707	608
Due to component unit	28,018		28,018			
Deferred revenue	76,233	10,020	86,253	337		
Short-term debt	104,948		104,948			
Long term liabilities						
Due within one year	76,238	1,845	78,083	2,172		
Due in more than one year	714,572	4,280	718,852	2,076	103,875	
Total liabilities	1,177,726	25,621	1,203,347	6,069	167,864	693
NET ASSETS						
Invested in capital assets, net of related debt	453,359	6,670	460,029	20,155	2	
Restricted for:						
Grants	542		542			
Capital projects	96,343		96,343			
Debt service	14,536		14,536		7,660	
Other purposes	7,040		7,040		5,239	978
Unrestricted	(407,444)	6,429	(401,015)	(915)	(10,726)	1,513
Total net assets	$ 164,376	$ 13,099	$ 177,475	$ 19,240	$ 2,175	$ 2,491

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Activities
For the year ended December 31, 2004
(amounts expressed in thousands)

Functions/Programs	Expenses	PROGRAM REVENUES: Charges for Services	PROGRAM REVENUES: Operating Grants and Contributions	PROGRAM REVENUES: Capital Grants and Contributions	NET (EXPENSE) REVENUE and CHANGES IN NET ASSETS — PRIMARY GOVERNMENT: Governmental Activities	PRIMARY GOVERNMENT: Business-Type Activities	PRIMARY GOVERNMENT: Total	Component Unit Library	Component Unit ECMCC	Other Component Units
Primary government:										
Governmental activities:										
General government	$ 146,767	$ 16,398	$ 50,324	$ 4,194	$ (75,851)	$	$ (75,851)	$	$	$
Public safety	123,046	8,607	6,639	83	(107,717)		(107,717)			
Health	97,512	4,289	58,174		(35,049)		(35,049)			
Transportation	55,014	1,521	6,150	8,603	(38,740)		(38,740)			
Economic assistance and opportunity	607,721	30,363	235,641		(341,717)		(341,717)			
Culture and recreation	37,374	2,592	1,755	40	(32,987)		(32,987)			
Education	57,304	95	34,378		(22,831)		(22,831)			
Home and community service	43,121	11,679	14,341	42	(17,059)		(17,059)			
Interest and fiscal charges	34,630		3,932		(30,698)		(30,698)			
Total governmental activities	1,202,489	75,544	411,334	12,962	(702,649)		(702,649)			
Business-type activities:										
Erie County Medical Center	1,847					(1,847)	(1,847)			
Community College (August 31, 2004)	91,388	22,962	27,857			(40,569)	(40,569)			
Nonmajor fund	38,051	37,763				(288)	(288)			
Total business-type activities	131,286	60,725	27,857			(42,704)	(42,704)			
Total primary government	$ 1,333,775	$ 136,269	$ 439,191	$ 12,962	(702,649)	(42,704)	(745,353)			
Component unit:										
Library	$ 30,579	$ 1,032	$ 3,095	$ -				(26,452)		
ECMCC	300,571	237,877	13,551	16,162					(32,981)	
Other component units	3,257	2,902	905							550
Total component units	$ 334,407	$ 241,811	$ 17,551	$ 16,162				(26,452)	(32,981)	550
General revenues:										
Property taxes levied for mall, sewer, and general purposes					157,440		157,440			
Property taxes levied for library								24,197		
Sales, use and transfer taxes					270,860		270,860			
State and local appropriations						26,089	26,089			
Interest earnings not restricted to specific programs					1,235		1,235	27	90	
Unrestricted interest earnings					2,885	201	3,086			36
Miscellaneous					59,335		59,335	311	33,554	
Gain on sale of capital assets					941		941			
Transfers					13,291	(13,477)	(186)			
Total general revenues and transfers					505,987	12,813	518,800	24,535	33,644	36
Change in net assets					(196,662)	(29,891)	(226,553)	(1,917)	663	586
Net assets - beginning:										
As previously reported					573,771	44,269	618,040	21,157		1,905
Prior period adjustments (Note XIX)					(212,733)	(1,279)	(214,012)		1,512	
Net assets - beginning, as restated					361,038	42,990	404,028	21,157	1,512	1,905
Net assets - ending					$ 164,376	$ 13,099	$ 177,475	$ 19,240	$ 2,175	$ 2,491

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Balance Sheet
Governmental Funds
December 31, 2004
(amounts expressed in thousands)

	General	Tobacco Proceeds	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 4,885	$	$ 114,360	$ 119,245
Investments		35,176	70,516	105,692
Receivables (net of allowances)				
Real property taxes, interest, penalties and liens	17,243		29,311	46,554
Other	5,795	429	26,627	32,851
Due from other funds	49,406	37,480	118	87,004
Due from other governments	179,822		24,484	204,306
Prepaid items	7,088		22	7,110
Loan receivable	1,000			1,000
Total assets	$ 265,239	$ 73,085	$ 265,438	$ 603,762
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 14,351	$	$ 15,107	$ 29,458
Accrued liabilities	103,921		11,826	115,747
Due to other funds			73,506	73,506
Due to component unit	16,366			16,366
Due to other governments	14,035		3	14,038
Retained percentages payable	21		4,976	4,997
Deferred revenue	29,112		50,429	79,541
Short-term debt	82,500		22,448	104,948
Total liabilities	260,306	0	178,295	438,601
Fund Balances				
Reserved for:				
Encumbrances	7,555		42,056	49,611
Debt service			48,198	48,198
Loan receivable	1,000			1,000
Prepaid items	7,088		22	7,110
Repairs			6,687	6,687
E-911 system costs			(134)	(134)
Handicapped parking	64			64
Unreserved, reported in:				
General fund				
Undesignated	(10,774)			(10,774)
Special revenue funds				
Designated			4,708	4,708
Undesignated			2,280	2,280
Capital projects fund				
Designated		11,652		11,652
Undesignated		61,433	(16,674)	44,759
Total fund balances	4,933	73,085	87,143	165,161
Total liabilities and fund balances	$ 265,239	$ 73,085	$ 265,438	$ 603,762

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Reconciliation of Statement of Net Assets
To Governmental Fund Balances
For the year ended December 31, 2004
(amounts expressed in thousands)

		Governmental Activities
Total Governmental Fund Balances		$ 165,161
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		811,204
Other long-term assets, real property taxes, are not available to pay for current-period expenditures and therefore are deferred in the funds.		3,308
A balance due to a component unit was deemed to be not due and payable in the current period and therefore not reported in the funds.		(11,652)
A bond was issued on behalf of the enterprise fund but reported as a liability within governmental activities. The balance of the bond is reported within internal balances, as the enterprise fund will make the related future bond payments.		642
Certain current liabilities and long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued bond interest	$ (13,477)	
Compensated absences	(25,797)	
Retirement	(34,712)	
Judgments and claims	(39,929)	
Unamortized bond premium	(20,906)	
Bonds payable	(669,466)	(804,287)
Net assets of governmental activities		$ 164,376

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2004
(amounts expressed in thousands)

	General	Tobacco Proceeds	Other Governmental Funds	Total Governmental Funds
Revenues:				
Real property taxes and tax items	$ 137,461	$	$ 21,540	$ 159,001
Sales, use and transfer taxes	254,271		16,589	270,860
Intergovernmental	319,963		103,480	423,443
Interfund revenues	3,138		6,738	9,876
Departmental	59,206		13,259	72,465
Interest	2,885	1,235	3,932	8,052
Miscellaneous	59,756		342	60,098
Total revenues	836,680	1,235	165,880	1,003,795
Expenditures:				
Current:				
General government support	90,364		7,174	97,538
Public safety	111,470		7,942	119,412
Health	82,837		10,258	93,095
Transportation	18,722		24,552	43,274
Economic assistance and opportunity	556,707		49,102	605,809
Culture and recreation	23,849			23,849
Education	55,182		235	55,417
Home and community service	6,701		27,481	34,182
Capital outlay			133,815	133,815
Debt service:				
Principal retirement			21,988	21,988
Interest and fiscal charges	1,346		33,722	35,068
Total expenditures	947,178	0	316,269	1,263,447
(Deficiency) / excess of revenues over expenditures	(110,498)	1,235	(150,389)	(259,652)

COUNTY OF ERIE, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2004
(amounts expressed in thousands)

	General	Tobacco Proceeds	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses) :				
Proceeds of general obligation debt			99,222	99,222
Premium on bond issuance			7,624	7,624
Sale of property	939		2	941
Transfers in	36,159		81,972	118,131
Transfers out	(29,767)	(43,106)	(21,259)	(94,132)
Total other financing sources (uses)	7,331	(43,106)	167,561	131,786
Net change in fund balances	(103,167)	(41,871)	17,172	(127,866)
Fund balances - beginning:				
As previously reported	106,143	114,956	38,279	259,378
Prior period adjustments (Note XIX)	1,957		31,692	33,649
Fund balances - beginning, as restated	108,100	114,956	69,971	293,027
Fund balances - ending	$ 4,933	$ 73,085	$ 87,143	$ 165,161

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the year ended December 31, 2004
(amounts expressed in thousands)

			Governmental Activities
Amounts reported for governmental activities in the statement of activities are different because:			
Net change in fund balances-total governmental funds			$ (127,866)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and depreciated. This is the amount by which capital outlays exceeded depreciation in the current period			
Capital outlays		$ 109,563	
Depreciation		(35,941)	
Net adjustment			73,622
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds, but are reported as Deferred Revenue in the statement net assets.			(1,561)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term debt and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.			
Bonds issued	$ (99,222)		
Premium on bond issuance	(7,624)		
Total Proceeds		(106,846)	
Principal retirement	21,988		
Amortization of fiscal charges	789		
Total repayments		22,777	
Net adjustment			(84,069)
On January 1, 2004, the net assets of the ECMC Proprietary Fund were transferred to the General Fund. In connection with this transaction, certain items required adjustment to the government-wide financial statements. Such include a loss on the transfer of long-term debt of $1,541 and a gain on defeasement of long-term general fund debt of $118.			(1,423)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.			
Due to component unit		(11,652)	
Interest on bonds		(2,685)	
Compensated Absences		(2,561)	
Retirement		(26,119)	
Claims & Judgments (Long term change only)		(12,348)	
Net adjustment			(55,365)
Change in net assets of governmental activities			$ (196,662)

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual (Non-GAAP Basis of Accounting)
For the year ended December 31, 2004
(amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance Final Budget-Positive (Negative)
Revenues:				
Real property taxes and tax items	$ 150,197	$ 150,197	$ 137,461	$ (12,736)
Sales, use and transfer taxes	264,604	264,604	254,271	(10,333)
Intergovernmental	237,074	322,287	319,963	(2,324)
Interfund revenue	2,700	2,892	3,138	246
Departmental	53,248	58,346	59,206	860
Interest	5,186	5,189	2,885	(2,304)
Miscellaneous	15,755	16,238	59,756	43,518
Total revenues	728,764	819,753	836,680	16,927
Expenditures:				
Current:				
General government support	93,778	77,387	91,800	(14,413)
Public safety	76,537	101,082	111,916	(10,834)
Health	49,760	69,308	83,251	(13,943)
Transportation	20,248	20,248	18,722	1,526
Economic assistance and opportunity	426,182	488,661	560,908	(72,247)
Culture and recreation	27,870	30,419	24,632	5,787
Education	55,217	57,293	55,217	2,076
Home and community service	2,688	2,755	6,941	(4,186)
Debt service:				
Interest and fiscal charges	1,346	1,346	1,346	
Total expenditures	753,626	848,499	954,733	(106,234)
(Deficiency) of revenues over expenditures	(24,862)	(28,746)	(118,053)	(89,307)
Other financing sources (uses):				
Sale of property	85	85	939	854
Transfers in			36,159	36,159
Transfers out	(44,778)	(44,779)	(29,767)	15,012
Total other financing sources (uses)	(44,693)	(44,694)	7,331	52,025
(Deficiency) of revenue and other financing sources over expenditures and other financing uses	$ (69,555)	$ (73,440)	$ (110,722)	$ (37,282)

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Net Assets
Proprietary Funds
December 31, 2004
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds			
	Medical Center	Community College August 31, 2004	Nonmajor Fund	Total
Assets				
Current Assets				
Cash and cash equivalents	$	$ 22,180	$	$ 22,180
Receivables (net of allowances)		2,723	1,630	4,353
Due from other funds		2,571	517	3,088
Due from other governments			5,250	5,250
Prepaid items			94	94
Total current assets	0	27,474	7,491	34,965
Noncurrent Assets				
Capital assets, net of depreciation				
Other capital assets, net of depreciation		6,670		6,670
Total noncurrent assets	0	6,670		6,670
Total assets	0	34,144	7,491	41,635
Liabilities				
Current Liabilities:				
Accounts payable		1,203	3,777	4,980
Accrued liabilities		2,975	1,521	4,496
Due to other funds		1,632	1,283	2,915
Fringe benefits payable - current		1,845		1,845
Deferred revenue		10,020		10,020
Total current liabilities	0	17,675	6,581	24,256
Noncurrent Liabilities:				
Accrued liabilities		102		102
Fringe benefits payable		4,178		4,178
Total noncurrent liabilities	0	4,280	0	4,280
Total liabilities	0	21,955	6,581	28,536
Net Assets				
Invested in capital assets, net of related debt		6,670		6,670
Unrestricted, reported in:				
Community College		5,519		5,519
Nonmajor Fund			910	910
Total net assets	$ 0	$ 12,189	$ 910	$ 13,099

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended December 31, 2004
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds			
	Medical Center	Community College August 31, 2004	Nonmajor Fund	Total
Operating Revenues:				
Student tuition and fees	$	$ 21,035	$	$ 21,035
Intergovernmental revenues and charges		17,613		17,613
State and local contracts		10,244		10,244
Interfund revenues			8,503	8,503
Other operating revenue		1,927	29,260	31,187
Total operating revenue	0	50,819	37,763	88,582
Operating Expenses:				
Employee wages		52,227		52,227
Employee benefits		14,095		14,095
Scholarships		9,529		9,529
Supplies		10,325		10,325
Utilities and telephone		2,343	38,051	40,394
Depreciation and amortization		2,840		2,840
Total operating expenses	0	91,359	38,051	129,410
Operating loss	0	(40,540)	(288)	(40,828)
Nonoperating revenues (expenses):				
State and local appropriations		26,089		26,089
Income from investments		201		201
Loss on defeasance of debt	(1,847)			(1,847)
Gain (loss) on disposal of plant assets		(29)		(29)
Loss before transfers	(1,847)	(14,279)	(288)	(16,414)
Transfers in		15,670		15,670
Transfers out	(29,147)			(29,147)
Change in net assets	(30,994)	1,391	(288)	(29,891)
Total net assets-beginning:				
As previously reported	30,994	12,077	1,198	44,269
Prior period adjustment (Note XIX)		(1,279)		(1,279)
Total net assets-beginning, as restated	30,994	10,798	1,198	42,990
Total net assets-ending	$ 0	$ 12,189	$ 910	$ 13,099

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2004
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds			
	Medical Center	Community College August 31, 2004	Nonmajor Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from patients, students and utility customers	$	$ 22,176	$ 17,274	$ 39,450
Payments to employees for services		(65,354)	(74)	(65,428)
Payments to suppliers for goods and services		(13,753)	(31,852)	(45,605)
Payments for scholarships		(9,529)		(9,529)
Federal, state and local grants		27,486		27,486
Internal activity - payments (to) from other funds	(68,720)		14,704	(54,016)
Other operating revenues		3,590		3,590
Net cash and cash equivalents provided (used) by operating activities	(68,720)	(35,384)	52	(104,052)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
County contribution		15,670		15,670
State appropriations		24,856		24,856
Other contributions		1,001		1,001
Advances to other funds			(52)	(52)
Net cash and cash equivalents provided (used) by non-capital financing activities	0	41,527	(52)	41,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets		(2,655)		(2,655)
Proceeds from sale of property and equipment	85,000			85,000
Repayment of long-term debt	(21,968)			(21,968)
Net cash and cash equivalents provided (used) in capital financing activities	63,032	(2,655)	0	60,377
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received		201		201
Net cash and cash equivalents provided by investing activities	0	201	0	201
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,688)	3,689	0	(1,999)
Cash and cash equivalents, beginning of year	5,688	18,491	0	24,179
Cash and cash equivalents, end of year	$ 0	$ 22,180	$ 0	$ 22,180

(Continued)

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2004
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds			
	Medical Center	Community College August 31, 2004	Nonmajor Fund	Total Funds
Reconciliation of operating income (loss) to net cash and cash equivalents provided (used) by operating activities				
Operating income (loss)	$ 0	$ (40,540)	$ (288)	$ (40,828)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided (used) by operating activities:				
Depreciation expense and amortization		2,840		2,840
(Increase) decrease in assets:				
Receivables, net		(999)	(1,382)	(2,381)
Due from other funds			4,977	4,977
Due from other governments			(5,250)	(5,250)
Prepaid items			(16)	(16)
Close-out of proprietary fund	(68,720)			(68,720)
Increase (decrease) in liabilities:				
Accounts and other payables		(1,085)	792	(293)
Due to other funds			1,231	1,231
Accrued expenses		968	(12)	956
Other long-term liabilities		3,432		3,432
Net cash and cash equivalents provided (used) by operating activities	$ (68,720)	$ (35,384)	$ 52	$ (104,052)

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Fiduciary Net Assets
Fiduciary Fund
For the year ended December 31, 2004
(amounts expressed in thousands)

		Agency Fund
Assets		
Cash and cash equivalents	$	46,955
Investments		150
Receivables:		
Due from other governments		121
Other receivables		7
Total assets	$	47,233
Liabilities		
Accrued liabilities	$	5,016
Due to other funds		12,732
Due to other governments		5,173
Held in custody for others		24,312
Total liabilities	$	47,233

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Erie, New York (the "County") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The more significant of the County's accounting policies are described below.

A. Financial Reporting Entity

The County was established in 1821. Subject to the New York State Constitution, the County operates pursuant to its Charter and Administrative Code (the "Charter"), as well as various local laws. Additionally, certain New York State laws govern the County to the extent that such laws are applicable to counties operating under a charter form of government. The Charter was enacted by local law and approved by the electorate at a general election held in November 1959. The Administrative Code was enacted into local law in 1961. The County Legislature is the legislative body responsible for overall operations, the County Executive serves as chief executive officer, and the County Comptroller serves as chief fiscal, accounting, reporting and auditing officer.

The County provides mandated social service programs such as Medicaid, Temporary Assistance for Needy Families and Safety Net. The County also provides services and facilities in the areas of culture, recreation, police, libraries, youth, health, senior services, roads, and sanitary sewerage. These general governmental programs and services are financed by various taxes, state and federal aid, and departmental revenue (which are primarily comprised of service fees and various types of program-related charges). Additionally, the County operates a community college.

The financial reporting entity includes the County (the primary government) and its significant component units. A component unit is either a legally separate organization for which the elected officials of a primary government are financially accountable, or another organization for which the nature and significance of its relationship with a primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

1. CHANGES IN THE FINANCIAL REPORTING ENTITY

The financial statements for the fiscal year ended December 31, 2004 incorporate several changes to the financial reporting entity from that presented in the prior year. Significant changes include:

Adoption of GASB Technical Bulletin 2004-1 and GASB Statement No. 39

The Governmental Accounting Standards Board ("GASB") released GASB Technical Bulletin 2004-1 ("GASB TB 2004-1"), *Tobacco Settlement Recognition and Financial Reporting Entity Issues* in June 2004. The technical bulletin clarified previous guidance on the proper accounting and reporting of entities created to securitize proceeds of tobacco settlements. The County's adoption of the technical bulletin requires the inclusion of the Erie Tobacco Asset Securitization Corporation ("ETASC") as a blended component unit. In accordance with the requirements of GASB TB 2004-1, beginning fund balance for Other Governmental Funds and beginning net assets for Governmental

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activities have been restated to reflect the net assets of ETASC at January 1, 2004 (see Note XIX).

The GASB released GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* ("GASB 39") in May 2002. The County was required to adopt GASB 39 for the 2004 fiscal year. In applying the guidance of GASB 39 to known related parties of the County, the County determined that the Erie Tax Certificate Corporation ("ETCC") should be included in the financial statements as a blended component unit.

Erie County Medical Center Corporation ("ECMCC")

ECMCC was created as a public benefit corporation under New York State Public Authorities Law on July 22, 2003. ECMCC had no assets, liabilities or operating activity until commencing operations on January 1, 2004. On January 28, 2004 the County sold certain property, equipment, inventories and other related assets of the Erie County Medical Center proprietary fund ("ECMC Fund") to ECMCC.

As ECMCC assumed the operations of the ECMC Fund on January 1, 2004, the ECMC Fund has no operating activity for the current year beyond those transactions needed to effectuate the asset sale and the transfer of equity. The transfer out of the ECMC Fund included $3,729,000 related to capital construction projects which has been transferred to the Capital Projects Fund (reported within Other Governmental Funds). The remaining residual equity of $35,962,000 was transferred to the General Fund. Due to differences between the full accrual method employed in the ECMC Fund and the modified accrual method employed in the fund financial statements, the transfer out of the ECMC Fund is less than the transfer into the General and Capital Projects Funds, with the difference representing an excess of long-term liabilities over capital assets.

As discussed below, ECMCC has been deemed a component unit of the County and is discretely presented in the Government-Wide financial statements.

Transfer of Certain Projects from the Grants Fund to the General Fund

In prior years, the activity of certain projects was accounted for within the Grants Fund to take advantage of reporting and controls available within that fund in the County's legacy accounting and reporting system. During 2004, the County replaced its previous accounting and reporting system with a new enterprise resource planning solution based on SAP. The new system eliminated the need to record these projects within the Grants Fund and the County decided to transfer the activity of these projects to the General Fund. The projects transferred had expenditures of $142,331,000 in 2003, representing 82% of total 2003 Grants Fund expenditures of $173,384,000.

The Grants Fund was presented as a major fund in the County's 2003 financial statements. Without the activity of the transferred projects, the Grants Fund did not meet the criteria for presentation as a major fund in 2004 and has been included within Other Governmental Funds.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. DISCRETELY PRESENTED COMPONENT UNITS

Financial data of the County's component units that are not part of the primary government is reported in the component unit's column in the government-wide financial statements, to emphasize that these component units are legally separate from the County. The aggregate presented component units are not simply an extension of the primary government (i.e. they have a substantially different governing body, and their services are provided to the general public). They include the following:

The Buffalo and Erie County Public Library (the "Library"), formed through a consolidation of several public and private libraries, was established by the County and chartered by the State University Board of Regents in 1953. It is a separate and distinct legal corporation that receives an annual budgetary contribution from the County. Library operations are governed by a board of trustees who are appointed by the County Legislature. Bonds and notes for Library capital costs are issued by the County and are County debt. Title to real and personal property acquired with County funds vests with the County. The Buffalo and Erie County Public Library is included as a component unit of the County in the financial statements, based on the fact that it is a legally separate entity for which the County is financially accountable.

Erie County Medical Center Corporation ("ECMCC") is a public benefit corporation created in 2003 for the purpose of acquiring and operating the health facilities of the County. Effective January 1, 2004 (the "Transfer Date"), a transaction was executed which transferred ownership of the fixed assets, equipment, inventories and certain other assets to ECMCC in exchange for a payment of $85 million from ECMCC to the County. Concurrent with the transaction, $106 million of ECMCC bonds were issued, which are guaranteed by the County. The following component units are included within ECMCC:

Research for Health in Erie County, Inc. - Research for Health in Erie County, Inc. ("RHEC") is a nonprofit organization dedicated to developing and increasing the facilities of the public health institutions, agencies, and departments of the County. Additionally, RHEC is committed to provide more extensive conduct of studies and research into the causes, nature, and treatment of diseases, disorders, and defects of particular importance to the public health. RHEC's support comes primarily from various grants from federal, state, and other agencies. The financial statements of RHEC have been prepared on an accrual basis. The annual financial report can be obtained by writing Grant Administration, Research for Health in Erie County, Inc., 462 Grider Street, Buffalo, NY 14215.

ECMC Lifeline Foundation, Inc - ECMC Lifeline Foundation, Inc. (the "Foundation") is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed for the purpose of supporting hospital programs generated both by the foundation and the Erie County Medical Center. The annual financial report can be obtained by writing Director, ECMC Lifeline Foundation, Inc., 462 Grider Street, Buffalo, NY 14215.

ECMCC is considered to be a component unit of the County and is discretely presented based on the fact that it is a legally separate entity for which the County is financially accountable. Separate financial statements for ECMCC can be obtained from ECMCC, 462 Grider St, Buffalo, New York 14215.

Other Component Units—Other Component Units include the Auxiliary Services Corporation of Erie Community College, Inc. (the "ECC Auxiliary Corporation"), and the Erie Community College Foundation, Inc. (the "ECC Foundation").

The purpose of the ECC Auxiliary Corporation, a New York non-profit corporation, is to promote and cultivate educational and social relations through the operation of bookstores, on-campus dining services, vending facilities, childcare, and student centers for the convenience of the students, faculty and staff of the Erie Community College (the "College"). The ECC Auxiliary Corporation is funded through sales of merchandise and food, Federal and State grants, and other fees.

The ECC Foundation is a New York State nonprofit corporation established to support the College. Its purpose is to raise, receive, and administer all private gifts and program services for the College, its programs and its students.

3. BLENDED COMPONENT UNITS

Erie Tobacco Asset Securitization Corporation ("ETASC") is a special purpose local development corporation organized under the Not-for-Profit Corporation Law of the State of New York and is an instrumentality of, but separate and apart from the County. Although legally separate and independent of Erie County, ETASC is considered an affiliated organization under GASB 39 and reported as a component unit of the County for financial reporting purposes and, accordingly, is included in the County's financial statements. Separate financial statements for ETASC can be obtained from the Erie Tobacco Asset Securitization Corporation, Treasurer, 95 Franklin Street, Room 1600, Buffalo, New York, 14202.

Erie Tax Certificate Corporation ("ETCC") is a special purpose local development corporation organized under the Not-for-Profit Corporation Law of the State of New York and is an instrumentality of, but separate and apart from the County. Although legally separate and independent of Erie County, ETCC is considered an affiliated organization under GASB 39 and reported as a component unit of the County for County financial reporting purposes and, accordingly, is included in the County's financial statements. ETCC does not issue separate financial statements.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. <u>Financial Reporting Entity</u> (Concluded)

4. RELATED ORGANIZATIONS

County elected officials nominate and confirm the three-member board of the Erie County Water Authority, and also appoint a voting majority of the board of the Buffalo Convention Center Management Corporation. The County's accountability for these legally separate organizations does not extend beyond making the board appointments. Specifically, the County cannot impose its will on any of these organizations. In addition, in the case of the Water Authority, no financial operating assistance is provided to, nor is the County liable for, any debt issued by this public benefit corporation. In regard to the not-for-profit Buffalo Convention Center Management Corporation ("Corporation"), the entity and the County are parties to an exchange transaction under which the Corporation is responsible for operating and managing the area's convention center. These related organizations are not component units of the County and do not meet the basic criteria for inclusion in the County reporting entity.

5. JOINT VENTURE

The County is a participant in the Western Regional Off-Track Betting Corporation ("OTB"), a public benefit corporation established under New York State Racing, Pari-Mutuel Wagering and Breeding Law. The OTB conducts within the region a system of off-track pari-mutuel betting on horse races, and distributes net revenues to the participants in accordance with a predetermined formula. Separate financial data for this joint venture has been excluded from the financial statements, consistent with GAAP. Additional information about this joint venture is presented in Note XVII.

B. <u>Government-wide and Fund Financial Statements</u>

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effects of interfund activity have been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

B. Government-wide and Fund Financial Statements (Concluded)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is the determination of what is expressed in reporting an entity's financial performance and position, (i.e., expenditures or expenses). A particular measurement focus is accomplished both by considering what resources will be measured and the basis of accounting.

Basis of accounting refers to when revenues, expenditures/expenses, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus.

Accrual Basis – Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Modified Accrual Basis – Under this basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues from federal, state, or other grants designated for specific County expenditure are recognized when the related expenditures are incurred.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and expenditures for inventory-type items and for prepayments (except retirement) are recognized at the time of the disbursements.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, and fiduciary fund financial statements. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and are measurable.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund – the principal operating fund that includes all operations not required to be recorded in other funds.

Tobacco Proceeds Fund – used to account for the net proceeds from the County's securitization of its share of the 1998 Master Settlement Agreement (the "MSA") with the tobacco industry that will be used to fund capital projects that otherwise would have been supported by operating funds or the issuance of bonds. The County's share of the MSA, as well as the bonds issued as part of the securitization are currently held by and reported by ETASC, a blended component unit of the County.

The County reports the following major proprietary fund:

Community College – resources received and used for community college purposes are accounted for through the College. The College is not a legally separate entity from the County. A fiscal year ending August 31 is mandated by New York State law for the College.

The College does not account for capital projects, certain capital assets or certain indebtedness; these are direct functions of the County and are reported within the governmental activities columns in the government-wide financial statements.

Additional information as excerpted from the College's financial statements is as follows:

The County Executive and the County Legislature approve the College annual budget, with the County providing funding for one-half and approximately one-fifth of capital and operating costs, respectively.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Concluded)

Equipment of the College has been included in the business-type activity column in the statement of net assets. This equipment is recorded at cost or estimated historical cost. Donated assets are stated at estimated fair value as of the date received.

Additionally, the County reports the following fiduciary fund type that is used to account for assets held by the County in a custodial capacity:

Agency Fund – used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this general rule is the chargeback of services, such as printing and computer services. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. General revenues are those that cannot be associated directly with program activities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Data

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the County Charter and Administrative Code, no later than November 10, the County Executive submits a tentative operating and capital budget which details proposed expenditures and the proposed means of financing to the Erie County Legislature for the fiscal year commencing the following January 1. The College budget is not included in the County Executive's tentative budget, since it is separately adopted during the first County legislative meeting in July for the fiscal year commencing September 1.

2. After public hearings are conducted to obtain taxpayer comments, the County Legislature (governing board) adopts the budget no later than the second Tuesday in December.

3. Annual appropriated budgets are adopted and employed for control of the General Fund; the Road, Sewer, Downtown Mall, and E-911 Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund, minimally detailed to the department and account level. These budgets are adopted on a basis consistent with GAAP, except that encumbrances are reported as budgetary expenditures in the year of incurrence of commitment to purchase, as well as in the year of expenditure if the expenditure occurs in a fiscal year subsequent to the commitment in the General and the enumerated Special Revenue Funds. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis, and represent the budget as modified. Annual appropriated budgets are not employed for the Grants and Community Development Special Funds. A reconciliation to convert GAAP basis data to the budgetary basis is provided in Note II.

4. Capital Projects funds are subject to project budgets determined primarily by the bonding authorizations used to fund a particular project rather than annual budgetary appropriations. These budgets do not lapse at year-end; rather, they lapse upon termination of the project.

5. The County Executive is authorized to make budget transfers up to a cumulative total of $1,000 between accounts or budgeted sub-accounts within an administrative unit. Those budget transfers greater than $1,000 need legislative approval.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgets and Budgetary Data (Concluded)

6. At January 1, the amount of encumbrances carried forward from the prior year is re-established as budgeted appropriations and expenditures.

   Expenditures within the General, Special Revenue, Utilities Aggregation Enterprise, and the Debt Service Funds may not legally exceed the amount appropriated for such accounts or sub-accounts within an administrative unit. During the year, numerous supplementary appropriations were necessary.

   Individual governmental fund comparisons of budgetary and actual data at the legal level of control established by the adopted budget (i.e., minimally the department and account level) are not presented in this report for those funds with annual appropriated budgets due to the excessive detail involved.

E. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all County funds except Enterprise, Debt Service, and Fiduciary Funds. Outstanding encumbrances at year end, except for grant-related commitments that are not reported in the financial statements, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

F. Deposits and Investments

All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents. Investments are stated at fair value.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and sewer systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost equal to or greater than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized. Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other Than Buildings	5 – 25 years
Buildings and Improvements	15 – 40 years
Infrastructure	20 – 100 years
Equipment	3 – 25 years

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt, where such amounts are material. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

When capital assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period in the government-wide statements. Amortization of capital leases is computed using the straight-line method over the lease term or the estimated useful lives of the assets, whichever is shorter. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

H. Property Tax Revenue Recognition

The County-wide property tax is levied by the County Legislature effective January 1 of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on January 1 of the year for which they are levied. Accordingly, property tax is only recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period or 60 days thereafter in the fund financial statements.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Tax Revenue Recognition (Concluded)

Delinquent property taxes not collected at year-end (excluding collections in the 60-day subsequent period) are recorded as deferred revenue in the fund financial statements. The portion of delinquent property taxes for prior years estimated to be uncollectible at December 31, 2004, amounted to $9,374,053. This amount has been recorded as an allowance against the property taxes receivable account.

I. Compensated Absences

Most employees are granted vacation, personal, and sick leave and earn compensatory time in varying amounts. When they leave service, employees are entitled to payment for accumulated vacation and unused compensatory time at various rates subject to certain maximum limitations. In addition, depending on the applicable collective bargaining agreement, and the specific plan in which the retiree is enrolled, retirees may be eligible to have group health and dental insurance premiums fully paid minimally for a defined period based on their available sick leave credits, or to receive a direct cash payment for a portion of such unused sick time.

Compensated absences for governmental fund type employees are reported as a fund liability and expenditure in the government-wide financial statements. For proprietary fund type employees, the accumulation is recorded as an accrued liability and/or other long-term obligation of the proprietary fund type.

The compensated absences liability for the primary government at year-end totaled $29,611,561, with $25,797,045 reported within governmental activities and $3,814,516 reported within business-type activities.

The Library component unit compensated absences liability of $1,550,828 is recorded in full in the government-wide financial statements. The ECMCC component unit compensated absences liability of $8,266,345 is recorded in full in the statement of net assets as an accrued liability.

Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore, timing of future payment is not readily determinable. However, management believes that sufficient resources will be made available for the payment of compensated absences when such payments become due.

J. Insurance

The County assumes the liability for most risk including, but not limited to, property damage, personal injury liability, medical malpractice, and workers' compensation. Asserted and incurred but not reported claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Such recording is consistent with the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASB 10"). Governmental fund type estimated current contingent loss liabilities for property damage, personal injury liability, medical malpractice, and workers' compensation are reported within governmental activities in the government-wide financial statements.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Insurance (Concluded)

Loss contingency liabilities arising from operations of the College are recorded in accordance with GASB 10 by the County and are reported in full within governmental activities in the government-wide financial statements and in the General Fund when payment is due. They are only recognized as a College liability when invoiced from the County.

K. Pensions

Nearly all County employees are members of various New York State retirement systems. The County is invoiced annually by the systems for its share of the costs.

L. Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the following items: cash on hand; cash in checking and time accounts; and certain short-term items maturing three months or less from the date acquired, as permitted by State statute.

M. Restrictions, Reserves and Designations

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The amount reported as restricted for other purposes for Governmental Activities, includes $7,087,599 that is restricted by state statute to current and future payments for pension billings and $63,559 that is restricted by New York State Law to payments related to enforcement of Handicapped Parking Laws.

- *Unrestricted Net Assets* – This category represents net assets of the County not restricted for any project or other purpose.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Restrictions, Reserves and Designations

In the fund financial statements, reserves represent that portion of fund balance/retained earnings that has been legally segregated for a specific use or is not appropriable for expenditure by the County at December 31, 2004, and include:

Reserved for Encumbrances – representing commitments related to unperformed (executory) contracts for goods or services.

Reserved for Debt Service – representing resources that must be used for principal payments that will be made in future periods.

Reserved for Loan Receivable – representing the noncurrent portion of a loan to a developer for the construction of a senior citizen apartment complex and for a loan to the Buffalo Zoo for the redevelopment of the Main Animal Building.

Reserved for Prepaid Items – representing nonrefundable amounts prepaid to the New York State and Local Employees' Retirement System that are only legally available to make current and/or future payments for pension billings.

Reserved for Repairs – representing resources from a real estate transfer tax that has been legally earmarked for the purpose of repairing County roads and bridges.

Reserved for E-911 System Costs – representing unexpended emergency telephone system surcharge monies that must be used to pay future system costs.

Reserved for Handicapped Parking – representing commitments relating to education, advocacy and increased public awareness of handicapped parking laws.

In the fund financial statements, designations are not legally required segregations, but are segregated for a specific purpose by the County. Accounting prescription set by the Erie County Comptroller provides for a sunset provision of one fiscal year for all fund balance designations. Legislature approval is required to establish and subsequently appropriate fund balance designations. Designations at December 31, 2004 were as follows:

Designated for Subsequent Year's Expenditures – representing available fund balances being appropriated to meet future year's expenditure requirements. Within the Tobacco Proceeds fund, designated fund balance represents tobacco proceeds to be expended on future ECMCC capital projects.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Postemployment Benefits

In addition to pension benefits, the County provides retired employees with group health insurance benefits and, for a limited period, group dental insurance benefits. The obligation of the County to contribute to the cost of providing both benefits has been established pursuant to legislative resolution and various collective bargaining agreements. Employees become eligible for such benefits if they have been continuously employed by the County for the equivalent of at least ten years at the time of retirement.

Upon retirement, the County fully pays eligible employees' group health insurance premiums for single and family coverage for a core plan provided by a single provider health insurance company up until age 65. A pre-65 retiree may choose an optional plan which would require them to pay the difference in premium cost between the core plan and the optional plan. A post-65 retiree and their eligible spouse are required to select a designated Medicare Wraparound product that includes prescription drug coverage and basic out of network benefits. The County pays 100% of the monthly premium for the single or double coverage for one of three offered plans. In addition, a post-65 retiree may choose an optional plan that would require them to pay the difference in premium cost between the highest premium of one of the offered plans and the optional plan.

Additionally, upon retirement, the County fully pays eligible employees' dental insurance premiums for a defined period based on their available sick leave credits. Thereafter, the cost of dental benefits becomes the responsibility of the retirees, should they choose to continue coverage.

The County finances the plan on a pay-as-you-go basis. The cost of retiree group health and dental insurance benefits is recognized as an expenditure/expense based on premiums paid during the year. During 2004, $12,071,497 was paid by the County on behalf of 3,289 eligible retirees.

P. Proprietary Fund Refunding Transactions

Current refundings and advance refundings resulting in defeasance of debt are reported by proprietary activities in the following manner: the difference between the old debt's reacquisition price and net carrying value is deferred and amortized as a component of interest expense over the shorter of either the life of the refunding debt or the life of the refunded debt.

Q. Reclassifications

Certain reclassifications were made to the Erie County Medical Center Corporation financial statements to conform to the County's reporting presentation.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

R. Future Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the year ending December 31, 2005; GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the year ending December 31, 2005; GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Pensions,* effective for the year ending December 31, 2007; GASB Statement No. 46, *Net Assets Restricted by Legislation,* effective for the year ending December 31, 2006; and GASB Statement No. 47, *Accounting for Termination Benefits*, effective for the year ending December 31, 2007. The County is, therefore, unable to disclose the impact that adopting GASB Statement Nos. 40, 42, 45, 46, and 47 will have on its financial position and results of operations when such statements are adopted.

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The County reports its budgetary status with the actual data including encumbrances as charges against budgeted appropriations. Following is a reconciliation of the budgetary basis (i.e. non-GAAP) and the GAAP basis operating results:

	(000s omitted) General Fund
Deficiency of revenues and other financing sources over expenditures and other financing uses - GAAP basis	$ (103,167)
Less:	
Encumbrances	7,555
Deficiency of revenues and other financing sources over expenditures and other financing uses - basis of budgeting	$ (110,722)

Budget columns presented in the accompanying financial statements reflect deficiencies of revenues and other financing sources over expenditures and other financing uses. These deficiencies are caused in part by the re-establishment of prior-year encumbrances and the anticipated use of prior-year's fund balance, which had been designated for 2004 expenditures through the budget process. Additional information is presented in subsection B. of this note.

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Concluded)

Commitments related directly to the Grants and the Community Development Special Revenue Funds in the amount of $2,807,398 and $1,921,812, respectively, at December 31, 2004, are not reported on the financial statements. Budget appropriations are not made available for these commitments until grant revenues are recognized at the time of expenditure.

Budgetary control of the General Fund; the Road, Sewer, Downtown Mall, and E-911 Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund is minimally exercised at the department and account level.

B. Excess of Expenses/Expenditures Over Appropriations

For the year ended December 31, 2004 the following schedule details the excesses of actual expenditures over budgeted appropriations at the established control level for all funds. Included within these deficiencies are the re-establishment of prior-year encumbrances of $8,002,000 and the anticipated use of prior-year's fund balance of $35,000,000 which had been designated for 2004 expenditures through the budget process. The County did not approve year-end budget revisions in the current year. In the General Fund, the two largest unfavorable variances, Disproportionate Share Hospital ("DSH") variance of $35,390,000 and Intergovernmental Transfer ("IGT") variance of $19,318,000, were offset by positive variances in revenues related to those accounts in the same amount. Unfavorable variances were also experienced for salaries and overtime ($11,438,000), fringe benefits ($18,362,000), social services programs ($16,397,000) various departmental programs ($3,736,000) and miscellaneous objects of expense for several departments ($2,376,000).

B. Excess of Expenses/Expenditures Over Appropriations (Continued)

FUND	DEPARTMENT	OBJECT	(000's Omitted)
GENERAL FUND	Legislature	Maintenance & Repairs	$ 7
	Legislature	Professional Services Contracts	8
	Legislature	Fringe	169
	Budget, Mgmt & Finance	Fringe	131
	Budget, Mgmt & Finance	Overtime	11
	Labor Relations	Fringe	1
	Labor Relations	Salaries	8
	Comm. Status Women	Salaries	4
	Information and Support Services	Fringe	166
	Information and Support Services	Overtime	58
	Purchasing	Maintenance & Repairs	3
	Purchasing	Fringe	45
	Purchasing	Overtime	7
	Purchasing	Salaries	62
	Fleet	Maintenance & Repairs	30
	Fleet	Fringe	32
	Equal Employment Opportunity	Fringe	28
	Equal Employment Opportunity	Salaries	2
	Comptroller's	Lab & Technical Equipment	4
	Comptroller's	Fringe	31
	Comptroller's	Overtime	154
	County Clerk	Fringe	296
	District Attorney	Fringe	3
	District Attorney	Salaries	67

(Continued)

B. Excess of Expenses/Expenditures Over Appropriations (Continued)

FUND	DEPARTMENT	OBJECT	(000's Omitted)
GENERAL FUND	Sheriff	Auto Truck & Heavy Equipment Supplies	5
	Sheriff	Maintenance & Repairs	7
	Sheriff	Out of Area Travel	2
	Sheriff	Professional Services Contracts and Fees	2
	Sheriff	Fringe	1,329
	Sheriff	Overtime	469
	Sheriff	Salaries	1,981
	Jail Management	Office Supplies	1
	Jail Management	Clothing Supplies	13
	Jail Management	Food & Kitchen Supplies	18
	Jail Management	Fringe	3,183
	Jail Management	Overtime	6,387
	Jail Management	Salaries	187
	Social Services	Office Supplies	8
	Social Services	Local Mileage Reimbursement	43
	Social Services	Contractual Payments	132
	Social Services	MMIS-Medicaid Local Share	5,646
	Social Services	IGT Expense	19,319
	Social Services	Family Assistance	5,598
	Social Services	Foster Care	3,572
	Social Services	Safety Net Assistance	769
	Social Services	Emergency Assistance To Adults	149
	Social Services	Handicapped Child Education	91
	Social Services	DSH Expense	35,391
	Social Services	Other Expenses	45
	Social Services	Chargebacks	188
	Social Services	Rental Charges	46
	Social Services	Sheriff Division Services	407
	Social Services	Youth Bureau Services	572
	Social Services	Veterans Services	72
	Social Services	Buffalo Park Services	66
	Social Services	Fringe	1,496
	Social Services	Overtime	89
	Public Works	Auto Truck & Heavy Equipment Supplies	2
	Public Works	Maintenance & Repairs	91
	Public Works	Contractual Payments	37
	Public Works	Rental Charges	12
	Public Works	Interfund Expense Non-Subsidy	504
	Public Works	Fringe	823
	Public Works	Overtime	105
	Mental Health	Correctional Facility	19
	Mental Health	Fringe	7
	Probation and Youth Detention	Fringe	515
	Probation and Youth Detention	Overtime	506

(Continued)

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of Expenses/Expenditures Over Appropriations (Continued)

FUND	DEPARTMENT	OBJECT		(000's Omitted)
GENERAL FUND	Health	Local Mileage Reimbursement		49
	Health	County Share-Grants		9
	Health	Fringe		949
	Health	Overtime		56
	Public Benefit Community Agencies	Contractual Payments		99
	Countywide Accounts - Budget	Co Res Enrl Comm Col		694
	Countywide Accounts - Budget	InterFund Transfer - Subsidy		740
	Countywide Accounts - Budget	Fringe		891
	Board of Elections	Fringe		151
	Board of Elections	Overtime		151
	Board of Elections	Salaries		13
	Law	General Liability		2,281
	Law	Fringe		1,633
	Personnel	Fringe		87
	Personnel	Overtime		71
	Personnel	Salaries		147
	Environment and Planning	Fringe		69
	Environment and Planning	Overtime		2
	Environment and Planning	Salaries		16
	Senior Services	Fringe		8
	Parks	Utility Charges		5
	Parks	Contractual Payments		5
	Parks	Fringe		463
	Parks	Overtime		753
	Central Police Services	Clothing Supplies		1
	Central Police Services	Maintenance & Repairs		1
	Central Police Services	Contractual Payments		16
	Central Police Services	Fringe		44
	Central Police Services	Overtime		111
	Emergency Services	Fringe		66
	Emergency Services	Salaries		21
	Countywide Accounts - Comptroller	InterFund Transfer - Subsidy		440
	Erie County Medical Center	Fringe		3,707
	Erie County Home and Infirmary	Fringe		2,039
		Total General Fund	$	107,019
ROAD FUND	Highways	Local Mileage Reimbursement	$	1
	Highways	Fringe		502
	Highways	Overtime		786
		Total Road Fund	$	1,289

(Continued)

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Concluded)

B. Excess of Expenses/Expenditures Over Appropriations (Concluded)

FUND	DEPARTMENT	OBJECT	(000's Omitted)
SEWER FUND	Sewerage Management	Local Mileage Reimbursement	$ 8
	Sewer District 2	NYSEFC Bond Admin. Fee	13
	Sewer District 3	NYSEFC Bond Admin. Fee	6
	Sewer District 6	Clothing Supplies	1
	Sewer District 6	Taxes & Assessments	3
	Sewer District 6	Motor Vehicles	24
			$ 55
E-911 FUND	Central Police Services	Other Expenses	$ 6
		Total E-911 Fund	$ 6
DOWNTOWN MALL FUND	Budget, Mgmt & Finance	Contractual Payments	$ 1,204
	Budget, Mgmt & Finance	CW Accts Budget	8
		Total Downtown Mall Fund	$ 1,212
DEBT SERVICE FUND	Comptroller's	Bond Issue Costs	$ 53
	General Debt	Bond Issue Costs	94
	General Debt	Interest - Bonds	413
		Total Debt Service Fund	$ 560

(Concluded)

C. Deficit Fund Balances

The Erie Tax Certificate Corporation and the E-911 Special Revenue Funds, both of which are reported in Other Governmental Funds, reported deficit fund balances of $1,880,000 and $134,000, respectively at December 31, 2004. In addition, a deficit fund balance of $4,865,000 was reported in the Sewers, Facilities, Equipment and Improvements Capital Fund. Future revenues or bond proceeds are expected to remediate the deficit fund balances.

III - CASH AND INVESTMENTS

Available cash of the County is deposited and invested in accordance with the provisions of applicable State statutes. The County also has its own written investment guidelines which have been established by the Comptroller's Office and approved by the County Legislature.

The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts at, or certificates of deposit issued by, FDIC-insured commercial banks or trust companies located within the State. Some of the County's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for County operating cash and for investment purposes. The County's bank accounts are maintained in a separate Treasury Group of accounts with the respective offset being to the various fund equities in pooled cash, investments, and restricted cash. Interest income from the pooled accounts is allocated based on the funds' respective share of the pool.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, contractual repurchase agreements, and obligations of any state, municipality, school district or district corporation. Existing policies require that the underlying securities for repurchase transactions must be only federal obligations.

Collateral is required for deposits (except college checking accounts) and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Banks can satisfy collateral requirements by furnishing a letter of credit, a surety bond, or by pledging eligible securities as specified in Section 10 of New York State General Municipal Law. New York State Education Law does not require collateral for college checking accounts, unless the Board of Trustees deems it necessary. If collateral is required, it can be in the form of a surety bond or obligations of the United States, the State, or any municipality or college of the State. Certain balances for accounts held in trust are collateralized by the State of New York.

The detail of cash and investments, patient trust cash, and restricted cash and investments is as follows:

(000s omitted)

	Primary Government	Agency Fund	Library Component Unit	ECMC Component Unit	Other Component Units	Reporting Entity Total
Petty Cash	$ 117	$	$ 8	$	$	$ 125
Cash in Banks	141,308	46,955	4,144	601	1,163	194,171
Patient Trust Cash				668		668
Restricted Cash & Investments				12,687		12,687
Investments	105,692	150		1,314	662	107,818
	$ 247,117	$ 47,105	$ 4,152	$ 15,270	$ 1,825	$ 315,469

III - CASH AND INVESTMENTS (Continued)

Deposits – The carrying amounts for deposits of the Reporting Entity were $194,839,000. Related bank balance amounts classified by credit risk category are as follows:

Credit Risk Category	(000s omitted) Reporting Entity Bank Balance
Insured (FDIC)	$ 992
Uninsured:	
Collateral held by New York State on behalf of accounts held in trust	9,278
Collateral held by Reporting Entity's agent in Reporting Entity's name	176,273
Total Deposits	$ 186,543

Agency Fund bank accounts are maintained at financial institutions where monies of the Primary Government are also on deposit. The banks calculate and report FDIC coverage and collateral requirements on a Reporting Entity basis. In addition, the Library does not maintain a separate bank account; instead, it participates in the pooled cash of the County.

As a result, the related credit risk categories cannot be separately identified for the Agency Fund or the Library Component Unit.

Investments - All investments are carried at fair value and are categorized in the following manner:

Category 1 - Insured or registered, or securities held by the County, or its agent, in the County's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department, or agent, in the County's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

Investments for the Primary Government at year-end are shown below:

	(000s omitted) Category			
	1	2	3	Fair Value
Municipal Bonds	$ 72,031	$	$	$ 72,031
Discount Notes	33,661			33,661
Total Investments	$ 105,692	$ 0	$ 0	$ 105,692

III - CASH AND INVESTMENTS – (Continued)

ECMCC Component Unit

Assets Whose Use is Limited—Assets whose use is limited at December 31, 2004 consists of patient and residents' trust cash and cash restricted for debt service and capital projects are as follows:

Current:	
Patient and resident's trust cash	$ 668,292
Restricted—capitalized interest	1,976,800
	$ 2,645,092
Noncurrent:	
Restricted—capital projects	3,050,224
Restricted—debt service fund	7,659,585
	$ 10,709,809

Patient Trust Cash—Pertinent information relative to the Medical Center's deposits at December 31, 2004 is as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	$ 320,024	$ 320,024
Uninsured—		
Collateral held by pledging financial institutions' trust department or agent in the Corporation's name	348,268	348,268
Total deposits	$ 668,292	$ 668,292

Foundation Component Unit—The Foundation held certificates of deposit amounting to $504,495 at December 31, 2004. At December 31, 2004 the certificates paid interest at varying rates of 0.94-2.06% and matured (and were renewed) in January 2005.

RHEC Component Unit—RHEC reports investments at their fair value in the statement of net assets. Unrealized gains and losses are charged or credited to the statement of revenue, expenses, and changes in net assets. Investments held are FDIC insured.

Investments at September 30, 2004 consist of the following:

	Cost	Fair Value
Certificates of deposit	$ 511,974	$ 511,974
Bonds	656,887	652,321
U.S. Treasury Securities	100,000	99,677
	$ 1,268,861	$ 1,263,972

Foundation Component Unit—Investments at December 31, 2004 consist of the following:

Endowment investments, held in a money market account, which are permanently restricted	$ 50,000

III - CASH AND INVESTMENTS - (Concluded)

Other Component Units

Erie Community College Foundation, Inc.—The portfolio of investments is carried at their fair value. For donated investments, costs are determined to be fair value at the date of gift.

Fair values and net unrealized gains and losses pertaining to the investment portfolio as of August 31, 2004 are as follows:

	Cost	Fair Value
Fixed income	$ 268,386	$ 262,543
Domestic stocks	367,411	399,705
	$ 635,797	$ 662,248
Net unrealized gain		$ 26,451

IV - RESTRICTED CASH AND INVESTMENTS

ECMCC Component Unit

Restricted Cash and Cash Equivalents—All investments are carried at fair value and are categorized as insured or uninsured and collateralized by securities held by the Corporation or its agent in the Corporation's name.

	Carrying Amount	Fair Value
Money market fund	$ 1,976,800	$ 1,976,800
Money market fund	3,050,224	3,050,224
Money market fund	7,659,585	7,659,585
	$ 12,686,609	$ 12,686,609

Restricted Cash—Restrictions on cash at December 31, 2004 include:

Interest on debt	$ 1,976,800
Construction	3,050,224
Debt service	7,659,585
	$ 12,686,609

Restricted cash for construction represents nonoperating cash that has been raised through borrowings. The use of these proceeds is limited to the specific purpose of the issue.

Cash restricted for debt service and for interest represents excess serial bond proceeds restricted to use for future debt service, and for payment of interest through March 31, 2005; as well as earnings on such accounts which is also restricted for like purposes.

V - PROPERTY TAXES

The countywide property tax is levied by the County upon the taxable real property in the towns and cities in the County in late December of each year at the last meeting of the County Legislature and becomes a lien on the next succeeding January 1. Such taxes are collected by the respective collection officers in each town and in the cities of Lackawanna and Tonawanda until the date established for return of the tax rolls to the County, which can be no later than September 15. For the City of Buffalo, the County collects these taxes from the lien date.

With respect to the cities, the County taxes are due by February 15, and penalties are imposed as follows: 1.5% prior to March 1; 3% prior to March 16; 4.5% prior to April 1; 6% prior to April 16; 7.5% prior to May 1; and 1.5% additional each month thereafter. The cities each levy and collect their city taxes, and the County is not responsible for any unpaid city taxes. The County is responsible only for uncollected County taxes levied in such cities.

With respect to the towns, the countywide property tax is levied by the County together with town property taxes, which include special district, fire district, and highway taxes. In towns of the first class, taxes are due without penalties by February 15. Penalties are 1.5% prior to March 1; 3% prior to March 16; prior to April 1; 6% prior to April 16; 7.5% prior to May 1; and 1.5% additional for each month thereafter. In towns of the second class, taxes are due without penalty within ten days after receipt of the tax roll by the respective collection agency. Penalties are 1.5% prior to March 16 unless waived; 7.5% prior to May 1; and 1.5% additional each month thereafter. All towns first retain their share of taxes from collections and remit the balance to the County. The County is responsible for uncollected taxes of all subordinate jurisdictions, except for the three cities.

The County levies taxes for most school districts throughout the County and is responsible for uncollected school district taxes outside the cities of Buffalo, Lackawanna, and Tonawanda.

Additionally, at the option of villages within the County, the County may also be responsible for uncollected village taxes.

Constitutional Tax Limit

The amount that may be raised by the countywide tax levy on real estate in any fiscal year (for purposes other than debt service on County indebtedness) is limited to one and one-half per centum (subject to increase up to two per centum by resolution of the County Legislature) of the five-year average full valuation of taxable real estate of the County, per New York State statutes. On November 13, 1978, a local law became effective which limits the maximum amount of real estate taxes which can be levied other than for debt service to one per centum of such average full valuation of all the taxable real estate within the County.

The County constitutional tax limit (per New York State statutes) for the fiscal year ended December 31, 2004 is computed as follows:

		(000s omitted)
Five-Year Average Full Valuation of Taxable Real Estate (2000-2004)	$	32,778,197
Tax Limit @ 1.5%	$	491,673
Statutory Additions		44,167
Total Taxing Power		535,840
Total Levy		(164,147)
Tax Margin	$	371,693

VI - REVENUE ACCRUALS

All major revenues of the County are considered "susceptible to accrual" under the modified accrual basis. These include property tax, sales tax, state and federal aid, and various grant program revenues.

Major revenues accrued by the County in the various governmental fund types at December 31, 2004 include sales, use and transfer taxes of approximately $29.9 million; state and federal assistance for social services in excess of $94.9 million; and other state and federal aid (including grants) approximating $37.6 million.

VII - RECEIVABLES

Receivables at year-end of the County's major individual funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

(000s omitted)

Receivables - Governmental Funds	General Fund	Tobacco Proceeds Fund	Other Governmental Funds	Total
Real Property taxes, interest, penalties and liens	$ 26,617	$	$ 29,311	$ 55,928
Sales Tax	29,857			29,857
Federal & State Assistance for DSS	99,110			99,110
Other Federal & State Aid	24,755		24,484	49,239
Assumed from ECMC	11,538			11,538
Loan	1,000			1,000
Other	28,980	429	26,627	56,036
Gross receivables	221,857	429	80,422	302,708
Less: allowances for uncollectibles	17,997			17,997
Total receivables	$ 203,860	$ 429	$ 80,422	$ 284,711

The only Governmental Fund receivables not expected to be collected within one year are $1 million in loan receivables, that are discussed in Note I (N).

Receivables - Proprietary Funds	Community College	Nonmajor Fund	Total
Accounts receivable	$ 4,112	$ 1,630	$ 5,742
Other	2,062	5,250	7,312
Gross receivables	6,174	6,880	13,054
Less: allowances for uncollectibles	3,451		3,451
Total receivables	$ 2,723	$ 6,880	$ 9,603

All Proprietary Fund receivables are expected to be collected within one year.

VIII - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

A. Primary Government

1. Governmental Activities

(000s omitted)

		Balance 1/1/04		Increases		Decreases		Balance 12/31/04
Capital assets, not being depreciated:								
Land	$	27,304	$	736	$	-	$	28,040
Construction in progress		120,384		88,641		(96,981)		112,044
Total capital assets, not being depreciated		147,688		89,377		(96,981)		140,084
Capital assets, being depreciated:								
Buildings and improvements		362,423		17,661				380,084
Transportation network		334,105		66,741		(354)		400,492
Sewer network		213,150		6,361				219,511
Improvements other than buildings		13,471		1,423				14,894
Machinery and equipment		61,466		25,080		(2,511)		84,035
Total capital assets, being depreciated		984,615		117,266		(2,865)		1,099,016
Less accumulated depreciation for:								
Buildings		(171,069)		(10,422)				(181,491)
Transportation network		(129,525)		(14,482)		354		(143,653)
Sewer network		(54,962)		(3,313)				(58,275)
Improvements other than buildings		(4,880)		(693)				(5,573)
Machinery and equipment		(34,285)		(7,031)		2,412		(38,904)
Total accumulated depreciation		(394,721)		(35,941)		2,766		(427,896)
Total capital assets, being depreciated, net		589,894		81,325		(99)		671,120
Governmental activities capital assets, net	$	737,582	$	170,702	$	(97,080)	$	811,204

Depreciation expense was charged to functions of the primary government as follows:

		(000s omitted)
Governmental activities:		
General government	$	5,134
Public safety		3,299
Health		377
Transportation		16,208
Economic assistance and opportunity		660
Culture and recreation		4,017
Education		1,777
Home and community service		4,469
Total governmental activities depreciation expense	$	35,941

VIII - CAPITAL ASSETS (Continued)

A. Primary Government (Concluded)

2. Community College

(000s omitted)

	Balance 9/1/03	Increases	Decreases	Balance 8/31/04
Capital assets, being depreciated:				
Building Improvements	$ 266	$ -	$ -	$ 266
Equipment	21,878	2,405	(1,313)	22,970
Library collections	2,707	249	(270)	2,686
Total capital assets, being depreciated	24,851	2,654	(1,583)	25,922
Less accumulated depreciation for:				
Equipment	(16,591)	(2,584)	1,298	(17,877)
Library collections	(1,376)	(256)	257	(1,375)
Total accumulated depreciation	(17,967)	(2,840)	1,555	(19,252)
Community College capital assets, being depreciated, net	$ 6,884	$ (186)	$ (28)	$ 6,670

Depreciation expense for the Community College was $2,840 for the year ended August 31, 2004.

B. Component Units

1. ECMCC

(000s omitted)

	Balance 1/1/04	Acquisition	Increases	Transfers/ Retirements	Balance 12/31/04
Capital assets, not being depreciated:					
Construction in Progress	$ -	15,016	$ 5,415	$ (19,763)	$ 668
Capital assets, being depreciated:					
Land improvements		2,810			2,810
Building		193,546		10,978	204,524
Fixed Equipment		3,271			3,271
Major moveable equipment		94,668	729	8,650	104,047
Total capital assets - being depreciated		294,295	729	19,628	314,652
Less accumulated depreciation	-	230,830	10,267	(481)	240,616
Total capital assets, being depreciated,net	-	63,465	(9,538)	20,109	74,036
ECMCC capital assets, net	$ -	$ 78,481	$ (4,123)	$ 346	74,704
Add: Foundation capital assets, net					2
Total ECMCC component unit capital assets					$ 74,706

Depreciation expense for ECMCC was $10,272 for the year ended December 31, 2004.

VIII - CAPITAL ASSETS (Concluded)

B. Component Units (Concluded)

2. Library

(000s omitted)

	Balance 1/1/04	Increases	Decreases	Balance 12/31/04
Capital assets, not being depreciated:				
Rare book collection	$ 8,635	$ -	$ -	$ 8,635
Capital assets, being depreciated:				
Machinery, Equipment and Library materials	63,519	7,208	(4,390)	66,337
Less accumulated depreciation for:				
Machinery, Equipment and Library materials	(51,686)	(5,221)	2,090	(54,817)
Total capital assets, being depreciated, net	11,833	1,987	(2,300)	11,520
Library Component Unit capital assets, net	$ 20,468	$ 1,987	$ (2,300)	$ 20,155

Depreciation expense for the Library was $5,221 for the year ended December 31, 2004.

IX – PAYABLES

Payables at year-end of the County's major individual funds and non-major funds in the aggregate are as follows:

(000s omitted)

Payables - Governmental Funds	General Fund	Other Governmental Funds	Total
Accounts payable	$ 14,351	$ 15,107	$ 29,458
Other governments	14,035	3	14,038
Health and social service programs and agencies	81,715	337	82,052
Retained percentages	21	4,976	4,997
Salaries & fringes	18,397	1,679	20,076
Other	3,809	9,810	13,619
Total payables	$ 132,328	$ 31,912	$ 164,240

Payables - Proprietary Funds	Community College	Nonmajor Fund	Total
Accounts payable	$ 1,203	$ 3,777	$ 4,980
Salaries & fringes	6,023		6,023
Other	3,077	1,521	4,598
Total payables	$ 10,303	$ 5,298	$ 15,601

X – RETIREMENT PLANS

Background

The County participates in the New York State and Local Employees' Retirement System ("ERS"). In addition, all faculty and administrators of the College have the option of participating in the New York State Teachers' Retirement System ("TRS") or the Teachers' Insurance and Annuity Association – College Retirement Equities Fund ("TIAA-CREF").

A. New York State and Local Employees' Retirement System

This is a cost-sharing multiple-employer retirement system. The ERS 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 ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS issues 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 Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

Contributions equal to 3% of salary are required of employees, except for those who joined the ERS before July 27, 1976 and for those who have ten or more years of credited service. 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.

Contributions are required at an actuarially determined rate. The required ERS contributions for the current year and two preceding years were:

	Contribution Amount		
Year	County - ERS	Library Component Unit - ERS	ECMCC Component Unit - ERS
2004	$ 36,060,871	$ 1,860,405	$ 14,900,000
2003	38,204,959	1,755,314	N/A
2002	11,307,121	384,555	N/A

The employer contributions made to the ERS were equal to the contributions required for each year, except for the payouts deferred with the ERS to future years. However, for 2004, the annual payment was due on February 1, 2005 as explained in Note XIX.

X – RETIREMENT PLANS (Continued)

Since 1989, the billings of the ERS have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the ERS' fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay part or all of this liability; the County opted to make a partial prepayment. Due to a subsequent change in relevant state statutes, however, the portion of the prepayment made by the County that was in excess of the required minimum amortization payment due on December 15, 1989, was recognized by ERS as a credit to be applied against future contribution requirements, rather than as a reduction of the 1988 and 1989 retirement year liability. These credits have been recorded as assets by the County in the General Fund to be used for the purpose of meeting its contribution requirements for both the current year and for those retirement liabilities being amortized over 17 or 5 years.

The total unpaid amount for the 17-year portion of the retirement liability at the end of the fiscal year was $6,541,513 of which $6,240,147 is reported as Governmental Activities, and $301,366 is reported by the Library component unit.

In addition, since 1991, the State Legislature authorized local governments to make available retirement incentive programs during a number of years. The estimated total cost to the County for the 1999 program, which is the only program not fully paid as of December 31, 2004, is $891,853. Program costs are billed and paid over five years, beginning on December 15 of the year after which the incentive is offered to employees, and will include interest at 8.75%. Amounts unpaid at December 31, 2004, for retirement incentive programs totaled $194,735, of which $151,123 is payable by governmental funds and $43,612 by the proprietary funds.

B. <u>Teachers' Insurance and Annuity Association - College Retirement Equities Fund</u>

TIAA-CREF is a defined contribution annuity plan that is an optional retirement program authorized by the trustees of the State University of New York. Participants in TIAA-CREF retiring after age 55, with 13 months of service, receive monthly benefits based on their investment. The College pays all contributions for employees hired prior to July 1, 1976, at 12% of salaries up to $16,500, and 15% of salaries in excess of $16,500.

X – RETIREMENT PLANS (Continued)

Employees hired after July 1, 1976, contribute 3% of their salaries, and the College contributes 9% of salaries up to $16,500 and 12% of salaries in excess of $16,500. Employees hired after July 1, 1994, contribute 3% of their salaries, and the College contributes 8% of total salaries. Contributions made by the College and its employees in the 2004 fiscal year were $1,792,022 and $438,228, respectively. The total unpaid balance of this retirement liability at the end of the College's fiscal year was $164,943.

C. New York State Teachers' Retirement System

The TRS is a cost-sharing multiple-employer defined benefit retirement system. The TRS 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 NYSRSSL and New York State Education Law. The TRS issues publicly available financial reports that include financial statements and required supplementary information. The TRS report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395.

Contributions equal to 3% of salary are required of employees, except for those who joined the TRS before July 27, 1976, and for those who have ten or more years of credited service. 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 College is required to contribute at an actuarially determined rate. The required pension contributions for the College current fiscal year and two preceding fiscal years were:

Year	County TRS
2004	$ 353,139
2003	212,443
2002	224,975

Employer contributions made to the TRS were equal to 100% of the contributions required for each year.

X – RETIREMENT PLANS (Concluded)

Retirement incentive programs were offered to College employees who are members of the TRS in accordance with the following laws enacted by the State Legislature: Chapter 178 of the Laws of 1991; Chapters 494 and 643 of the Laws of 1992; Chapter 12 of the Laws of 1995; Chapter 30 of the Laws of 1996; Chapter 41 of the Laws of 1997, Chapter 47 of the Laws of 1998, and Chapter 70 of the Laws of 1999. The estimated total cost to the College for those programs that have not been paid in full, as of August 31, 2004, is an estimated $859,113 of which $172,095 was charged to expenses in the current fiscal year and $589,041 remained unpaid at August 31, 2004. Recognition of program costs as liabilities occurs in the College fiscal year that the programs are made available to employees, except that the portion of program costs representing interest for plans offered to ERS members are accrued annually. Depending on the option chosen, program costs are either billed and paid over five years, including interest at 8.75% beginning on December 15 of the year after the incentive is offered to employees, or are paid in a lump sum.

The total unpaid balance of the TRS retirement liabilities at the end of the College's fiscal year was $951,130.

D. **Summary of Retirement Plan Liabilities:**

(000s omitted)

Retirement Plan/ Description	Governmental Activities	Business-type Activities	Primary Government Total	Library Component Unit	ECMCC Component Unit	Reporting Entity Total
ERS						
Regular	$ 34,561	$ 1,013	$ 35,574	$ 1,860	$ 14,900	$ 52,334
Early Retirement	151	43	194			194
Total	34,712	1,056	35,768	1,860	14,900	52,528
TRS						
Regular		362	362			362
Early Retirement		589	589			589
Total	-	951	951	-	-	951
TIAA-CREF						
Regular		165	165			165
Total	$ 34,712	$ 2,172	$ 36,884	$ 1,860	$ 14,900	$ 53,644

XI – CONSTRUCTION COMMITMENTS

The County has a number of active construction projects at December 31, 2004. The amounts spent to date and remaining commitments (encumbrances) presented by major project groupings are as follows:

(000s omitted)

Projects	Spent-to-date	Remaining Commitment
General Government Buildings, Equipment and Improvements	$ 260,463	$ 16,990
Highways, Roads, Bridges and Equipment	94,992	5,423
Sewers, Facilities Equipment and Improvements	161,296	10,533
Special Capital Projects	189,010	6,986
Total	$ 705,761	$ 39,932

XII - LONG-TERM DEBT

A. Bonded Indebtedness

Bonded indebtedness is reported in the government-wide financial statements. The following is a summary of bond transactions of the County for the year ended December 31, 2004:

(000s omitted)

Description	Issue	Maturity	Interest Rate	Balance 1/1/04	Additions	Payments	Balance 12/31/04	Due Within One Year
Serial Bonds	1983	2008	9.60-10.00%	$ 750	$	150	$ 600	$ 150
"	1991	2006	6.10-6.40	1,900		1,119	781	415
"	1992	2006	2.50-8.00	2,785		1,219	1,566	790
"	1992	2012	4.25-7.65	11,010		2,627	8,383	1,651
"	1993	2013	3.30-5.25	1,795		964	831	105
"	1993	2013	Zero Coupon	5,400		477	4,923	910
"	1994	2004	4.18-6.57	1,500		1,500	-	
"	1994	2009	4.90-6.50	5,110		2,335	2,775	555
"	1995	2015	4.40-5.60	6,120		1,890	4,230	710
"	1995	2025	4.10-5.63	21,385		525	20,860	555
"	1996	2011	4.30-6.00	8,550		2,916	5,634	992
"	1996	2015	0.00	850		63	787	65
"	1997	2017	3.75-5.35	510		35	475	35
"	1997	2012	4.50-5.50	11,140		3,189	7,951	1,014
"	1997	2009	4.50-5.25	2,825		1,147	1,678	409
"	1997	2007	4.50-4.80	345		117	228	78
"	1998	2017	3.70-5.15	485		30	455	30
"	1998	2013	4.25-5.00	11,215		3,595	7,620	881
"	1999	2018	3.48-5.42	190		10	180	10
"	1999	2018	0.00	92		6	86	6
"	1999	2019	4.375-5.75	20,975		3,336	17,639	1,419
"	1999	2019	5.125-6.00	2,230		95	2,135	95
"	2000	2018	3.80-5.92	185		10	175	10
"	2000	2029	5.25-6.00	30,200		4,738	25,462	1,641
"	2000	2020	5.25-5.70	600		35	565	35
"	2000	varies**	varies**	240,930		800	240,130	1,070
"	2001	2031	2.619-5.314	1,970		50	1,920	50
"	2001	2031	0.00	4,616		135	4,481	137
"	2001	2020	2.30-5.00	32,700		4,630	28,070	2,305
"	2001	2021	2.30-5.00	870		50	820	50
"	2002	2031	1.362-5.082	1,346		40	1,306	41
"	2002	2024	2.521-6.181	4,850		175	4,675	175
"	2002	2031	1.333-5.323	982		25	957	22
"	2002	2017	3.00-5.00	59,390		3,135	56,255	3,230
"	2002	2022	3.00-5.00	1,200		45	1,155	45
"	2003	2032	1.031-4.901	1,303		35	1,268	33
"	2003	2029	2.549-6.259	15,720		525	15,195	525
"	2003	2032	0.00-0.00	478		16	462	16
"	2003	2020	4.00-5.25	79,135		688	78,447	3,381
"	2003	2023	2.00-4.75	2,405			2,405	95
"	2003	2032	0.790-4.612	1,234		35	1,199	35
"	2003	2008	3.00-4.00	16,433	642	-	17,075	4,725
"	2004	2015	2.50-5.250	-	18,415	-	18,415	-
"	2004	2033	1.02-4.63	-	1,112	40	1,072	25
"	2004	2024	3.25-5.25	-	79,695	-	79,695	-
				613,709	99,864	42,552	671,021	$ 28,521
Remaining unamortized:								
Discount on zero coupon bonds				(1,040) *	315		(725) *	
Premium on bond issuance				14,397	7,642	1,126	20,913	
Bonds payable for financial statement purposes				$ 627,066	$ 107,821	$ 43,678	$ 691,209	

* Amount of unamortized discount on zero coupon bonds at issue date was $3.348 million. Of this amount, $2.31 million and $0.315 million have been amortized in the prior and current years, respectively.

**Refer to discussion within Note XII (B) regarding outstanding ETASC bonds payable.

XII - LONG-TERM DEBT (Continued)

A. <u>Bonded Indebtedness</u> (Concluded)

The following is a summary of bonded indebtedness:

	(000s omitted) Balance 1/1/04	Additions/ Transfers	Payments/ Transfers	Balance 12/31/04
Governmental Activities	$ 590,891	$ 101,405	$ 22,105	$ 670,191
Business-Type Activities	21,988		21,988	-
	612,879	101,405	44,093	670,191
Remaining unamortized:				
discount on zero coupon bonds	(1,040) *	315		(725) *
premium on bond issuance	14,390	7,642	1,126	20,906
Bonds payable for financial statement purposes	$ 626,229	$ 109,362	$ 45,219	$ 690,372

*Of these totals, the Business-Type Activities and the Governmental Activities portions are $0.093 million and $0.947 million at January 1, 2004, and $ .000 million and $0.724 million at December 31, 2004, respectively.

	(000s omitted) Balance 1/1/04	Additions	Payments	Balance 12/31/04
Library Component Unit	$ 830	$ -	$ -	$ 830
Remaining unamortized premium on bond issuance	7			7
Bonds payable for financial statement purposes	$ 837	$ -	$ -	$ 837

B. <u>Erie Tobacco Asset Securitization Corporation</u>

In 2000, the ETASC issued $246,325,000 of Tobacco Settlement Asset Backed Bonds, Series 2000 pursuant to an indenture dated as of September 1, 2000 (the "Indenture"). The $246,325,000 bond issuance was comprised of $196,985,000 Tobacco Settlement Asset Backed Bonds Series 2000A ("Senior") and $49,340,000 Tobacco Settlement Asset Backed Bonds Series 2000B ("Subordinate"). The net proceeds of the Series 2000 Bonds were used to purchase from the County all of the County's right, title and interest to Tobacco Settlement Revenues ("TSR") to which the County would otherwise be entitled under the MSA and the Decree.

The payment of the Series 2000 Bonds is dependent on the receipt of TSR. The amount of TSR actually collected is dependent on many factors including cigarette consumption and the continued operations of the original participating manufacturers. Such bonds are secured by and payable solely from TSR and investment earnings pledged under the indenture and amounts established and held in accordance with the Indenture. ETASC has no financial assets other than the collections and reserves and amounts held in the other funds and accounts established under the Indenture.

XII - LONG-TERM DEBT (Continued)

B. Erie Tobacco Asset Securitization Corporation (Continued)

In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity Dates will be used. Planned Payment Maturities assume Super Sinker payments (i.e., accelerated debt service payments) will be made. Currently, Super Sinker payments are being made. The Rated Maturity Dates represent the secondary dates to be used in the event that TSR is not available to fund Super Sinker payments.

Interest on the Series 2000 Bonds is payable each January 15 and July 15.

Under the Stated Maturity Date payment schedule, $20,090,000 of Series 2000A Bonds mature on July 15, 2005 through July 15, 2015. The remaining $176,895,000 Series 2000A and the Series 2000B Bonds are subject to a mandatory redemption in accordance with certain sinking fund payment requirements. Based on such requirements, maturity schedules, interest rates and, prices, or yields are summarized as follows:

Serial Maturities

Maturity Date (July 15)	Principal Amount	Interest Rate	Price or Yield
2005	$900,000	5.000%	5.100%
2006	945,000	5.250	5.200%
2007	1,125,000	5.250	100
2008	1,505,000	5.250	5.350%
2009	1,705,000	5.375	5.400%
2010	1,810,000	5.375	5.450%
2011	2,005,000	5.500	100
2012	2,275,000	5.500	5.650%
2013	2,495,000	5.750	100
2014	2,605,000	5.750	5.850%
2015	2,720,000	5.750	5.950%

XII - LONG-TERM DEBT (Continued)

B. Erie Tobacco Asset Securitization Corporation (Continued)

$176,895,000
Senior Term Bonds

$17,380,000	6.000%	Senior Term Bonds Due July 15, 2020 Final Super Sinker Redemption Date July 15, 2016 (Expected Average Life 9.0 Years)	Yield 6.100%
$16,825,000	6.500%	Senior Term Bonds Due July 15, 2024 Final Super Sinker Redemption Date July 15, 2018 (Expected Average Life 16.7 Years)	Yield 6.250%
$36,060,000	6.125%	Senior Term Bonds Due July 15, 2030 Final Super Sinker Redemption Date July 15, 2022 (Expected Average Life 19.7 Years)	Yield 6.320%
$17,500,000	6.500%	Senior Term Bonds Due July 15, 2032 Final Super Sinker Redemption Date July 15, 2023 (Expected Average Life 22.2 Years)	Yield 6.320%
$89,130,000	6.250%	Senior Term. Bonds Due July 15, 2040 Final Super Sinker Redemption Date July 15, 2029 (Expected Average Life 25.8 Years)	Yield 6.420%

Tobacco Settlement Asset-Backed Bends
Series 2000B (Subordinate)

$49,340,000	6.750%	2000 Subordinate Bonds Due July 15, 2040 Final Super Sinker Redemption Date July 15, 2029 (Expected Average Life 24.6 Years)	Price 97.000%

During 2004, ETASC made super sinker redemption payments on the Senior Term Bonds and the Tobacco Settlement Asset-Backed Bonds totaling $695,000 and $105,000, respectively. The super sinker redemptions for the term bonds represent the amount of principal that ETASC is required to pay to the extent of available collections and are credited against the principal installments relating to bonds of the same series.

Changes in bonds payable for the year ended December 31, 2004 is as follows:

Bonds payable at January 1, 2004	$ 240,930,000
Principal payments during 2004	800,000
Bonds payable at December 31, 2004	$ 240,130,000

XII - LONG-TERM DEBT (Continued)

B. Erie Tobacco Asset Securitization Corporation (Concluded)

The ETASC's debt service requirements based upon the Planned Principal Maturity Date payment schedule is as follows:

Twelve months ended December 31	Principal	Interest	Total Debt Service
2005	$ 1,070,000	$ 15,081,226	$ 16,151,226
2006	1,300,000	15,018,879	16,318,879
2007	1,595,000	14,940,425	16,535,425
2008	2,260,000	14,834,300	17,094,300
2009	2,635,000	14,697,803	17,332,803
2010-2014	19,735,000	70,551,201	90,286,201
2015-2019	39,050,000	62,154,747	101,204,747
2020-2024	70,885,000	44,638,466	115,523,466
2025-2029	101,600,000	16,761,376	118,361,376
	$ 240,130,000	$ 268,678,423	$ 508,808,423

C. Erie County Medical Center Corporation

Long-term Debt—The following is a summary of long-term debt at December 31, 2004:

Erie County—Guaranteed Senior Revenue Bonds, Series 2004 (interest of 4.1% to 5.7%)	$ 101,375,000

The Series 2004 bonds are secured by a pledge of the gross receipts of ECMCC and amounts on deposit in certain debt service reserve funds. To the extent that the debt service reserve funds fall below their requirements, the County has agreed to restore such accounts to their requirement.

Pursuant to a Guaranty Agreement the County has unconditionally guaranteed to ECMCC, the punctual payment of the principal of, interest and redemption premium, if any, on the Series 2004 Bonds, as the same shall become due and payable, and has pledged the faith and credit of the County for the performance of such guaranty. A municipal bond insurance policy has been purchased by ECMCC to guarantee all debt service payments in case of default by ECMCC and the County.

The Series 2004 Bonds require ECMCC to make monthly payments to certain debt service accounts for the semiannual payment of interest and the annual payment of principal (principal payments commence November 1, 2009).

D. Other Long-Term Obligations

In addition to bonded indebtedness, the County incurs a variety of other long-term obligations. Descriptions of these obligations follow:

1. Due to Retirement Systems

As further explained in Notes X and XIX, retirement liabilities at December 31, 2004 for amounts due in 2005 and future years are reported in the government-wide financial statements as follows:

(000s omitted)

	Primary Government	Component Units	Reporting Entity
Retirement Liability Outstanding at year-end	$ 36,884	$ 16,760	$ 53,644
Less: Due within one year	20,576	1,113	21,689
	$ 16,308	$ 15,647	$ 31,955

2. Compensated Absences

The value recorded in the government-wide financial statements at December 31, 2004, for governmental activities is $25,797,045. The following governmental funds have been used in prior years to liquidate this liability: General Fund, Capital Projects Funds and the Road, Sewer, Grants and Community Development Special Revenue Funds.

Compensated absences of $3,814,516 have been reported for business-type activities, classified as fringe benefits payable, on the fund financial statements.

Compensated absences of the ECMCC component unit totaling $8,266,345 have been reported as an accrued liability. Compensated absences of the Library component unit totaling $1,550,828 have been reported as an accrued liability since its annual budget provides funding for these benefits as they become payable.

XII - LONG-TERM DEBT (Continued)

D. Other Long-Term Obligations (Concluded)

3. Judgments and Claims

As further explained in Note XV, the County is self-insured. Liabilities are established for workers' compensation, general and malpractice claims in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Estimated long-term contingent loss liabilities of governmental fund types total $39,929,311 and have been reported as long-term liabilities in the government-wide financial statements.

Erie County Medical Center Corporation

Losses from asserted and unasserted claims identified under ECMCC's incident reporting system are accrued based on estimates that incorporate the Corporation's past experience, the nature of each claim or incident, relevant trend factors, and estimated recoveries on unsettled claims. Approximately $2,500,000 has been accrued at December 31, 2004 without consideration to discounting. Such amount is included in other liabilities in the accompanying statement of net assets. The County assumed the Corporation's malpractice liability for periods prior to 2004.

E. Summary of Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2004:

1. Governmental Activities

(000s omitted)

	Balance 1/1/04	Additions/ Transfers	Payments/ Transfers	Balance 12/31/04	Due Within One Year
Bonds payable for financial statement purposes	$ 604,238	$ 109,362 [1]	$ 23,228	$ 690,372	$ 28,314
Other long-term obligations:					
Due to New York State and Local Employees' Retirement System	$ 8,593	$ 26,119	$ -	$ 34,712	$ 18,932
Compensated absences	23,236	15,548	12,987	25,797	15,634
Judgments and claims	28,435	26,576	15,082	39,929	13,358
	$ 60,264	$ 68,243	$ 28,069	$ 100,438	$ 47,924

[1] Includes $0.315 million representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is $0.725 million.

XII - LONG-TERM DEBT (Continued)

E. Summary of Changes in Long-Term Debt (Concluded)

2. Business-Type Activities

(000s omitted)

	Beginning Balance	Additions/ Transfers	Payments/ Transfers	Ending Balance	Due Within One Year
Bonds Payable for financial statement purposes	$ 21,991	$ -	21,991	$ -	$ -
Other Long-Term Obligations:					
Retirement Liabilities	$ 4,013	$ 3,670	$ 5,373	$ 2,310 (1)	$ 1,680 (1)
Compensated Absences	13,008	561	9,754	3,815	165
Judgments and Claims	12,224		12,224	-	
	$ 29,245	$ 4,231	$ 27,351	$ 6,125	$ 1,845

(1) Includes $0.138 million of Retirement Incentive Wages and Fringe Benefits, of which $0.036 million is due within one year.

3. Library Component Unit

(000s omitted)

	Balance 1/1/04	Additions	Payments	Balance 12/31/04	Due Within One Year
Bonds Payable for Financial Statement Purposes	$ 837	$ -	$ -	$ 837	$ 207
Other Long-Term Obligations:					
Due to New York State and Local Employees' Retirement System	$ 301	$ 1,559	$ -	$ 1,860	$ 1,113
Compensated Absences	1,349	973	771	1,551	851
	$ 1,650	$ 2,532	$ 771	$ 3,411	$ 1,964

4. ECMCC Component Unit

(000s omitted)

	Balance 1/1/04	Additions	Payments	Balance 12/31/04	Due Within One Year
Bonds Payable for Financial Statement Purposes	$ 0	$ 101,375	$ 0	$ 101,375	$ 0
Other long-term obligations	$ 0	$ 2,500	$ 0	$ 2,500	$ 0

XII - LONG-TERM DEBT (Continued)

F. Maturity Schedules

1. Remaining Annual Maturities of Long-Term Debt (by Debt Type) – Primary Government

(000s omitted)

Year	Total	Serial Bonds	Retirement	Compensated Absences	Judgments & Claims	
2005	$ 78,083	$ 28,314	$ 20,612	$ 15,799	$ 13,358	
2006	40,015	35,295	4,720			
2007	35,467	34,143	1,324			
2008	34,131	32,735	1,396			
2009	31,804	30,469	1,335			
2010-2014	156,925	150,379	6,546			
2015-2019	147,388	146,299	1,089			
2020-2024	99,777	99,777				
2025-2029	111,373	111,373				
2030+	1,407	1,407				
Various*	40,384			13,813	26,571	
	776,754	670,191	$ 37,022	$ 29,612	$ 39,929	
	(725)	(725)				Remaining unamortized discount on zero coupon bonds
	20,906	20,906				Remaining unamortized premium of bond issuance
	$ 796,935	$ 690,372				Long-Term Debt for financial statement purposes

* Payment of compensated absences and judgments and claims are dependent upon many factors; therefore, timing of future payments is not readily determinable.

2. Annual Interest Payments Due on Serial Bonds

(000s omitted)

Year	Primary Gov't Amount	Component Unit Library	Component Unit ECMCC
2005	$ 21,277	$ 28	$ 5,562
2006	19,117	22	5,562
2007	17,681	16	5,561
2008	16,249	8	5,561
2009	14,839		5,561
2010-2014	55,257		26,351
2015-2019	23,482		23,013
2020-2024	5,911		18,366
2025-2029	1,297		12,190
2030+	65		3,899
	$ 175,175	$ 74	$ 111,626

* Interest payments associated with ETASC bonds are disclosed separately within Note XII (B).

XII - LONG-TERM DEBT (Continued)

G. Maturity Schedules (Concluded)

3. Remaining Annual Maturities of Long-Term Debt - Library Component Unit

(000s omitted)

Year	Total	Serial Bonds	Retirement	Compensated Absences
2005	$ 2,171	$ 207	$ 1,113	$ 851
2006	412	208	204	
2007	257	208	49	
2008	259	207	52	
2009	54		54	
2010-14	315		315	
2015-19	73		73	
Various*	700			700
	4,241	830	$ 1,860	$ 1,551
	7	7	Remaining unamortized premium of bond issuance	
	$ 4,248	$ 837	Long-Term Debt for financial statement purposes	

*Payment of compensated absences of $1,551 is dependent on many factors; therefore, timing of future payments is not readily determinable.

4. Remaining Annual Maturities of Long-Term Debt - ECMCC Component Unit

(000s omitted)

Year	Total	Serial Bonds	Other
2009	$ 2,070	$ 2,070	$
2010-2014	11,805	11,805	
2015-2019	15,135	15,135	
2020-2024	19,785	19,785	
2025-2029	25,960	25,960	
2030+	26,620	26,620	
Various*	2,500		2,500
	103,875	101,375	$ 2,500
	$ 103,875	$ 101,375	Long-Term Debt for financial statement purposes

*Payment of malpractice claims is dependent on many factors; therefore, timing of future payments is not readily determinable.

H. Permanent Financing Requirements

Under New York State statutes, permanent bonding of general County improvements must take place within five years of the date of initial financing. Specially assessed improvements, e.g., Sewer, have no limitation as to their period of temporary financing, except that a two-year limitation exists where such financing has been obtained through the New York State Environmental Facilities Corporation. The County has permanently financed all significant indebtedness subject to this permanent financing statute.

XII - LONG-TERM DEBT (Concluded)

I. Constitutional Debt Limit

The County constitutional debt limit at December 31, 2004 is computed as follows:

	(000s omitted)
Five-Year Average Full Valuation of Taxable Real Estate (1999-2003)	$ 32,778,197
Debt Limit @ 7%	$ 2,294,474
Net Indebtedness (After Statutory Exclusions)	(485,500) *
Net Debt Contracting Margin	$ 1,808,974
Percentage of Debt Contracting Power Exhausted	21.16%

* Gross indebtedness of $620.122 million less exclusions of $134.622 million.

J. Operating Leases

Operating lease obligations are primarily for rental of space. Lease expenditures/expenses for the year were approximately $4,853,056 for the primary government and $1,451,455 for the ECMCC component unit. The future minimum rental payments required for non-cancelable operating leases are:

(000s omitted)

Fiscal Year	Primary Government	ECMCC Component Unit
2005	$ 2,291	$ 1,027
2006	1,905	826
2007	308	621
2008	97	280
2009		258
2010-14		375
	$ 4,601	$ 3,387

K. Defeasance

In January 2004, the County defeased $20,331,000 of various series of general obligation serial bonds originally issued to finance various capital improvements and capital assets of the ECMC Enterprise Fund sold by the County to the ECMCC component unit. A loss on defeasance of $1,847,000 is recognized in the financial statements in the ECMC enterprise fund. The defeasance was financed from proceeds of the sale agreement with ECMCC and did not require the issuance of additional debt by the primary government.

XIII - SHORT-TERM DEBT

Short-term debt of the County may include revenue, tax, and/or bond anticipation notes. These notes are reported as a fund liability in the fund receiving the proceeds in accordance with the criteria set forth in FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced,* because legal steps have not been taken to refinance the notes on a long-term basis.

The following is a summary of changes in the County's short-term debt for the year ended December 31, 2004, excluding blended component units:

(000s omitted)

Description	Balance 1/1/04	Issued	Redeemed	Balance 12/31/04
Bond Anticipation Notes	$ 1,805	$ 4,392	$ 840	$ 5,357
Revenue Anticipation Notes	90,000	82,500	90,000	82,500
Total	$ 91,805	$ 86,892	$ 90,840	$ 87,857

The Bond Anticipation Notes recorded in the Capital Projects Fund, which have a 0% interest rate, will be used to finance various sewer-related capital projects. The Revenue Anticipation Notes, which have an interest rate of 3.0%, were issued and recorded in the General Fund in anticipation of the receipt of monies that will become due during the current fiscal year from sales taxes and the state and federal governments. The proceeds of the notes will be used to pay ordinary and current operating expenses properly payable from the monies in anticipation of which the notes have been issued.

ETCC, a blended component unit of the County, has an outstanding note payable in the amount of $17,091,000 at December 31, 2004. The note payable was acquired in connection with tax lien sales made by the County to ETCC. Payments against the note payable are made from collections received on such tax liens.

XIV - INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund receivables and payables of the County at December 31, 2004, and the Community College at August 31, 2004, consisted of the following:

Receivable Fund	Payable Fund	(000s omitted) Amount
General Fund	Nonmajor Proprietary Fund	$ 1,283
	Nonmajor Governmental Funds	35,509
	Agency Fund	12,614
		49,406
Tobacco Proceeds Fund	Nonmajor Governmental Funds	37,480
Nonmajor Governmental Funds	Agency Fund	118
Nonmajor Proprietary Fund	Nonmajor Governmental Funds	517
Community College	General Fund	2,571
Total Receivables		90,092
Less: Timing Differences		939
Total Payables		$ 89,153

Interfund receivables exceed interfund payables by $939,000. This difference represents payments of $1,632,000 made by the College to the County that is reflected as a Due To Other Funds in the College but not the County balance sheet because of the difference between the County and the College fiscal year end. In addition, a Due From Other Funds in the amount of $2,571,000 was recorded by the College but not the County because of the difference between the fiscal years.

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

XIV - INTERFUND TRANSACTIONS (Continued)

B. Due To/From Component Unit and Primary Government

Amounts due to the Library and the ECMCC Component Units from the Primary Government at December 31, 2004, consisted of the following:

Receivable Entity	Payable Entity	(000s omitted) Amount
Component Unit - Library	Primary Government - General Fund	$ 52
ECMCC Component Unit	Primary Government - General Fund	$ 16,314
	Primary Government - Tobacco Proceeds	11,652
		$ 27,966

The amount due from the Tobacco Proceeds Fund to ECMCC is long–term in nature and reported on the government-wide financial statements only. This balance is shown as a reconciling item on the Reconciliation of Statement of Net Assets to Governmental Fund Balances and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.

XIV - INTERFUND TRANSACTIONS (Concluded)

C. Interfund Transfers

Interfund transfers for the County for the year ended December 31, 2004, and the Community College for the year ended August 31, 2004, consisted of the following:

Transfers Out	Transfers In	(000s omitted) Amount	Purpose - provide financial resources:
General Fund	Nonmajor Governmental Funds	$ 3,468	For the local share of Grant programs
	Nonmajor Governmental Funds	12,728	For general debt service
	Community College	13,571	To support College operations
		29,767	
Tobacco Proceeds Fund	Nonmajor Governmental Funds	43,106	To support various capital projects
Nonmajor Governmental Funds	Nonmajor Governmental Funds	400	To support sewer operations
	Nonmajor Governmental Funds	2,995	For sewer debt service
	Nonmajor Governmental Funds	15,381	For general debt service
	Community College	2,286	For moveable equipment
	General Fund	197	For ECMC debt service
		21,259	
Medical Center	General Fund	25,254	Close out of proprietary fund
	Nonmajor Governmental Funds	3,893	Close out of proprietary fund
		29,147	
Total Transfers Out		123,279	
Plus: Timing Differences		(186)	
Capital assets closed out of proprietary funds		(4,473)	
Long-term liabilities closed out of proprietary funds		15,181	
Total Transfers In		$ 133,801	

Transfers In exceeds Transfers Out by $10,522,000. Of this difference, $186,000 represents payments recorded by the College that are not reflected as a Transfer Out by the County because of the difference between the County and the College fiscal year end. In addition, capital assets amounting to $4,473,000 and long-term liabilities in the amount of $15,181,000 that were closed out of the Medical Center proprietary fund are not financial resources and therefore not reported in the funds.

XV - CONTINGENCIES

A. Self-Insurance Programs

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; injuries to employees; and natural disasters. The County assumes the liability for risks relating to property damage, personal injury liability, and workers' compensation. The County has also elected to purchase some minor policies from commercial insurers to provide for items such as comprehensive crime and boiler/machinery coverage, as well as protection of valuable papers and records; settled claims have not exceeded commercial coverage in any of the past three fiscal years.

In addition, the County has retained the risk for medical malpractice claims from its operation of the Erie County Medical Center prior the transfer of operating responsibility for the medical center on January 1, 2004.

Loss contingency liabilities arising from operations of the College are recorded in accordance with GASB 10 by the County and are reported in full within governmental activities in the government-wide financial statements and in the General Fund when payment is due. They are only recognized as a College liability when invoiced from the County.

Claims and judgments are recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims that have been incurred but not reported, and the effects of both specific, incremental claims adjustment expenditures/expenses and estimated recoveries on unsettled claims, if any.

Claims and judgments reportable as part of the County's governmental type fund activities are recognized as expenditures and liabilities in the General Fund when payment is due. Claims and judgments recorded as Governmental Activities long-term liabilities instead of in the General Fund at December 31, 2004, because they did not meet the criteria for recognition as fund liabilities, amounted to $39,929,311.

In addition, the County has claims in the range of $3,025,000 to $27,619,000 for which there is a reasonable possibility of a future loss. No accrual has been recorded for such possible losses as of December 31, 2004.

XV – CONTINGENCIES (Continued)

A. Self-Insurance Programs (Concluded)

The changes since December 31, 2002 in the reported governmental fund liability for risk financing activities were as follows:

	Beginning of Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2003	$ 5,229,503	$ -	$ 4,376,091	$ 853,412
2004	853,412	-	853,412	-

B. Sales Tax Audits

The State of New York periodically audits its distribution of sales tax revenues to counties throughout the State. Subsequent revisions to the revenues recorded as of December 31, 2004, if any, would be reflected in the operating statement in the year that they are calculated.

C. Supplemental 1% Sales Tax

Through legislation approved by the County and the State of New York, the County extended an additional 1% sales and compensating use tax. This tax generated approximately $122.8 million for the year ended December 31, 2004. The enabling legislation allowing this additional tax expires February 28, 2006. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

D. Federal and State Aid

The County receives Federal and State aid for a portion of its mandated social services programs, such as Medicaid, Family Assistance and Safety Net, which it categorizes as "Economic Assistance and Opportunity" functional expenditures. The Safety Net program receives State, but not Federal aid. The County appropriates only the local share of Medicaid. It appropriates total expenditures for Family Assistance and Safety Net, and shows State and (in the case of the former) Federal aid as revenue items. Federal and State aid represent approximately 39% of 2004 County appropriations for social services programs.

The County also receives certain Federal, State and private grants. These grants are used primarily to augment current operations, and for special demonstration projects and programs. Should funding of any such grant be stopped at any point, the County may assume the cost thereof in its operating budget or suspend the programs funded by such grant.

XV – CONTINGENCIES (Concluded)

D. Federal and State Aid (Concluded)

The Federal and State governments are not constitutionally obligated to maintain or continue current levels of Federal and State aid to the County. Accordingly, no assurance can be given that present Federal and State aid levels will be maintained in the future. Federal and State budgetary restrictions which may eliminate or substantially reduce Federal or State aid could have a material adverse effect upon the County, requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of non-mandated expenditures. Social Services and Medicaid expenditures are generally mandated by New York State law.

E. Other Contingent Liabilities

As discussed above, the County receives significant financial assistance from numerous federal and state governmental agencies and third-party payors. The disbursement of monies received under these programs generally requires compliance with terms and conditions specified in the related agreements and are subject to audit by the funding agencies or payors. Any disallowed expenditures resulting from such audits could become a liability of the governmental or proprietary funds. At December 31, 2004, ECMCC, a component unit of the County has recorded $1,759,014 as an other long-term obligation, for probable third-party payor settlements. The amount of any other expenditures that may be disallowed cannot be determined at this time, although ECMCC expects such amounts to be immaterial.

XVI – FUND BALANCE DESIGNATIONS

Designations are not required segregations, but are segregated for a specific purpose by the County at December 31, 2004 and were as follows:

	(000's omitted)				
	Tobacco Proceeds	Other Governmental Funds	Total Primary Government	Library Component Unit	Total Reporting Entity
Designated for:					
Subsequent year's expenditures	$ 11,652	$ 4,708	$ 16,360	$ 2,280	$ 18,640
Total Fund Balance Designations	$ 11,652	$ 4,708	$ 16,360	$ 2,280	$ 18,640

XVII – JOINT VENTURE

Pursuant to authority provided by New York State statute, a regional off-track betting corporation was established in 1973 to operate a system of off-track pari-mutuel betting within the Western New York area. This public benefit corporation, known as the Western Regional Off-Track Betting Corporation ("Corporation"), is governed by a board of directors comprised of one member from each participating county and city. The Corporation's net revenue is divided among the participating counties, with one-half being distributed based on population and the remainder based on each entity's share of the total wagering in the region. A county containing an eligible city that has elected to participate in the Corporation must relinquish a portion of the revenue to which it would otherwise be entitled to such city in an amount equal to the percentage of the county population attributable to the city. In the case of Erie County, both the County and the City of Buffalo participate in the Corporation.

The Corporation has the power to issue bonds and notes to carry out the purposes for which it was formed. Such bonds, notes or other, obligations are not a debt of the participating municipalities, and they may only be paid from the Corporation's funds.

Corporation total undistributed net revenue decreased by $2,523,521 for the year ended December 31, 2004. The Corporation reported a net revenue allocated to participating municipalities of $2,843,497. In addition, cumulative net revenue retained for capital acquisitions was $26,013,307 at December 31, 2004. The unexpended balance of funds retained for capital acquisitions cannot exceed the lesser of 1% of total pari-mutuel wagering pools for the previous 12 months or the undepreciated value of the Corporation's offices, facilities, and premises. Separate financial statements for this joint venture can be obtained from the Corporation's administrative offices at 700 Ellicott Street, Batavia, New York 14020.

XVIII – SUBSEQUENT EVENTS

A. <u>Bond Sales</u>

The County issued $3,435,784 and $2,660,483 of general obligation serial bonds dated March 3, 2005 and July 14, 2005, respectively, that were purchased by the New York State Environmental Facilities Corporation. The proceeds will be used to finance Sewer District capital projects.

XVIII – SUBSEQUENT EVENTS (Concluded)

B. Revenue Anticipation Note Sale

The County issued $80,000,000 of revenue anticipation notes dated March 11, 2005. These general obligation notes, which have an interest rate of 3%, were issued in anticipation of the receipt of monies that will become due during the current fiscal year from sales taxes and the State and Federal governments. The proceeds of the notes will be used to pay ordinary and current operating expenses properly payable from the monies in anticipation of which the notes have been issued. The notes mature on March 10, 2006, with the amounts actually collected for the specific types of revenue that the notes were issued in anticipation of, to be used to repay them.

The County also issued $80,000,000 of revenue anticipation notes dated July 14, 2005. These general obligation notes, which have an interest rate of 3.75%, were issued in anticipation of the receipt of monies that will become due during the current fiscal year from the State and Federal governments. The proceeds of the notes will be used to pay ordinary and current operating expenses properly payable from the monies in anticipation of which the notes have been issued. The notes mature on July 13, 2006, with the amounts actually collected for the specific types of revenue that the notes were issued in anticipation of, to be used to repay them.

C. Increase of Sales Tax and Approval of Deficit Financing

During June 2005, the County Legislature approved a home rule message requesting approval of the New York State Legislature to issue up to $130 million in bonds to finance a projected deficit for the fiscal year ending December 31, 2005. The County Legislature also approved a home rule message requesting approval of the New York State Legislature to raise the sales tax ¼% to 8.25%. The New York State Legislature approved the sales tax request and the County Legislature enacted the tax increase effective July 1, 2005.

D. Creation of Erie County Fiscal Stability Authority

During June 2005, the Governor of the State of New York announced that agreement had been reached for a bill to create a fiscal control board for the County. The control board is to be an advisory panel composed of seven members, four appointed by the Governor and one each appointed by the majority leaders of the State Assembly and State Senate and the State Comptroller. The control board will initially have the power to require the development of a four year financial plan. Upon the occurrence of certain triggering events, the powers of the control board will automatically expand to include additional controls over County finances.

E. Tobacco Settlement Bond Refinancing

As further described in Note XX on page 84, ETASC refinanced approximately $319 million of tobacco settlement asset-backed bonds in August 2005.

XIX – PRIOR PERIOD ADJUSTMENTS

In December 2004, GASB issued Technical Bulletin ("TB") No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers* ("GASB TB 2004-2"). GASB TB 2004-2 clarifies GASB Statement No. 27, *Accounting for Pensions by State and Local Governments*. The New York State and Local Employees' Retirement System ("NYSERS") changed the date that the annual employers' contribution was due from December 15 to February 1. Furthermore, NYSERS has a fiscal year end of March 31. The result of the change in accounting is that nine months of the total required employers' contribution due on February 1, 2005 was recorded as an expenditure in 2004. For consistency purposes, the County is required to record a prior period adjustment to record a prepayment for the three months of expenditures which had previously been recorded as fringe benefit expenditures in 2003. There is no effect on fund balance or net assets at December 31, 2004, as the amount reported as a prior period adjustment in 2003 is recorded as 2004 fringe benefit expenditures.

The effect of this prior period adjustment was an increase in beginning fund balance of $1,957,327, for the General Fund. Net assets of Governmental Activities within the Government-Wide financial statements also increased $1,957,327.

In June 2004, GASB issued Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* ("GASB TB 2004-1"), to clarify guidance on whether a Tobacco Settlement Authority, that is created to obtain the rights to all or a portion of future tobacco settlement resources, is a component unit of the government that created it. In addition, GASB TB 2004-1 clarified recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement with the major tobacco companies. The County is therefore required to present the ETASC as a blended component unit within the County's basic financial statements. The effect of this prior period adjustment was a decrease in beginning net assets of approximately $246,382,000 of Governmental Activities within the Government-Wide Financial Statements, and an increase in beginning fund balance of $31,691,272 of Other Governmental Funds within the Fund Financial Statements.

Subsequent to the issuance of the College's fiscal 2003 financial statements, College management determined that depreciation expense on certain assets capitalized in prior periods had not been properly recorded and that certain expenses were incorrectly capitalized. Accordingly, the College has restated beginning net assets at September 1, 2003. The effect of this restatement was a reduction to net assets of approximately $1,279,000.

XX – RECENT FINANCIAL DIFFICULTIES

In recent years, the County has experienced severe financial difficulties including substantial recurring operating deficits and diminished debt ratings when accessing the public credit markets. Specifically, during its 2001–2004 fiscal years, the County's General Fund incurred approximately $200 million in losses, and the total fund balance has been reduced to $4.9 million at December 31, 2004.

On July 12, 2005, the Governor of the State of New York signed legislation creating the Erie County Fiscal Stability Authority ("ECFSA") and subsequently appointed its seven members. The new panel will provide the County with immediate financial oversight while giving local leaders the ability to improve the County's fiscal condition without further State intervention.

The ECFSA will begin its work in an advisory role, and will be responsible for reviewing and approving a financial plan submitted by the County.

The County will be required to meet the goals outlined in its financial plan. If it does not meet those objectives, the role of the ECFSA will expand so that it functions in a control capacity, rather than in just an advisory capacity. In a control capacity, ECFSA would have the ability to freeze wages, approve all contracts, and put in place other fiscal control powers. A control period would be triggered if the County fails to adopt an on-time, balanced budget; fails to pay debt service; incurs a major operating funds deficit of one percent or more; loses access to the market for borrowing; or violates provisions of the ECFSA.

Creation of the ECFSA also makes available new State efficiency incentive funding of up to $50 million over a five year period for the County and the City of Buffalo.

The ETASC retained Merrill, Lynch, Pierce, Fenner & Smith, Inc. to facilitate the issuance of approximately $319 million of tobacco settlement asset-backed bonds. The issuance of the Series 2005 Bonds resulted in the defeasance of the outstanding 2000 tobacco settlement asset-backed bonds, and provided the Corporation with approximately $110 million in additional funds primarily from a combination of certain proceeds from the 2005 bonds and the freeing up of remaining unspent proceeds of the 2000 bonds. ETASC has transferred the $110 million to the County. The County, in turn, plans to use that amount plus the proceeds of the ¼% additional sales tax enacted effective July 1, 2005 to fund the projected 2005 deficit as well as finance certain capital projects. This transaction closed during the month of August 2005 and should minimize and possibly negate the need for the ECFSA to issue any deficit financing for 2005.

Additional related subsequent event information can be found in Note XVIII.

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