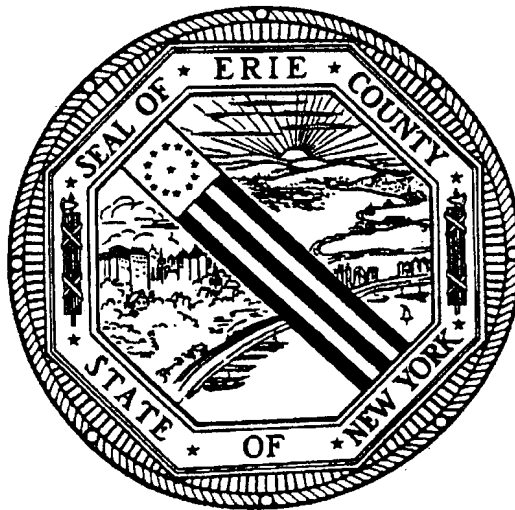


COUNTY OF ERIE, NEW YORK

BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2005



Prepared by:

Erie County Comptroller's Office

**MARK C. POLONCARZ
Erie County Comptroller**

THIS PAGE INTENTIONALLY LEFT BLANK

COUNTY OF ERIE, NEW YORK

TABLE OF CONTENTS FOR THE YEAR ENDED DECEMBER 31, 2005

	Page
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-12
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet—Governmental Funds.....	16
Reconciliation of Statement of Net Assets to Governmental Fund Balances.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds.....	18-19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual (Non-GAAP Basis of Accounting)—General Fund.....	21
Statement of Net Assets—Proprietary Funds.....	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds.....	23
Statement of Cash Flows—Proprietary Funds.....	24-25
Statement of Fiduciary Net Assets—Fiduciary Fund.....	26
Notes to the Financial Statements.....	27-80

THIS PAGE INTENTIONALLY LEFT BLANK



Deloitte & Touche LLP
Key Bank Tower, Ste. 250
50 Fountain Plaza
Buffalo, NY 14202
USA

Tel: +1 716 843 7200
Fax: +1 716 856 7760
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Honorable County Executive,
Honorable County Comptroller, 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 unit, each major fund, and the aggregate remaining fund information of the County of Erie, New York (the "County"), as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements as listed in the 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. We did not audit the financial statements of the Erie County Fiscal Stability Authority, which represent 2.5% and 16.3%, respectively, of the assets and revenues of the governmental activities. 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 1.4% and less than 1%, 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 relates 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 respective 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 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, 2005, 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 XIX, 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. The plans of County management with regard to these matters are also described in Note XIX. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis as listed on pages 3 to 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the County's management. 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

August 19, 2006

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

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, 2005, and incorporates December 31, 2004, for comparative analysis purposes. Please read it in conjunction with the County's basic financial statements following this section. **All amounts in this Management's Discussion and Analysis, unless otherwise indicated, are expressed in thousands of dollars.**

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the 2005 fiscal year by \$56,572 (*net assets*). This consists of \$101,205 restricted for specific purposes (*restricted net assets*), \$429,411 invested in capital assets, net of related debt, and deficit unrestricted net assets of \$474,044, at December 31, 2005.
- The government's total net assets decreased by \$120,903. Governmental activities decreased the County's net assets by \$121,338. Business type activities increased the County's net assets by \$435.
- As of December 31, 2005, the County's governmental funds reported combined fund balances of \$158,566, a decrease of \$6,595 in comparison with the prior year. Approximately 53% of the total combined governmental funds fund balance, \$83,803, 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 \$7,323 (51%) of the total general fund balance. Total designated general fund balance at December 31, 2005 was \$2,676.
- The County's total bonded debt increased by \$121,486 or 18% during the current fiscal year.

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 *statement of net assets* 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 *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported 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).

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 July 12, 2005, the Governor of the State of New York signed legislation creating the Erie County Fiscal Stability Authority ("ECFSA"). The ECFSA began its work during 2005 in an advisory role and provides the County with financial oversight while giving local lenders the ability to improve the County's fiscal condition without further State intervention. The ECFSA is included as a governmental activity in the government-wide financial statements.

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"), Erie County Medical Center Corporation (the "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.

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*.

The County maintains fourteen individual governmental funds. Additionally, the County reports the activities of its blended component units within its governmental funds. 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 ECFSA blended component unit (reported as a major special revenue fund). Data from the other governmental funds and blended component units are combined into a single, aggregated presentation.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

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

2005 was a particularly difficult year for the County. The original general fund budget contained a 1% sales tax increase that was not ultimately authorized. That triggered a series of events in February and March, including the elimination of over 1,000 jobs and an annualized decrease in the general fund budget of approximately \$80,000. Later the general fund budget as adjusted was determined, by a report issued by the New York State Comptroller's Office, to still be out-of-balance. This report resulted in the State imposing the ECFSA with various powers to assist the County in addressing its financial difficulties. The EFSCA requires a balanced budget every year along with a four-year plan detailing the fiscal issues the County will be facing and how they will be addressed. The Erie County Tobacco Asset Securitization Corporation, (a blended component unit of the County) issued over \$318,000 in Tobacco Settlement Asset-Backed Bonds to advance refund \$239,000 in Series 2000A bonds in August 2005. This transaction resulted in \$90,200 in funds being transferred to the County's General Fund. In addition the County imposed a .25% sales tax effective July 1, 2005. All of these events resulted in the County ending 2005 with a small surplus instead of the deficits projected.

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.

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.

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.

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.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

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 \$56,572 at the close of the most recent fiscal year.

Summary of Erie County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 526,105	530,898	\$ 41,069	\$ 32,050	\$ 567,174	\$ 562,948
Capital Assets	809,324	811,204	6,775	6,670	816,099	817,874
Total assets	<u>1,335,429</u>	<u>1,342,102</u>	<u>47,844</u>	<u>38,720</u>	<u>1,383,273</u>	<u>1,380,822</u>
Long-term liabilities	915,991	790,810	6,386	6,125	922,377	796,935
Other liabilities	376,400	386,916	27,924	19,496	404,324	406,412
Total liabilities	<u>1,292,391</u>	<u>1,177,726</u>	<u>34,310</u>	<u>25,621</u>	<u>1,326,701</u>	<u>1,203,347</u>
Net assets:						
Invested in capital assets, net of related debt	422,636	453,359	6,775	6,670	429,411	460,029
Restricted	101,205	118,461			101,205	118,461
Unrestricted	(480,803)	(407,444)	6,759	6,429	(474,044)	(401,015)
Total net assets	<u>\$ 43,038</u>	<u>164,376</u>	<u>\$ 13,534</u>	<u>\$ 13,099</u>	<u>\$ 56,572</u>	<u>\$ 177,475</u>

A significant portion of the County's net assets, at December 31, 2005, \$429,411, 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.

An additional portion of the County's net assets, \$101,205, represents resources that are subject to external restrictions on how they may be used.

The remaining and largest component of the County's net assets, a deficit of \$474,044, 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. Long-term liabilities are typically funded annually in the funds with revenues of that year. The ETASC Tobacco Settlement Asset-Backed bonds contributed greatly to this deficit as these bonds were issued to be paid back with future tobacco proceeds which will be received annually over the next fifty-years. Consequently no asset nor receivable were booked to offset the liability.

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 \$480,803 at December 31, 2005.

The County's net assets decreased by \$120,903 during the current fiscal year which is further explained in the next section.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

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	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	\$ 69,694	\$ 75,544	\$ 75,344	\$ 60,725	\$ 145,038	\$ 136,269
Operating grants and contributions	418,677	411,334	30,135	27,857	448,812	439,191
Capital grants and contributions	5,421	12,962			5,421	12,962
General revenues						
Property taxes	172,741	157,440			172,741	157,440
Sales taxes	292,275	270,860			292,275	270,860
State and local appropriations			25,815	26,089	25,815	26,089
Non-operating revenue						
Interest earnings not restricted to specific programs	104	1,235			104	1,235
Unrestricted interest earnings	4,760	2,885	403	201	5,163	3,086
Miscellaneous and other	7,793	60,276			7,793	60,276
Total revenues	971,465	992,536	131,697	114,872	1,103,162	1,107,408
Expenses:						
General government	124,393	146,767			124,393	146,767
Public safety	118,692	123,046			118,692	123,046
Health	80,468	97,512			80,468	97,512
Transportation	61,850	55,014			61,850	55,014
Economic assistance and opportunity	525,492	607,721			525,492	607,721
Culture and recreation	20,030	37,374			20,030	37,374
Education	62,870	57,304			62,870	57,304
Home and community service	44,792	43,121			44,792	43,121
Interest and Fiscal Charges	38,797	34,630			38,797	34,630
Medical Center				1,847		1,847
College			96,750	91,388	96,750	91,388
Utilities Aggregation			49,656	38,051	49,656	38,051
Total expenses	1,077,384	1,202,489	146,406	131,286	1,223,790	1,333,775
Excess (deficiency) before transfers	(105,919)	(209,953)	(14,709)	(16,414)	(120,628)	(226,367)
Transfers	(15,419)	13,291	15,144	(13,477)	(275)	(186)
Change in net assets	(121,338)	(196,662)	435	(29,891)	(120,903)	(226,553)
Net assets - beginning	164,376	361,038	13,099	42,990	177,475	404,028
Net assets - ending	\$ 43,038	\$ 164,376	\$ 13,534	\$ 13,099	\$ 56,572	\$ 177,475

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concluded)

Governmental activities

Governmental activities decreased the County's net assets by \$121,338 or 73.8%. Revenues and expenses decreased by \$21,071 (2.1%) and \$125,105 (10.4%) respectively, and transfers out increased \$28,710. Key elements of this decrease are as follows:

- The \$21,415 (7.9%) increase in the sales taxes category was mostly the result of the implementation of a one-quarter of one percent increase in July 2005 (\$14,512).
- Revenue from property taxes increased by \$15,301 (9.7%) primarily as an outcome of management's decision to substantially raise property taxes for the first time since 1999.
- Capital grants and contributions decreased \$7,541 (58.2%) during the year. Most of this decrease resulted from reduced activity on federally and state funded road projects that totaled \$5,623.
- The Miscellaneous and Other category included \$54,710 of Intergovernmental Transfer ("IGT") revenues received from ECMCC in 2004 with no corresponding revenue recorded in the current year and comprised most of the 2005 (\$52,483) (87.1%) decrease.
- Economic assistance and opportunity expenses decreased by \$82,229 (13.5%). Reductions in IGT expense (\$54,710) (previously discussed) and cuts in contractual services and other program costs (\$24,294) accounts for most of the decrease.
- The main component of the \$28,710 decrease in transfers was a one-time transfer of \$29,174 in 2004 from business type activities as further described in the business-type activities section immediately following.

Business-type activities

Business-type activities increased the County's net assets by \$435. The main reason for the change from a \$29,891 decrease experienced in 2004 was the County's decision to sell the Erie County Medical Center ("ECMC") to the ECMCC effective January 1, 2004. 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 were reported in 2004 to reflect the asset sale and transfer to governmental activities.

The College generated an increase in net assets of \$130 and \$1,391 for the years ended August 31, 2005 and 2004 respectively. The operating loss at August 31, 2005 exceeded that at August 31, 2004 by \$665 as operating revenues generated increased \$4,699 but operating expenses increased \$5,364. Revenues generated in 2005 for student tuition and fees rate increases were partially offset by a slight decline in enrolled students. The County sponsorship share of support to the College for the College fiscal year ended August 31, 2005 was approximately \$15,144 and is reported as a 2005 operating transfer to the College from the County's General Fund. However, \$275 of the 2005 transfers occurred subsequent to the end of the College fiscal period reported in these statements.

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

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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, 2005, the County's governmental funds reported combined fund balances of \$158,566, a decrease of \$6,595 in comparison with the prior year. Approximately 53% of the combined fund balances, \$83,803, 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 (\$36,488); (2) to pay debt service (\$32,698); (3) to reflect prepaid items and advances to other funds that are long-term in nature and thus do not represent available spendable resources (\$3,202); and (4) for a variety of other restricted purposes (\$2,375).

The general fund is the chief operating fund of the County. At December 31, 2005, unreserved fund balance of the general fund was \$7,323 while total fund balance was \$14,408. As a measure of the general fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.9% of total expenditures (excluding other financing uses), while total fund balance represents 1.7% of that same amount.

Fund Balance in the County's general fund increased by \$9,475 during the current fiscal year compared to last year when the general fund experienced a decrease of \$103,167. Key factors in this growth were as follows:

- Revenues from real property taxes increased by \$11,242.
- Sales taxes decreased by \$133,938 as a result of the creation of ECFSA that began intercepting this revenue source, deducting its operating expenditures and then transferring the remaining monies to the County. Transfers in from ECFSA for sales tax amounted to \$157,164. The combined increase (\$23,226) consisted primarily of additional revenue from the one-quarter of one percent rate hike previously discussed (\$14,512).
- Transfers In amounting to \$90,231 were realized in 2005 from the refinancing of Tobacco Securitization Bonds.
- Transfers to the Debt Service Fund were increased by \$14,426 over the 2004 amount.

The Road Special Revenue fund and the Erie Tax Certificate Corporation, both reported as other governmental funds of the County, reported deficit fund balances of \$1,615 and \$4,525 respectively at December 31, 2005. At December 31, 2004, the ending fund balances were \$2,650 and a deficit \$1,880, respectively. Future revenues or transfers are expected to remediate the deficit fund balances.

The County's Buildings, Equipment and Improvements fund balance increased by \$38,249 during the year. The primary factors creating this increase were proceeds from and premium on issuance of general obligation debt (\$58,067) and transfers in (\$31,272) net of capital outlay (\$39,100) and transfers out (\$14,696).

The County's Sewer Facilities Equipment and Improvement Fund ending fund balance increased by \$10,287 over the fiscal 2004 ending balance. During the year, general obligation bonds were issued to fund capital projects (\$18,311) including \$8,733 that was expended this fiscal year. A deficit fund balance that existed at December 31, 2004 in the amount of \$4,865 was eliminated as a result of this financing source.

**COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005**

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Concluded)

The Tobacco Proceeds fund balance decreased by \$64,761 to a year end balance of \$8,324 primarily due to transfers out to the general fund in the amount of \$33,667 resulting from the refinancing of the Tobacco Securitization Bonds and transfers out to fund capital project expenditures in other capital project funds amounting to \$31,234.

The ECMCC Capital Projects Fund increased by \$20,954 mainly as a result of the issuance of general obligation debt for future capital improvement projects at the Medical Center and Home and Infirmary.

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 College had unrestricted net assets of \$5,544 at August 31, 2005, 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**

	<u>Major Fund</u>	<u>Nonmajor Fund</u>	
	College 8/31/2005	Utilities Aggregation	<u>Total</u>
Operating revenues	\$ 55,518	\$ 49,961	\$ 105,479
Operating expenses	<u>96,723</u>	<u>49,656</u>	<u>146,379</u>
Operating loss	(41,205)	305	(40,900)
Non-operating revenues (expenses), net	<u>26,191</u>		<u>26,191</u>
Net income (loss) before contributions and transfers	(15,014)	305	(14,709)
Transfers	<u>15,144</u>		<u>15,144</u>
Change in net assets	<u>\$ 130</u>	<u>\$ 305</u>	<u>\$ 435</u>

The net loss before contributions and transfers of enterprise funds of \$14,709 is comprised of a net loss of \$15,014 for the College and a net gain of \$305 for the Utilities Aggregation Fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$31,663 decrease in total budgeted revenues between the original and final budget. Following are the main components of the net decreases:

- \$93,919 was removed from the Sales, Use and Transfer Taxes line to adjust the original budget for the effect of the 1% sales tax increase included in the Original Budget that failed to gain the final approved necessary to enable submission to the NYS Senate and Assembly, net of the increase of ¼ of one percent that was ultimately approved and implemented in July of 2005. In addition, \$375 was added to this category during the year for a projected increase in hotel occupancy tax receipts.
- The Miscellaneous revenue budget increase (\$56,705) was mainly due to establishment of a revenue budget for revenue realized from the August 2005 Tobacco Securitization transaction (\$56,564).

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS (Concluded)

The budget for Other Financing Sources was increased during the year by \$33,667 for revenue transferred from the Tobacco proceeds capital projects fund as a result of the Tobacco Securitization transaction. Budgeted appropriations and Other Financing Uses increased by \$16,044. Budgeted expenditure increases in Public Safety (\$24,907), primarily for the Division of Jail Management, and Economic Assistance and Opportunity (\$33,068), primarily for the Department of Social Services, were partially offset by budgeted expenditure decreases in General Government Support (\$35,294), primarily due to reductions in County-wide fringe benefit accounts. The total favorable budget to actual variance for the year amounted to \$44,689.

For the year, actual revenues were less than budget by \$260,189. This is principally due to the fact that revenue from the refinancing of Tobacco Securitization Bonds for \$56,564 and sales tax receipts subsequent to the establishment of the ECFSA for \$136,326 were both budgeted as revenue but accounted for as Transfers In. A negative budgetary variance in intergovernmental revenue amounted to \$25,581 as a result of reduced reimbursable expenditures.

Actual expenditures were less than budget by \$90,897 primarily due to savings in the Economic Assistance and Opportunity category (\$67,281). This mainly resulted from a favorable budgetary variance for Medicaid of \$43,375.

Additionally, the Transfers In category exceeded budget by \$213,728 mainly as a result of the refinancing of Tobacco Securitization Bonds and sales tax intercepts described previously.

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, 2005, amounted to \$816,099 (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 0.2%.

Major capital asset events during the current fiscal year included the addition of buildings and improvements assets of \$69,543 and depreciation on infrastructure assets exceeding additions by \$9,931.

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	
	2005	2004	2005	2004	2005	2004
Land	\$ 28,564	\$ 28,040	\$	\$	\$ 28,564	\$ 28,040
Buildings and Improvements	256,664	198,593	514	266	257,178	198,859
Improvements other than Buildings	10,940	9,321	62		11,002	9,321
Sewer and Transportation Networks	408,144	418,075			408,144	418,075
Machinery and Equipment	43,659	45,131	4,754	5,093	48,413	50,224
Library Collections			1,307	1,311	1,307	1,311
Construction in Progress	<u>61,353</u>	<u>112,044</u>	<u>138</u>		<u>61,491</u>	<u>112,044</u>
Total	\$ <u>809,324</u>	\$ <u>811,204</u>	\$ <u>6,775</u>	\$ <u>6,670</u>	\$ <u>816,099</u>	\$ <u>817,874</u>

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concluded)

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) and Note VIII of this report.

Long-term Debt

At December 31, 2005, the Primary Government had total bonded debt outstanding of \$811,858 as compared to \$690,372 in the prior year. During the year, payments, defeasances and other reductions of debt amounted to \$320,280. Additions, accretions and other adjustments amounted to \$441,766.

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 \$1,805,685, which is significantly in excess of the County's outstanding general obligation debt.

Actions taken during 2005 related to the County's ratings for general obligation debt were as follows: Moody's: downgraded from A3 to Baa3 (negative outlook); Fitch: downgraded from A- to BBB- (stable outlook); and Standard & Poor's: assigned first-time rating of BBB (stable outlook).

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

SUBSEQUENT EVENTS

As described in Note XVIII of this report, the County, after State approval, increased its sales tax by ½ of one percent effective January 15, 2006 and issued \$110,000 in Revenue Anticipation Notes in June 2006. In addition, the Erie Tobacco Asset Securitization Corporation, a component unit of the County, issued \$17.7 million of tobacco settlement asset-backed bonds in January 2006.

In addition to the annual budget the County issues a four-year plan that details the projected financial condition that the County will face in the future. The four-year plan includes what options are available to the County to balance future budgets. The original four-year plan was proposed and accepted in October, 2005 as part of the 2006 budget process. During 2006 the County has issued updated four-year plans to take into account the latest anticipated financial issues and plans to meet those obligations. It is in process of issuing a revised four year plan at the request of the Erie County Fiscal Stability Authority by August 22, 2006.

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.

THIS PAGE INTENTIONALLY LEFT BLANK

COUNTY OF ERIE, NEW YORK
Statement of Net Assets
December 31, 2005
(amounts expressed in thousands)

	Primary Government			Component Units		
	Governmental Activities	Business - Type Activities	Total	Library	ECMCC	Other
ASSETS						
Cash and cash equivalents	\$ 180,268	\$ 23,057	\$ 203,325	\$ 4,501	\$ 10,038	\$ 1,500
Investments	27,200		27,200		21,667	844
Patient trust cash					686	
Restricted cash and cash equivalents	21,075		21,075		9,245	
Receivables (net of allowances)	278,195	14,637	292,832	826	65,493	211
Due from primary government					9,288	
Due from component unit	10,196	4,225	14,421			
Internal balances	6,143	(953)	5,190			
Inventories					4,948	40
Prepaid items	202	103	305		584	2
Other assets	2,826		2,826		4,567	937
Capital assets						
Land, rare books and construction in progress	89,917	138	90,055	9,962	1,102	
Other capital assets, net of depreciation	719,407	6,637	726,044	8,657	70,963	295
Total assets	1,335,429	47,844	1,383,273	23,946	198,581	3,829
LIABILITIES						
Accounts payable	41,042	10,680	51,722	801	15,262	77
Accrued liabilities	75,437	7,024	82,461	1,447	60,013	738
Due to component unit	11,184		11,184			
Due to primary government				6	12,519	
Deferred revenue	71,824	10,220	82,044	283		
Short-term debt	176,913		176,913			
Long-term liabilities						
Due within one year	82,952	1,967	84,919	2,341		
Due in more than one year	833,039	4,419	837,458	1,677	105,075	
Total liabilities	1,292,391	34,310	1,326,701	6,555	192,869	815
NET ASSETS						
Invested in capital assets, net of related debt	422,636	6,775	429,411	18,619	1	
Restricted for:						
Grants	298		298			
Capital projects	68,084		68,084		9,288	
Debt service	32,698		32,698		8,804	
Other purposes	125		125		1,488	1,228
Unrestricted	(480,803)	6,759	(474,044)	(1,228)	(13,869)	1,786
Total net assets	\$ 43,038	\$ 13,534	\$ 56,572	\$ 17,391	\$ 5,712	\$ 3,014

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Activities
For the year ended December 31, 2005
(amounts expressed in thousands)

Functions/Programs	PROGRAM REVENUES				NET (EXPENSE) REVENUE and CHANGES IN NET ASSETS									
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	PRIMARY GOVERNMENT			COMPONENT UNITS						
					Governmental Activities	Business-Type Activities	Total	Library	ECMCC	Other				
Primary government:														
Governmental activities:														
General government	\$ 124,393	\$ 14,196	\$ 17,113	\$ 1,180	\$ (91,904)	\$ (91,904)	\$ (91,904)	\$ (91,904)	\$	\$	\$	\$	\$	\$
Public safety	118,692	9,030	10,511	88	(99,063)	(99,063)	(99,063)	(99,063)						
Health	80,468	3,173	60,518		(16,777)	(16,777)	(16,777)	(16,777)						
Transportation	61,850	1,103	6,284	2,980	(51,483)	(51,483)	(51,483)	(51,483)						
Economic assistance and opportunity	525,492	27,729	259,147		(238,616)	(238,616)	(238,616)	(238,616)						
Culture and recreation	20,030	3,186	1,491	1,173	(14,180)	(14,180)	(14,180)	(14,180)						
Education	62,870	95	37,166		(25,609)	(25,609)	(25,609)	(25,609)						
Home and community service	44,792	11,182	17,212		(16,398)	(16,398)	(16,398)	(16,398)						
Interest and fiscal charges	38,797		9,235		(29,562)	(29,562)	(29,562)	(29,562)						
Total governmental activities	1,077,384	69,694	418,677	5,421	(583,592)	(583,592)	(583,592)	(583,592)						
Business-type activities:														
Community College (August 31, 2005)	96,750	25,383	30,135		(41,232)	(41,232)	(41,232)	(41,232)						
Nonmajor fund	49,656	49,961			305	305	305	305						
Total business-type activities	146,406	75,344	30,135	0	(40,927)	(40,927)	(40,927)	(40,927)						
Total primary government	1,223,790	145,038	448,812	5,421	(583,592)	(583,592)	(583,592)	(583,592)						
Component unit:														
Library	\$ 30,515	\$ 892	\$ 5,722	\$					(23,961)					
ECMCC	309,705	265,840	19,588	1,713										
Other component units	3,620	2,811	1,265											
Total component units	343,840	269,483	26,575	1,713					(23,961)					456
General revenues:														
Property taxes levied for mall, sewer, and general purposes					172,741	172,741	172,741	172,741						
Property taxes levied for library					292,275	292,275	292,275	292,275						
Sales, use and transfer taxes					25,815	25,815	25,815	25,815						
Unrestricted state and local appropriations					104	104	104	104						67
Interest earnings not restricted to specific programs					4,760	4,760	4,760	4,760						
Unrestricted interest earnings					7,685	7,685	7,685	7,685						
Miscellaneous					108	108	108	108						
Gain on sale of capital assets					(15,419)	(15,419)	(15,419)	(15,419)						
Transfers					462,254	462,254	462,254	462,254						
Total general revenues and transfers					(121,338)	(121,338)	(121,338)	(121,338)						
Change in net assets					435	435	435	435						
Net assets - beginning:					164,376	164,376	164,376	164,376						
As previously reported					164,376	164,376	164,376	164,376						
Prior period adjustment - Note I(F)					43,038	43,038	43,038	43,038						
Net assets - beginning, as restated					111,338	111,338	111,338	111,338						
Net assets - ending					177,475	177,475	177,475	177,475						
					19,240	19,240	19,240	19,240						
					2,583	2,583	2,583	2,583						
					56,572	56,572	56,572	56,572						
					2,491	2,491	2,491	2,491						
					2175	2175	2175	2175						
					408	408	408	408						
					5,712	5,712	5,712	5,712						
					3,014	3,014	3,014	3,014						

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Balance Sheet
Governmental Funds
December 31, 2005
(amounts expressed in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 32,353	\$ 89	\$ 147,826	\$ 180,268
Investments			27,200	27,200
Receivables (net of allowances)				
Real property taxes, interest, penalties and liens	19,829		27,143	46,972
Other	3,219		24,148	27,367
Due from other funds	69,681		1,343	71,024
Due from component unit	10,190		6	10,196
Due from other governments	133,759	33,485	33,865	201,109
Prepaid items	156	1	45	202
Loan receivable	2,250			2,250
Restricted cash and cash equivalents	21,075			21,075
Total assets	\$ 292,512	\$ 33,575	\$ 261,576	\$ 587,663
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 9,613	\$ 55	\$ 12,315	\$ 21,983
Accrued liabilities	59,083		8,917	68,000
Due to other funds	404	33,485	30,495	64,384
Due to component unit	1,890		6	1,896
Due to other governments	14,646		430	15,076
Retained percentages payable	10		3,973	3,983
Deferred revenue	32,458		44,404	76,862
Short-term debt	160,000		16,913	176,913
Total liabilities	278,104	33,540	117,453	429,097
Fund Balances				
Reserved for:				
Encumbrances	4,742		31,746	36,488
Debt service			32,698	32,698
Loan receivable	2,250			2,250
Repairs			3,202	3,202
E-911 system costs			32	32
Handicapped parking	93			93
Unreserved, reported in:				
General fund				
Designated	2,676			2,676
Undesignated	4,647			4,647
Special revenue funds				
Designated			4,705	4,705
Undesignated		35	(3,284)	(3,249)
Capital projects fund				
Designated			6,940	6,940
Undesignated			68,084	68,084
Total fund balances	14,408	35	144,123	158,566
Total liabilities and fund balances	\$ 292,512	\$ 33,575	\$ 261,576	\$ 587,663

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, 2005
 (amounts expressed in thousands)

	<u>Governmental Activities</u>
Total Governmental Fund Balances	\$ 158,566
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.	809,324
Other long-term assets, real property taxes, are not available to pay for current-period expenditures and therefore are deferred in the funds.	5,038
Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued.	2,826
Due to a component unit was deemed to be not due and payable in the current period and therefore not reported in the funds.	(9,288)
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	\$ (7,437)
Compensated absences	(22,110)
Retirement	(37,906)
Judgments and claims	(44,117)
Unamortized bond premium	(24,345)
Bonds payable	<u>(787,513)</u>
Net assets of governmental activities	<u>\$ 43,038</u>

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, 2005
(amounts expressed in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
Revenues:				
Real property taxes and tax items	\$ 148,703	\$	22,308	\$ 171,011
Sales, use and transfer taxes	120,333	158,163	13,779	292,275
Intergovernmental	314,237		101,769	416,006
Interfund revenues	152		1,336	1,488
Departmental	55,272		13,277	68,549
Interest	4,608	152	9,339	14,099
Miscellaneous	6,380		1,518	7,898
Total revenues	649,685	158,315	163,326	971,326
Expenditures:				
Current:				
General government support	93,974	1,116	10,908	105,998
Public safety	106,101		10,354	116,455
Health	60,782		12,231	73,013
Transportation	19,286		24,110	43,396
Economic assistance and opportunity	479,433		45,561	524,994
Culture and recreation	16,958		405	17,363
Education	60,823		314	61,137
Home and community service	3,269		31,360	34,629
Capital outlay			59,237	59,237
Debt service:				
Principal retirement			28,790	28,790
Interest and fiscal charges	2,468		43,967	46,435
Total expenditures	843,094	1,116	267,237	1,111,447
(Deficiency) excess of revenues over expenditures	(193,409)	157,199	(103,911)	(140,121)

COUNTY OF ERIE, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2005
(amounts expressed in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses) :				
Proceeds of general obligation debt			103,530	103,530
Premium on bond issuance			4,970	4,970
Proceeds of refunding bonds			359,300	359,300
Payments to refunded bond escrow			(318,963)	(318,963)
Sale of property	105		3	108
Transfers in	247,395		79,408	326,803
Transfers out	(44,616)	(157,164)	(140,442)	(342,222)
Total other financing sources (uses)	202,884	(157,164)	87,806	133,526
Net change in fund balances	9,475	35	(16,105)	(6,595)
Fund balances at beginning of year	4,933		160,228	165,161
Fund balances at end of year	\$ 14,408	\$ 35	\$ 144,123	\$ 158,566

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, 2005
 (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	\$ (6,595)
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	\$ 38,606
Depreciation	<u>(40,486)</u>
Net adjustment	(1,880)
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.	1,730
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	\$ (103,530)
Premium on bond issuance	(4,970)
Proceeds of refunding bonds	<u>(359,300)</u>
Total Proceeds	(467,800)
Principal retirement	28,790
Principal retirement - component unit reimbursement	(210)
Payments to refunded bond escrow	318,963
Amortization of fiscal charges	1,598
Miscellaneous	<u>(1)</u>
Total repayments	349,140
Net adjustment	(118,660)
The proceeds of a bond previously issued on behalf of the enterprise fund and reported as a liability within governmental activities were returned by the enterprise fund in lieu of making the related future bond payments and reported as miscellaneous revenue in the funds.	(642)
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	2,364
Interest on bonds	6,040
Compensated Absences	3,687
Retirement	(3,194)
Claims & Judgments (Long term change only)	<u>(4,188)</u>
Net adjustment	4,709
Change in net assets of governmental activities	<u>\$ (121,338)</u>

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, 2005
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance Final Budget- Positive (Negative)
Revenues:				
Real property taxes and tax items	\$ 147,279	\$ 147,550	\$ 148,703	\$ 1,153
Sales, use and transfer taxes	385,328	291,784	120,333	(171,451)
Intergovernmental	336,575	339,818	314,237	(25,581)
Interfund revenue	2,388	2,733	152	(2,581)
Departmental	60,602	61,919	55,272	(6,647)
Interest	4,916	4,916	4,608	(308)
Miscellaneous	4,449	61,154	6,380	(54,774)
Total revenues	<u>941,537</u>	<u>909,874</u>	<u>649,685</u>	<u>(260,189)</u>
Expenditures:				
Current:				
General government support	134,995	99,701	95,849	3,852
Public safety	85,183	110,090	106,268	3,822
Health	65,291	74,120	61,012	13,108
Transportation	20,077	20,077	19,286	791
Economic assistance and opportunity	515,460	548,528	481,247	67,281
Culture and recreation	33,894	18,350	17,522	828
Education	60,303	61,404	60,826	578
Home and community service	4,663	3,995	3,358	637
Debt service:				
Interest and fiscal charges	2,468	2,468	2,468	
Total expenditures	<u>922,334</u>	<u>938,733</u>	<u>847,836</u>	<u>90,897</u>
Excess (deficiency) of revenues over expenditures	<u>19,203</u>	<u>(28,859)</u>	<u>(198,151)</u>	<u>(169,292)</u>
Other financing sources (uses):				
Sale of property	85	85	105	20
Transfers in		33,667	247,395	213,728
Transfers out	(45,204)	(44,849)	(44,616)	233
Total other financing sources (uses)	<u>(45,119)</u>	<u>(11,097)</u>	<u>202,884</u>	<u>213,981</u>
(Deficiency) excess of revenue and other financing sources over expenditures and other financing uses	<u>\$ (25,916)</u>	<u>\$ (39,956)</u>	<u>\$ 4,733</u>	<u>\$ 44,689</u>

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Net Assets
Proprietary Funds
December 31, 2005
(amounts expressed in thousands)

	Business - Type Activities		
	Enterprise Funds		
	Community College August 31, 2005	Nonmajor Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 23,057	\$	\$ 23,057
Receivables (net of allowances)	3,506	2,811	6,317
Due from other funds	2,271	1,420	3,691
Due from component unit		4,225	4,225
Due from other governments		8,320	8,320
Prepaid items		103	103
Total current assets	28,834	16,879	45,713
Noncurrent Assets			
Capital assets, net of depreciation			
Construction in progress	138		138
Other capital assets, net of depreciation	6,637		6,637
Total noncurrent assets	6,775	0	6,775
Total assets	35,609	16,879	52,488
Liabilities			
Current Liabilities:			
Accounts payable	1,627	5,724	7,351
Accrued liabilities	4,376	2,648	7,024
Due to other funds	681	7,292	7,973
Fringe benefits payable - current	1,967		1,967
Deferred revenue	10,220		10,220
Total current liabilities	18,871	15,664	34,535
Noncurrent Liabilities:			
Fringe benefits payable	4,419		4,419
Total noncurrent liabilities	4,419	0	4,419
Total liabilities	23,290	15,664	38,954
Net Assets			
Invested in capital assets, net of related debt	6,775		6,775
Unrestricted, reported in:			
Community College	5,544		5,544
Nonmajor Fund		1,215	1,215
Total net assets	\$ 12,319	\$ 1,215	\$ 13,534

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, 2005
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds		Total
	Community College August 31, 2005	Nonmajor Fund	
Operating Revenues:			
Student tuition and fees	\$ 23,224	\$	\$ 23,224
Intergovernmental revenues and charges	18,126		18,126
State and local contracts	12,009		12,009
Interfund revenues		9,593	9,593
Other operating revenue	2,159	40,368	42,527
Total operating revenue	<u>55,518</u>	<u>49,961</u>	<u>105,479</u>
Operating Expenses:			
Employee wages	54,200	65	54,265
Employee benefits	16,218	18	16,236
Scholarships	9,817		9,817
Supplies	11,196		11,196
Utilities and telephone	2,637	49,573	52,210
Depreciation and amortization	2,655		2,655
Total operating expenses	<u>96,723</u>	<u>49,656</u>	<u>146,379</u>
Operating (loss) income	(41,205)	305	(40,900)
Nonoperating revenues (expenses):			
Unrestricted state and local appropriations	25,815		25,815
Income from investments	403		403
Loss on disposal of plant assets	(27)		(27)
(Loss) income before transfers	<u>(15,014)</u>	<u>305</u>	<u>(14,709)</u>
Transfers in	15,144		15,144
Change in net assets	130	305	435
Total net assets-beginning	12,189	910	13,099
Total net assets-ending	<u>\$ 12,319</u>	<u>\$ 1,215</u>	<u>\$ 13,534</u>

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2005
(amounts expressed in thousands)

	Business - Type Activities		
	Enterprise Funds		
	Community College August 31, 2005	Nonmajor Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from patients, students and utility customers	\$ 23,017	\$ 28,467	\$ 51,484
Payments to employees for services	(69,853)	(85)	(69,938)
Payments to suppliers for goods and services	(13,911)	(46,529)	(60,440)
Payments for scholarships	(9,817)		(9,817)
Federal, state and local grants	29,925		29,925
Internal activity - payments from other funds		12,138	12,138
Other operating revenues	2,707		2,707
Net cash and cash equivalents used by operating activities	(37,932)	(6,009)	(43,941)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
County contribution	15,144		15,144
State appropriations	25,101		25,101
Other contributions	947		947
Advances to other funds		6,009	6,009
Net cash and cash equivalents provided by non-capital financing financing activities	41,192	6,009	47,201
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(2,786)		(2,786)
Net cash and cash equivalents used in capital financing activities	(2,786)	0	(2,786)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	403		403
Net cash and cash equivalents provided by investing activities	403	0	403
NET INCREASE IN CASH AND CASH EQUIVALENTS	877	0	877
Cash and cash equivalents, beginning of year	22,180	0	22,180
Cash and cash equivalents, end of year	\$ 23,057	\$ 0	\$ 23,057

(Continued)

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2005
(amounts expressed in thousands)

	Business - Type Activities		
	Enterprise Funds		
	Community College August 31, 2005	Nonmajor Fund	Total Funds
Reconciliation of operating (loss) income to net cash and cash equivalents used by operating activities			
Operating (loss) income	\$ (41,205)	\$ 305	\$ (40,900)
Adjustments to reconcile operating (loss) income to net cash and cash equivalents used by operating activities:			
Depreciation expense	2,655		2,655
Increase in assets:			
Receivables, net	(497)	(1,181)	(1,678)
Due from other funds		(5,128)	(5,128)
Due from other governments		(3,070)	(3,070)
Prepaid items		(9)	(9)
Increase in liabilities:			
Accounts and other payables	424	1,947	2,371
Accrued expenses	565	1,127	1,692
Other long-term liabilities	126		126
Net cash and cash equivalents used by operating activities	\$ (37,932)	\$ (6,009)	\$ (43,941)

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Fiduciary Net Assets
Fiduciary Fund
December 31, 2005
(amounts expressed in thousands)

	Agency Fund
Assets	
Cash and cash equivalents	\$ 35,348
Receivables:	
Due from other funds	3,557
Due from component unit	588
Due from other governments	320
Other receivables	27
Bonds and securities held in custody	151
Total assets	<u><u>\$ 39,991</u></u>
Liabilities	
Due to other funds	\$ 725
Due to other governments	5,993
Held in custody for others	33,273
Total liabilities	<u><u>\$ 39,991</u></u>

See accompanying notes to the financial statements.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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. CHANGE IN THE FINANCIAL REPORTING ENTITY

The financial statements for the fiscal year ended December 31, 2005 incorporates a change to the financial reporting entity from that presented in the prior year:

Erie County Fiscal Stability Authority ("ECFSA")

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 provides 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 began its work during 2005 in an advisory role, and was responsible for reviewing and approving a four year financial plan submitted by the County.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Continued)

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 legislation.

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.

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 units 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. The Library does not issue separate financial statements.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Continued)

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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Continued)

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”). Both of these entities are included as component units of the County in the financial statements, based on the fact that they are legally separate entities for which the College and County are financially accountable.

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. Separate financial statements can be obtained from the Auxiliary Services Corporation of Erie Community College, Inc., Executive Director, 6205 Main Street, Williamsville, NY 14221.

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. Separate financial statements can be obtained from Erie Community College Foundation, Inc., Executive Director, 4196 Abbott Road, Orchard Park, NY 14127.

3. BLENDED COMPONENT UNITS

Erie County Fiscal Stability Authority (“ECFSA”) is included as a blended component unit of the County’s primary government pursuant to Governmental Accounting Standards Board (“GASB”) Statement No. 39, “Determining Whether Certain Organizations are Component Units”, because exclusion would be misleading. It acts as a temporary financial intermediary to the County and is authorized to act as an oversight authority to the County under certain circumstances. It reports using the governmental model and its general fund is reported as part of the County’s special revenue funds.

The ECFSA is a corporate governmental agency and instrumentality of the State of New York (the “State”) constituting a public benefit corporation created by the Erie County Fiscal Stability Authority Act, Chapter 182 of the Laws of 2005, as supplemented by Chapter 183 of the Laws of 2005 (the “Act”). The Act became effective July 12, 2005.

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Continued)

The ECFSA has power under the Act to monitor and oversee the finances of Erie County, and upon declaration of a "Control Period" as defined in the Act, additional oversight authority. The ECFSA is also empowered to issue its bonds and notes for various County purposes, defined in the Act as "Financeable Costs."

Revenues of the ECFSA ("Revenues") consist of sales tax revenues, defined as net collections from sales and compensating use taxes, penalties and interest authorized by the State and imposed by the County on the sales and use of tangible personal property and services in the County ("Sales Tax Revenues"), and investment earnings on money and investments on deposit in various ECFSA accounts. Sales Tax Revenues collected by the State Comptroller for transfer to the ECFSA are not subject to appropriation by the State or County. Revenues of the ECFSA that are not required to pay debt service, operating expenses and other costs of the ECFSA are payable to the County as frequently as practicable. Separate financial statements for ECFSA can be obtained from the Erie County Fiscal Stability Authority, 295 Main Street, Room 946, Buffalo, New York, 14203.

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 Statement No. 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. Financial Reporting Entity (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. Government-wide and Fund Financial Statements

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. 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.

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal 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.

ECFSA General Fund – used to account for all of the operations of the Erie County Fiscal Stability Authority, included as a blended component unit. This fund accounts for sales tax revenues received by ECFSA and for general operating expenditures of ECFSA.

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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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.

The effect of interfund activity has been eliminated from the government-wide financial statements.

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 October 15, 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, account and selected line item 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. An account level appropriation budget is adopted for the ECFSA. 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 line items within a department. Those budget transfers greater than \$1,000 need legislative approval.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 line items within a department. 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, account and selected line item level) are not presented in this report for those funds with annual appropriated budgets due to the excessive detail involved. However, a separate budgetary comparison report is available which contains this information.

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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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. All purchases of library books are capitalized, because there is no minimum capitalization threshold. 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:

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

The Buffalo and Erie County Public Library has a rare book collection that is classified as a Work of Art and Historical Treasure for financial reporting purposes. This collection is deemed an inexhaustible asset, and therefore, is not depreciated.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005, amounted to \$9,729,912. 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 \$26,258,833, with \$22,109,676 reported within governmental activities and \$4,149,157 reported within business-type activities.

The Library component unit compensated absences liability of \$1,243,544 is recorded in full in the government-wide financial statements. The ECMCC component unit compensated absences liability of \$8,100,000 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 \$93,001 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005, 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, a loan to the Buffalo Zoo for the redevelopment of the Main Animal Building and a working capital advance to the ETCC.

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, 2005 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 and ECMCC Capital Projects funds, 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 five 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 2005, \$14,706,544 was paid by the County on behalf of 3,214 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.

R. Prior Period Adjustment

The prior period financial statements of RHEC, a component unit of ECMCC, presented unrestricted board-designated net assets and temporarily restricted net assets as unexpended grant revenue and collections in advance, in error. Unrestricted board-designated net assets at September 30, 2004, were \$33,544. Temporarily restricted net assets were \$374,294. These adjustments are presented as a prior period adjustment on the accompanying Statement of Activities for the current year.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

S. Future Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, effective for the year ending December 31, 2006; GASB Statement No. 45, *Accounting and Financial Reporting by Employers 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. 44, 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)
	<u>General Fund</u>
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP basis	\$ 9,475
Less:	
Encumbrances	<u>4,742</u>
Excess of revenues and other financing sources over expenditures and other financing uses - basis of budgeting	<u>\$ 4,733</u>

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 2005 expenditures through the budget process. Additional information is presented in subsection B. of this note.

Commitments related directly to the Grants and the Community Development Special Revenue Funds in the amount of \$7,272,075 and \$1,912,823, respectively, at December 31, 2005, 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

B. Excess of Expenses/Expenditures Over Appropriations

For the year ended December 31, 2005, there were no excesses of expenditures/expenses over appropriations at the established control level except for the following:

<u>FUND</u>	<u>DEPARTMENT</u>	<u>OBJECT</u>	(000's <u>Omitted</u>)
General Fund	Countywide Accounts-Budget	Fringe Benefits	\$ 458
Road Fund	Highways	Part-Time Wages	\$ 10
	Highways	Shift Differential	63
	Highways	Holiday Worked	143
	Highways	Overtime	563
	Highways	Fringe Benefits	2,237
		Total Road Fund	\$ 3,016
Debt Service Fund	General Debt	Payments to Refunded Bond Escrow	\$ 2,339

C. Deficit Fund Balances

The Erie Tax Certificate Corporation and the Road Special Fund, both of which are reported in Other Governmental Funds, reported deficit fund balances of \$4,525,388 and \$1,614,636 respectively at December 31, 2005. Future revenues are expected to remediate the deficit fund balances.

III – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	(000s omitted)					
	Primary Government	Agency Fund	Library Component Unit	ECMCC Component Unit	Other Component Units	Reporting Entity Total
Petty Cash	\$ 125	\$	\$ 10	\$ 2	\$	\$ 137
Cash in Banks	191,244	804	4,491	10,036	1,500	208,075
Patient Trust Cash				686		686
Repurchase Agreements	11,956	34,544				46,500
Restricted Cash & Cash Equivalents	21,075			9,245		30,320
Investments	27,200			21,667	844	49,711
	<u>\$ 251,600</u>	<u>\$ 35,348</u>	<u>\$ 4,501</u>	<u>\$ 41,636</u>	<u>\$ 2,344</u>	<u>\$ 335,429</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

III – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Primary Government, Agency Fund and Library Component Unit

Agency Fund bank accounts are maintained at financial institutions where monies of the County's other funds are also on deposit. In addition, the Library does not maintain a separate bank account; instead, it participates in the pooled cash of the County. The banks calculate and report FDIC coverage and collateral requirements for the County's Agency Fund, the County's other funds and Library together, separately from that of the College.

Available cash of the County is deposited and invested in accordance with the provisions of applicable State statutes. The County has its own written investment guidelines which have been established by the Comptroller's Office and approved by the County Legislature. The EFSCA, ETASC and ETCC do not have formal investment policies.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from fluctuating interest rates, it is the County's policy to generally limit investments to 180 days or less.

Credit Risk – In compliance with New York State law, County investments are limited to obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America, obligations of the State of New York, time deposit accounts and certificates of deposit issued by a bank or trust company located in and authorized to do business in New York State and certain joint or cooperative investment programs.

Custodial Credit Risk – For investments, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the County's name. For deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. Collateral is required for deposits 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.

Concentration of Credit Risk – To promote competition in rates and service cost, and to limit the risk of institutional failure, County deposits and investments are placed with multiple institutions. The general rule is not to place more than \$100,000,000 or 50% of the County's total investment portfolio, whichever is less, in overnight investments with any one institution.

Deposits - The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

III – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of December 31, 2005, all uninsured bank deposits of the Primary Government, Library, and Agency Fund were either fully collateralized with securities held by the pledging financial institution's agent in the County's name (\$264,122,882) or for certain trust accounts held by New York State (\$9,453,897).

Cash Equivalents - All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents. At December 31, 2005, the County had \$46,500,000 in repurchase agreements with a maturity of January 3, 2006. Existing policies require that the underlying securities for repurchase transactions must be only federal obligations. Such obligations are explicitly guaranteed by the U.S. Government and therefore not considered to have credit risk.

Investments - All investments are carried at fair value and are held by a third party in the County's name. Investments for the Primary Government at year-end are shown below:

(000s omitted)

	Cost	Fair Value
Municipal bonds	\$ 8,200	\$ 8,200
Federal National Mortgage Association - Discount notes	19,000	19,000
Total investments	\$ 27,200	\$ 27,200

The County's investment in municipal bonds at December 31, 2005 consists of \$8,100,000 of Gulf Coast Waste Disposal Authority of Texas revenue bonds maturing September 1, 2025 that were rated Aaa by Moody's and AAA by Standard and Poor's; and \$100,000 of NYC Municipal Water Finance Authority revenue bonds maturing June 15, 2035 that were rated Aaa by Moody's, AA+ by Standard and Poor's and AA by Fitch Ratings. These bonds were transferred to the County's General Fund from the ETASC as a result of the Tobacco Settlement Asset Backed Bond refinancing transaction further described in Note XII(B).

Rating information for the ETASC's investment in Federal National Mortgage Association discount notes maturing May 31, 2006 was not available.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

III – CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

ECMCC Component Unit

Unrestricted Cash and Cash Equivalents and Investments - Effective July 1, 2005, the Corporation established, and thereafter has maintained various accounts for the depositing, disbursement and investment of its funds. The Corporation's investments are made in accordance with State regulations and its investment guidelines. Prior to July 1, 2005, the Corporation participated in the pooled cash of the County for its operations.

All investments are carried at fair value, and are categorized as insured or uninsured, and collateralized by securities held by the pledging financial institution in the Corporation's name.

Assets Whose Use is Limited—Assets whose use is limited at December 31, 2005 consists of patient and residents' trust cash and cash restricted for debt service are as follows:

	(000's omitted)
Current:	
Patient and resident's trust cash	\$ 686
Restricted—debt service interest	947
Restricted—research	441
	<u>\$ 2,074</u>
Noncurrent:	
Restricted—debt service fund	7,857
	<u>\$ 7,857</u>

Patient Trust Cash—Pertinent information relative to the Medical Center's deposits at December 31, 2005 is as follows:

	(000's omitted)	
	Carrying Amount	Bank Balance
Insured (FDIC)	\$ 321	\$ 321
Uninsured—		
Collateral held by pledging financial institutions' trust department or agent in the Corporation's name	365	365
Total deposits	<u>\$ 686</u>	<u>\$ 686</u>

Foundation Component Unit—The Foundation held certificates of deposit amounting to \$450,571 at December 31, 2005. At December 31, 2005 the certificates paid interest at varying rates of 0.94-2.13% and matured (and were renewed) in January 2006.

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 exceeded FDIC insurance by \$9,627.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

III – CASH, CASH EQUIVALENTS AND INVESTMENTS (Concluded)

Investments at September 30, 2005 consist of the following:

	(000's omitted)	
	Cost	Fair Value
Certificates of deposit	\$ 1,284	\$ 1,284
U.S. Treasury Securities	100	98
	<u>\$ 1,384</u>	<u>\$ 1,382</u>

Foundation Component Unit—Investments at December 31, 2005 consist of the following:

	(000's omitted)
Endowment investments, held in a money market account, which are permanently restricted	<u>\$ 50</u>

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, 2005 are as follows:

	(000's omitted)	
	Cost	Fair Value
Fixed income	\$ 317	\$ 307
REITs	20	21
Domestic stocks	<u>494</u>	<u>516</u>
	<u>\$ 831</u>	<u>\$ 844</u>
Net unrealized gain		<u>\$ 13</u>

IV - RESTRICTED CASH AND CASH EQUIVALENTS

Primary Government

Restricted Cash and Cash Equivalents – Cash has been deposited into a separate money market account with a fiscal agent to satisfy certain legal covenants for the repayment of the County's outstanding Revenue Anticipation Notes. All such investments are carried at fair value and are categorized as insured or uninsured and collateralized by securities held by the County or its agent in the County's name.

	(000's omitted)	
	Carrying Amount	Fair Value
Money market fund	<u>\$ 21,075</u>	<u>\$ 21,075</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

IV - RESTRICTED CASH AND CASH EQUIVALENTS (Concluded)

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.

	(000's omitted)	
	Carrying Amount	Fair Value
Debt Service Interest-Money market fund	\$ 947	\$ 947
Research-Money market fund	441	441
Debt Service Principal-Money market fund	<u>7,857</u>	<u>7,857</u>
	<u>\$ 9,245</u>	<u>\$ 9,245</u>

Restricted Cash—Restrictions on cash at December 31, 2005 include:

	(000's omitted)
Interest on debt	\$ 947
Research	441
Debt service	<u>7,857</u>
	<u>\$ 9,245</u>

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 which is payable semi-annually May 1 and November 1, 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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

V - PROPERTY TAXES (Concluded)

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, 2005 is computed as follows:

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

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, 2005 include sales, use and transfer taxes of approximately \$33.5 million; state and federal assistance for social services in excess of \$74.8 million; and other state and federal aid (including grants) approximating \$72.7 million.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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	ECFSA	Other Governmental Funds	Total
Real Property taxes, interest, penalties and liens	\$ 29,559	\$	\$ 27,143	\$ 56,702
Sales Tax		33,485		33,485
Federal & State Assistance for DSS	74,778			74,778
Other Federal & State Aid	54,514		18,138	72,652
Assumed from ECMC	9			9
Loan	2,250			2,250
Other	7,677		39,875	47,552
Gross receivables	168,787	33,485	85,156	287,428
Less: allowances for uncollectibles	9,730			9,730
Total receivables	<u>\$ 159,057</u>	<u>\$ 33,485</u>	<u>\$ 85,156</u>	<u>\$ 277,698</u>

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).

(000's omitted)

Receivables - Proprietary Funds	Community College	Nonmajor Fund	Total
Accounts receivable	\$ 4,993	\$ 2,811	\$ 7,804
Other	2,558	8,320	10,878
Gross receivables	7,551	11,131	18,682
Less: allowances for uncollectibles	4,045		4,045
Total receivables	<u>\$ 3,506</u>	<u>\$ 11,131</u>	<u>\$ 14,637</u>

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

VIII - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

A. Primary Government

1. Governmental Activities

(000s omitted)

	Balance 1/1/05	Increases	Decreases	Balance 12/31/05
Capital assets, not being depreciated:				
Land	\$ 28,040	\$ 524	\$	\$ 28,564
Construction in progress	112,044	19,042	(69,733)	61,353
Total capital assets, not being depreciated	<u>140,084</u>	<u>19,566</u>	<u>(69,733)</u>	<u>89,917</u>
Capital assets, being depreciated:				
Buildings and improvements	380,084	69,241		449,325
Transportation network	400,492	3,211		403,703
Sewer network	219,511	7,638		227,149
Improvements other than buildings	14,894	2,325		17,219
Machinery and equipment	84,035	6,487	(1,803)	88,719
Total capital assets, being depreciated	<u>1,099,016</u>	<u>88,902</u>	<u>(1,803)</u>	<u>1,186,115</u>
Less accumulated depreciation for:				
Buildings	(181,491)	(11,170)		(192,661)
Transportation network	(143,653)	(17,352)		(161,005)
Sewer network	(58,275)	(3,428)		(61,703)
Improvements other than buildings	(5,573)	(706)		(6,279)
Machinery and equipment	(38,904)	(7,830)	1,674	(45,060)
Total accumulated depreciation	<u>(427,896)</u>	<u>(40,486)</u>	<u>1,674</u>	<u>(466,708)</u>
Total capital assets, being depreciated, net	<u>671,120</u>	<u>48,416</u>	<u>(129)</u>	<u>719,407</u>
Governmental activities capital assets, net	<u>\$ 811,204</u>	<u>\$ 67,982</u>	<u>\$ (69,862)</u>	<u>\$ 809,324</u>

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

(000s omitted)

Governmental activities:	
General government	\$ 10,188
Public safety	3,843
Health	394
Transportation	19,052
Economic assistance and opportunity	152
Culture and recreation	1,142
Education	1,728
Home and community service	3,987
Total governmental activities depreciation expense	<u>\$ 40,486</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

VIII - CAPITAL ASSETS (Continued)

A. Primary Government (Concluded)

2. Community College

	(000s omitted)			Balance 8/31/05
	Balance 9/1/04	Increases	Decreases	
Capital assets, not being depreciated:				
Construction in Progress	_____	\$ 138	_____	138
Capital assets, being depreciated:				
Building Improvements	\$ 266	302	\$ -	\$ 568
Land improvements		64		64
Equipment	22,970	2,019	(1,311)	23,678
Library collections	2,686	264	(283)	2,667
Total capital assets, being depreciated	<u>25,922</u>	<u>2,649</u>	<u>(1,594)</u>	<u>26,977</u>
Less accumulated depreciation for:				
Building improvements		(54)		(54)
Land improvements		(2)		(2)
Equipment	(17,877)	(2,345)	1,298	(18,924)
Library collections	(1,375)	(254)	269	(1,360)
Total accumulated depreciation	<u>(19,252)</u>	<u>(2,655)</u>	<u>1,567</u>	<u>(20,340)</u>
Total capital assets, being depreciated, net	<u>6,670</u>	<u>(6)</u>	<u>(27)</u>	<u>6,637</u>
Community College capital assets, net	<u>\$ 6,670</u>	<u>\$ 132</u>	<u>\$ (27)</u>	<u>\$ 6,775</u>

Depreciation expense for the Community College was \$2,655 for the year ended August 31, 2005.

B. Component Units

1. ECMCC

	(000s omitted)			Balance 12/31/05
	Balance 1/1/05	Increases	Transfers/ Retirements	
Capital assets, not being depreciated:				
Construction in Progress	\$ 668	\$ 4,784	\$ (4,350)	\$ 1,102
Capital assets, being depreciated:				
Land improvements	2,810			2,810
Building	204,524	2,249		206,773
Fixed Equipment	3,271		(6)	3,265
Major moveable equipment	104,047	5,509		109,556
Total capital assets - being depreciated	<u>314,652</u>	<u>7,758</u>	<u>(6)</u>	<u>322,404</u>
Less accumulated depreciation	<u>(240,616)</u>	<u>(10,826)</u>		<u>(251,442)</u>
Total capital assets, being depreciated, net	<u>74,036</u>	<u>(3,068)</u>	<u>(6)</u>	<u>70,962</u>
ECMCC capital assets, net	74,704	1,716	(4,356)	72,064
Add: Foundation capital assets, net	2	(1)		1
Total ECMCC component unit capital assets \$	<u>74,706</u>	<u>\$ 1,715</u>	<u>\$ (4,356)</u>	<u>\$ 72,065</u>

Depreciation expense for ECMCC and the Foundation was \$10,827 for the year ended December 31, 2005.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

VIII - CAPITAL ASSETS (Concluded)

B. Component Units (Concluded)

2. Library

	(000s omitted)			Balance 12/31/05
	Balance 1/1/05	Increases	Decreases	
Capital assets, not being depreciated:				
Rare book collection	\$ 8,635	\$ 1,327	\$	\$ 9,962
Capital assets, being depreciated:				
Machinery, Equipment and Library materials	66,337	2,156	(3,931)	64,562
Less accumulated depreciation for:				
Machinery, Equipment and Library materials	(54,817)	(4,519)	3,431	(55,905)
Total capital assets, being depreciated, net	11,520	(2,363)	(500)	8,657
Library Component Unit capital assets, net	<u>\$ 20,155</u>	<u>\$ (1,036)</u>	<u>\$ (500)</u>	<u>\$ 18,619</u>

Depreciation expense for the Library was \$4,519 for the year ended December 31, 2005.

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)			Total
	General Fund	ECFSA General	Other Governmental Funds	
Payables - <u>Governmental Funds</u>				
Accounts payable	\$ 9,613	\$ 55	\$ 12,315	\$ 21,983
Other governments	14,646		430	15,076
Health and social service programs and agencies	35,412		456	35,868
Retained percentages	10		3,973	3,983
Salaries & fringes	21,365		1,823	23,188
Other	2,306		6,638	8,944
Total payables	<u>\$ 83,352</u>	<u>\$ 55</u>	<u>\$ 25,635</u>	<u>\$ 109,042</u>

	Community College	Nonmajor Fund	Total
	Payables - <u>Proprietary Funds</u>		
Accounts payable	\$ 1,627	\$ 5,724	\$ 7,351
Salaries & fringes	6,386	6	6,392
Other	4,376	2,642	7,018
Total payables	<u>\$ 12,389</u>	<u>\$ 8,372</u>	<u>\$ 20,761</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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:

Year	Contribution Amount		
	County - ERS	Library Component Unit - ERS	ECMCC Component Unit - ERS
2005	\$ 40,262,056	\$ 2,146,835	\$ 12,500,000
2004	36,060,871	1,860,405	14,900,000
2003	38,204,959	1,755,314	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 and 2005, the annual payment was due on February 1, 2005 and February 1, 2006 respectively.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

X – RETIREMENT PLANS (Continued)

A. New York State and Local Employees' Retirement System (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 were 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. In 2005, New York State required the County to apply all remaining credits amounting to \$7,133,130 against its 2005 contribution requirement.

The total unpaid amount for the 17-year portion of the retirement liability at the end of the fiscal year was \$3,407,899 of which \$3,251,022 is reported as Governmental Activities, and \$156,877 is reported by the Library component unit.

B. Teachers' Insurance and Annuity Association - College Retirement Equities Fund

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.

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 2005 fiscal year were \$1,943,392 and \$484,580, respectively. The total unpaid balance of this retirement liability at the end of the College's fiscal year was \$76,739.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

X – RETIREMENT PLANS (Continued)

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
2005	\$ 494,634
2004	353,139
2003	212,443

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

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, 2005, is an estimated \$859,113 of which \$172,095 was charged to expenses in the current fiscal year and \$416,947 remained unpaid at August 31, 2005. 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 \$1,171,796.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

X – RETIREMENT PLANS (Concluded)

D. Summary of Retirement Plan Liabilities:

Retirement Plan/ Description	Governmental Activities	Business-type Activities	(000s omitted)			Reporting Entity Total
			Primary Government Total	Library Component Unit	ECMCC Component Unit	
<u>ERS</u>						
Regular	\$ 37,906	\$ 882	\$ 38,788	\$ 2,147	\$ 12,500	\$ 53,435
Total	<u>37,906</u>	<u>882</u>	<u>38,788</u>	<u>2,147</u>	<u>12,500</u>	<u>53,435</u>
<u>TRS</u>						
Regular		755	755			755
Early Retirement		417	417			417
Total	<u>0</u>	<u>1,172</u>	<u>1,172</u>	<u>0</u>	<u>0</u>	<u>1,172</u>
<u>TIAA-CREF</u>						
Regular		77	77			77
Total	\$ <u>37,906</u>	\$ <u>2,131</u>	\$ <u>40,037</u>	\$ <u>2,147</u>	\$ <u>12,500</u>	\$ <u>54,684</u>

The County and its component units, with the exception of ECMCC, has recorded the retirement liabilities as long-term liabilities on the statement of net assets. ECMCC retirement liabilities are reflected in the statement of net assets as an accrued liability.

XI – CONSTRUCTION COMMITMENTS

The County has a number of active construction projects at December 31, 2005. The amounts spent to date and remaining commitments (encumbrances) presented by major project groupings are as follows:

Projects	(000s omitted)	
	Spent-to-date	Remaining Commitment
General Government Buildings, Equipment and Improvements	\$ 477,549	\$ 10,359
Highways, Roads, Bridges and Equipment	104,793	6,628
Sewers, Facilities Equipment and Improvements	170,107	6,159
Special Capital Projects	22,779	226
ECMC Capital Projects	11,216	3,326 *
Total	\$ <u>786,444</u>	\$ <u>26,698</u>

* The County has additional future capital commitments related to the ECMCC Sale Agreement, as amended, totaling approximately \$19,800,000 at December 31, 2005.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES

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, 2005:

(000s omitted)								
Description	Issue	Maturity	Interest Rate	Balance 1/1/05	Additions	Reductions	Balance 12/31/05	Due Within One Year
Serial Bonds	1983	2008	9.60-10.00%	\$ 600	\$	150	\$ 450	\$ 150
"	1991	2006	6.10-6.40	781		415	366	366
"	1992	2006	2.50-8.00	1,566		790	776	776
"	1992	2012	4.25-7.65	8,383		1,651	6,732	1,631
"	1993	2013	3.30-5.25	831		105	726	50
"	1993	2013	Zero Coupon	4,923		910	4,013	1,000
"	1994	2009	4.90-6.50	2,775		1,665	1,110	555
"	1995	2015	4.40-5.60	4,230		3,200	1,030	515
"	1995	2025	4.10-5.63	20,860		20,275	585	585
"	1996	2011	4.30-6.00	5,634		3,912	1,722	992
"	1996	2015	0.00	787		65	722	66
"	1997	2017	3.75-5.35	475		35	440	35
"	1997	2012	4.50-5.50	7,951		1,013	6,938	994
"	1997	2009	4.50-5.25	1,678		409	1,269	399
"	1997	2007	4.50-4.80	228		78	150	77
"	1998	2017	3.70-5.15	455		30	425	30
"	1998	2013	4.25-5.00	7,620		881	6,739	883
"	1999	2018	3.48-5.42	180		10	170	10
"	1999	2018	0.00	86		7	79	6
"	1999	2019	4.375-5.75	17,639		11,944	5,695	1,424
"	1999	2019	5.125-6.00	2,135		95	2,040	100
"	2000	2018	3.80-5.92	175		10	165	10
"	2000	2029	5.25-6.00	25,462		16,486	8,976	1,314
"	2000	2020	5.25-5.70	565		35	530	35
"	2000	varies**	varies**	240,130		240,130	0	0
"	2001	2031	2.619-5.314	1,920		50	1,870	50
"	2001	2031	0.00	4,481		136	4,345	139
"	2001	2020	2.30-5.00	28,070		2,305	25,765	2,305
"	2001	2021	2.30-5.00	820		50	770	50
"	2002	2031	1.362-5.082	1,306		41	1,265	45
"	2002	2024	2.521-6.181	4,675		175	4,500	180
"	2002	2031	1.333-5.323	957		22	935	25
"	2002	2017	3.00-5.00	56,255		3,230	53,025	3390
"	2002	2022	3.00-5.00	1,155		45	1,110	45
"	2003	2032	1.031-4.901	1,268		33	1,235	35
"	2003	2029	2.549-6.259	15,195		525	14,670	535
"	2003	2032	0.00-0.00	462		17	445	16
"	2003	2020	4.00-5.25	78,447		3,381	75,066	3,520
"	2003	2023	2.00-4.75	2,405		95	2,310	95
"	2003	2032	0.790-4.612	1,199		35	1,164	29
"	2003	2008	3.00-4.00	17,075		4,725	12,350	4,725
Subtotals carried forward				571,839	-	319,166	252,673	27,187

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

A. Bonded Indebtedness (Continued)

				(000s omitted)				
Description	Issue	Maturity	Interest Rate	Balance 1/1/05	Additions	Reductions	Balance 12/31/05	Due Within One Year
Subtotals brought forward				571,839		319,166	252,673	27,187
Serial Bonds	2004	2015	2.50-5.250	18,415			18,415	1,545
"	2004	2033	1.02-4.63	1,072		25	1,047	25
"	2004	2024	3.25-5.25	79,695			79,695	5,445
"	2005	2034	1.56-4.57		3,435	119	3,316	85
"	2005	2033	2.06-4.13		2,660	150	2,510	70
"	2005	2020	4.45-5.00		62,570		62,570	
"	2005	2035	3.50-5.00		12,215		12,215	250
"	2005	2012	5.50		22,650		22,650	
"	2005	2025	3.50-4.50		53,970		53,970	115
"	2005	varies	varies		318,835		318,835	
				671,021	476,335	319,460	827,896	\$ 34,722
Remaining unamortized:								
discount on zero coupon bonds				(725) *		(195)	(530) *	
discount on ETASC bonds					(11,247)	(23)	(11,224)	
premium on bond issuance				20,913	4,970	1,534	24,349	
deferred amount on refunding					(2,338)		(2,338)	
deferred amount on refunding-ETASC					(25,954)	(286)	(25,668)	
Bonds payable for financial statement purposes				\$ 691,209	\$ 441,766	\$ 320,490	\$ 812,485	

* Amount of unamortized discount on zero coupon bonds at issue date was \$3.348 million. Of this amount, \$2.623 million and \$0.195 million have been amortized in the prior and current years, respectively.

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

The following is a summary of bonded indebtedness:

				(000s omitted)			
	Balance 1/1/05	Additions	Reductions	Balance 12/31/05			
Governmental Activities	\$ 670,191	\$ 476,335	\$ 319,253	\$ 827,273			
Remaining unamortized:							
discount on zero coupon bonds				(725)		(195)	(530)
discount on ETASC bonds					(11,247)	(23)	(11,224)
premium on bond issuance				20,906	4,970	1,531	24,345
deferred amount on refunding					(2,338)		(2,338)
deferred amount on refunding-ETASC					(25,954)	(286)	(25,668)
Bonds payable for financial statement purposes				\$ 690,372	\$ 441,766	\$ 320,280	\$ 811,858

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

A. Bonded Indebtedness (Concluded)

(000s omitted)

	Balance 1/1/05	Additions	Payments	Balance 12/31/05
Library Component Unit	\$ 830	\$	\$ 207	\$ 623
Remaining unamortized premium on bond issuance	7	—	3	4
Bonds payable for financial statement purposes	\$ 837	\$ 0	\$ 210	\$ 627

B. Erie Tobacco Asset Securitization Corporation (a Blended Component Unit)

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 and \$49,340,000 Tobacco Settlement Asset Backed Bonds Series 2000B. 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 Master Settlement Agreement ("MSA") and Consent Decree and Final Judgment (the "Decree").

On August 15, 2005, ETASC issued \$318,834,680 in Tobacco Settlement Asset-Backed Bonds with interest rates ranging from 5.0% to 6.75% to advance refund \$239,060,000 of outstanding Series 2000 Tobacco Settlement Asset-Backed bonds bearing interest rates ranging from 5.0% to 6.5% originally issued in 2000. The net proceeds amounted to \$305,330,026 after original issuance discount and payment of \$13,504,654 for underwriting fees, insurance, and other issuance costs, of which \$267,037,311 was used to fund an irrevocable trust to defease the remaining original bonds. This transaction enabled the ETASC to release \$55,231,709 in previously restricted funds for debt service and trapping events to the County.

As a result, the original liability has been removed from the financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,953,936. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2039. The refunding increases the total debt service over the next 50 years by \$121,875,200 resulting in an economic loss of approximately \$31,392,350 at net present value.

On September 15, 2005, ETASC entered into an agreement with the bondholders to replace the government securities in the irrevocable trust with government agency securities. This transaction generated a savings of \$2,802,806. Of this, \$1,331,893 was transferred to the County and the remainder less costs of sale was paid to the bondholders for their concessions.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

B. Erie Tobacco Asset Securitization Corporation (a Blended Component Unit) (Continued)

The payment of the Series 2005 Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the participating cigarette manufacturer's in the MSA. Such bonds are secured by and payable solely from TSRs 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.

The ETASC has covenanted to apply 100% of all surplus revenues (defined as revenues which are in excess of Indenture requirements for the funding of operating expenses and deposits in the Debt Service account maintained for the funding of interest, principal and other items) to the special mandatory par redemption ("Turbo Redemptions") of Series 2005 Bonds in order of their maturity dates, beginning June 1, 2006.

Interest on the Series 2005A and E Bonds are payable each June 1 and December 1. Interest on the Series B, C, and D bonds accrue throughout the life of the bonds but are payable at redemption. Series 2005B, C, and D Bonds are zero coupon bonds and are subject to redemption at the option of ETASC beginning in years after 2016.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

B. Erie Tobacco Asset Securitization Corporation (a Blended Component Unit) (Continued)

Details of long-term debt are as follows:

		\$318,834,680		
		Term Bond		
<u>Amount</u>	<u>Rate</u>	<u>Description</u>	<u>Projected Final Turbo</u>	<u>Redemption Date</u>
\$ 30,330,000	5.000%	Series 2005A Bonds Due June 1, 2031 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015		June 1, 2018
\$ 74,685,000	5.000%	Series 2005A Bonds Due June 1, 2038 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015		June 1, 2022
\$ 111,480,000	5.000%	Series 2005A Bonds Due June 1, 2045 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015		June 1, 2027
\$ 9,163,000	5.750%	Series 2005B Bonds Due June 1, 2047 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%		June 1, 2027
\$ 12,565,080	6.250%	Series 2005C Bonds Due June 1, 2050 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%		June 1, 2029
\$ 11,141,600	6.750%	Series 2005D Bonds Due June 1, 2055 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%		June 1, 2032
\$ 69,470,000	6.000%	Series 2005E Taxable Bonds Due June 1, 2028 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015		June 1, 2016

Changes in bonds payable for the year ended December 31, 2005 is as follows:

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

B Erie Tobacco Asset Securitization Corporation (a Blended Component Unit) (Concluded)

Bonds payable at January 1, 2005	\$ 240,130,000
Principal payments during 2005	(1,070,000)
Bonds issued	318,834,680
Bonds defeased	(239,060,000)
Bonds payable at December 31, 2005	<u>\$ 318,834,680</u>

The amount reflected in the statement of net assets for ETASC's bonds payable is net of unamortized discount on the sale of bonds of \$11,224,315 and loss on defeasance of \$25,667,736.

The ETASC's debt service requirements based upon the due dates excluding turbo redemption payments is as follows:

Twelve months ended December 31	Principal	Interest	Total Debt Service
2006	\$ -	\$ 14,992,950	\$ 14,992,950
2007	-	14,992,950	14,992,950
2008	-	14,992,950	14,992,950
2009	-	14,992,950	14,992,950
2010	-	14,992,950	14,992,950
2011-2015	-	74,967,750	74,967,750
2016-2020	-	74,964,750	74,964,750
2021-2025	-	74,964,750	74,964,750
2026-2030	69,470,000	64,544,250	134,014,250
2031-2035	30,330,000	47,299,500	77,629,500
2036-2040	74,685,000	37,205,625	111,890,625
2041-2045	111,480,000	25,083,000	136,563,000
2046-2050	21,728,080	56,811,838	78,539,918
2051-2055	11,141,600	37,226,871	48,368,471
	<u>\$ 318,834,680</u>	<u>\$ 568,033,084</u>	<u>\$ 886,867,764</u>

C. Erie County Medical Center Corporation (a Discretely Presented Component Unit)

Long-term Debt—The following is a summary of long-term bonded debt at December 31, 2005:

Erie County—Guaranteed Senior Revenue Bonds, Series 2004 (interest of 4.1% to 5.7%)	<u>\$ 101,375,000</u>
--	-----------------------

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII – LONG-TERM LIABILITIES (Continued)

**C. Erie County Medical Center Corporation (a Discretely Presented Component Unit)
(Concluded)**

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 Liabilities

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

1. Due to Retirement Systems

As further explained in Note X, retirement liabilities at December 31, 2005 for amounts due in 2006 and future years are reported in the government-wide financial statements as follows:

	(000s omitted)		
	<u>Primary Government</u>	<u>Component Units</u>	<u>Reporting Entity</u>
Retirement Liability Outstanding at year-end	\$ 40,037	\$ 14,647	\$ 54,684
Less: Due within one year	<u>25,518</u>	<u>1,422</u>	<u>26,940</u>
Due in more than one year	<u>\$ 14,519</u>	<u>\$ 13,225</u>	<u>\$ 27,744</u>

2. Compensated Absences

The value recorded in the government-wide financial statements at December 31, 2005, for governmental activities is \$22,109,676. 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 \$4,149,157 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 \$8,100,000 have been reported as an accrued liability. Compensated absences of the Library component unit totaling \$1,243,544 have been reported as an accrued liability since its annual budget provides funding for these benefits as they become payable.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

D. Other Long-Term Liabilities (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 \$44,117,172 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 \$3,700,000 has been accrued at December 31, 2005 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 Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2005:

1. Governmental Activities

(000s omitted)

	<u>Balance</u> <u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable for financial statement purposes	\$ 690,372	\$ 441,766	\$ 320,280	\$ 811,858	\$ 34,514
Due to New York State and Local Employees'					
Retirement System	34,712	27,006	23,812	37,906	23,785
Compensated absences	25,797	11,947	15,634	22,110	12,455
Judgments and claims	39,929	24,271	20,083	44,117	12,198
Governmental activity Long-term liabilities	<u>\$ 790,810</u>	<u>\$ 504,990</u>	<u>\$ 379,809</u>	<u>\$ 915,991</u>	<u>\$ 82,952</u>

* Includes \$0.195 million representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is \$0.530 million.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

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

2. Business-Type Activities

(000s omitted)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Retirement Liabilities	\$ 2,310	\$ 4,818	\$ 4,891	\$ 2,237 *	\$ 1,752 *
Compensated Absences	<u>3,815</u>	<u>491</u>	<u>157</u>	<u>4,149</u>	<u>215</u>
Business-type activity					
Long-term liabilities	<u>\$ 6,125</u>	<u>\$ 5,309</u>	<u>\$ 5,048</u>	<u>\$ 6,386</u>	<u>\$ 1,967</u>

* Includes \$0.106 million of Retirement Incentive Wages and Fringe Benefits, of which \$0.019 million is due within one year.

3. Library Component Unit

(000s omitted)

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Bonds Payable for Financial Statement Purposes	\$ 837	\$	\$ 210	\$ 627	\$ 208
Due to New York State and Local Employees' Retirement System	<u>1,860</u>	<u>1,702</u>	<u>1,415</u>	<u>2,147</u>	<u>1,422</u>
Compensated Absences	<u>1,551</u>	<u>544</u>	<u>851</u>	<u>1,244</u>	<u>711</u>
Library Component Unit					
Long-term liabilities	<u>\$ 4,248</u>	<u>\$ 2,246</u>	<u>\$ 2,476</u>	<u>\$ 4,018</u>	<u>\$ 2,341</u>

4. ECMCC Component Unit

(000s omitted)

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Bonds Payable for Financial Statement Purposes	\$ 101,375	\$	\$	\$ 101,375	\$
Judgments and Claims	<u>2,500</u>	<u>1,200</u>	<u></u>	<u>3,700</u>	<u></u>
ECMCC Component Unit					
Long-term liabilities	<u>\$ 103,875</u>	<u>\$ 1,200</u>	<u>\$ 0</u>	<u>\$ 105,075</u>	<u>\$ 0</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

F. Maturity Schedules

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

Year	Total	Serial Bonds	(000s omitted)		
			Retirement	Compensated Absences	Judgments & Claims
2006	\$ 84,919	\$ 34,514	\$ 25,537	\$ 12,670	\$ 12,198
2007	41,265	39,489	1,776		
2008	39,455	37,801	1,654		
2009	37,115	35,509	1,606		
2010	36,153	34,451	1,702		
2011-2015	165,296	163,492	1,804		
2016-2020	126,018	124,106	1,912		
2021-2025	24,816	23,499	1,317		
2026-2030	81,248	79,865	1,383		
2031+	255,999	254,547	1,452		
Various*	45,508			13,589	31,919
	<u>937,792</u>	<u>827,273</u>	<u>\$ 40,143</u>	<u>\$ 26,259</u>	<u>\$ 44,117</u>
	(530)	(530)	Remaining unamortized discount on zero coupon bonds		
	(11,224)	(11,224)	Discount on ETASC bonds		
	24,345	24,345	Remaining unamortized premium of bond issuance		
	(2,338)	(2,338)	Remaining unamortized deferred amount on refunding		
	<u>(24,119)</u>	<u>(25,668)</u>	Deferred amount on refunding ETASC		
	<u>\$ 923,926</u>	<u>\$ 811,858</u>	Long-term liabilities for financial statement purposes		

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

2. Annual Interest Payments Due on Serial Bonds

Year	(000s omitted)		
	Primary Gov't Amount	Component Unit Library	Component Unit ECMCC
2006	\$ 38,215	\$ 22	\$ 5,562
2007	37,320	16	5,562
2008	35,565	8	5,562
2009	33,824		5,561
2010	32,197		5,476
2011-2015	136,227		25,792
2016-2020	99,260		22,180
2021-2025	81,573		17,278
2026-2030	66,945		10,710
2031+	204,270		2,381
Totals	<u>\$ 765,396</u>	<u>\$ 46</u>	<u>\$ 106,064</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

F. Maturity Schedules (Concluded)

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

(000s omitted)

Year	Total	Serial Bonds	Retirement	Compensated Absences
2006	\$ 2,341	\$ 208	\$ 1,422	\$ 711
2007	274	208	66	
2008	276	207	69	
2009	73		73	
2010	76		76	
2011-15	441		441	
Various*	533			533
	<u>4,014</u>	<u>623</u>	<u>\$ 2,147</u>	<u>\$ 1,244</u>
	4	4	Remaining unamortized premium of bond issuance	
	<u>\$ 4,018</u>	<u>\$ 627</u>	Long-term liabilities for financial statement purposes	

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

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

(000s omitted)

Year	Total	Serial Bonds	Judgments & Claims
2009	\$ 2,070	\$ 2,070	\$
2010	2,155	2,155	
2011-2015	12,360	12,360	
2016-2020	15,970	15,970	
2021-2025	20,875	20,875	
2026-2030	27,435	27,435	
2031-2035	20,510	20,510	
Various*	3,700		3,700
	<u>105,075</u>	<u>101,375</u>	<u>\$ 3,700</u>
	<u>\$ 105,075</u>	<u>\$ 101,375</u>	Long-term liabilities for financial statement purposes

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

G. 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Continued)

H. Constitutional Debt Limit

The County constitutional debt limit at December 31, 2005 is computed as follows:

	(000s omitted)
Five-Year Average Full Valuation of Taxable Real Estate (2001-2005)	\$ <u>33,624,517</u>
Debt Limit @ 7%	\$ 2,353,716
Net Indebtedness (After Statutory Exclusions)	<u>(548,031) *</u>
Net Debt Contracting Margin	\$ <u>1,805,685</u>
Percentage of Debt Contracting Power Exhausted	23.28%

* Gross indebtedness of \$771.471 million less exclusions of \$223.440 million.

I. Operating Leases

Operating lease obligations are primarily for rental of space. Lease expenditures/expenses for the year were approximately \$5,482,000 for the primary government and \$1,700,000 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
2006	\$ 3,992	\$ 861
2007	1,809	621
2008	1,064	280
2009	501	258
2010	259	250
2011-2015	<u>125</u>	<u>125</u>
Totals	\$ <u>7,625</u>	\$ <u>2,395</u>

J. Defeasance

In December 2005, the County issued \$53,970,000 in General Obligation Bonds to advance refund \$51,610,000 of outstanding bonds. The net proceeds of \$53,948,587 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XII - LONG-TERM LIABILITIES (Concluded)

J. Defeasance (Concluded)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,338,587. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2029. The County completed the advance refunding to reduce its total debt service payments over the next 24 years by \$3,484,426 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$2,693,640.

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 Financial Accounting Standards Board ("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, 2005, excluding blended component units:

(000s omitted)

<u>Description</u>	<u>Balance</u> <u>1/1/05</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance</u> <u>12/31/05</u>
Bond Anticipation Notes	\$ 5,357	\$ 726	\$ 5,048	\$ 1,035
Revenue Anticipation Notes	82,500	160,000	82,500	160,000
Total	\$ <u>87,857</u>	\$ <u>160,726</u>	\$ <u>87,548</u>	\$ <u>161,035</u>

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 consist of two separate \$80,000,000 issues with interest rates of 3.0% and 3.75% 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 \$15,878,159 at December 31, 2005. 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XIV - INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund receivables and payables of the County at December 31, 2005, and the Community College at August 31, 2005, consisted of the following:

		(000's omitted)
<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General Fund	ECFSA	\$ 33,485
	Nonmajor Proprietary Fund	7,292
	Nonmajor Governmental Funds	27,505
	Community College	674
	Agency Fund	725
		<u>69,681</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>1,343</u>
Nonmajor Proprietary Fund	Nonmajor Governmental Funds	<u>1,420</u>
Agency Fund	Nonmajor Governmental Funds	228
	Community College	<u>3,329</u>
		<u>3,557</u>
Community College	General Fund	<u>2,271</u>
Total Receivables		78,272
Less: Timing Differences		<u>5,190</u>
Total Payables		<u>\$ 73,082</u>

Interfund receivables exceed interfund payables by \$5,190,000. This difference represents a Due From Other Funds in the amounts of \$3,322,000 and \$1,868,000 recorded by the County and the College respectively that are not reflected as Due To Other Funds in the corresponding balance sheets because of the difference between the County and the College fiscal year end.

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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XIV - INTERFUND TRANSACTIONS (Continued)

B. Due To/From Component Unit and Primary Government

Amounts due from the Library and the ECMCC Component Units to the Primary Government at December 31, 2005, consisted of the following:

		(000s omitted)
<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government-Agency Fund	Component Unit-Library	\$ <u>588</u>
Primary Government-Nonmajor Governmental Fund	Component Unit-Library	\$ <u>6</u>
Primary Government-General Fund	ECMCC Component Unit	\$ <u>8,300</u>
Primary Government-Nonmajor Proprietary Fund	ECMCC Component Unit	\$ <u>4,225</u>
ECMCC Component Unit	Primary Government-Nonmajor Governmental Fund	\$ <u>6</u>

An amount of \$9,288,000 due from the primary government 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XIV - INTERFUND TRANSACTIONS (Concluded)

C. Interfund Transfers

Interfund transfers for the County for the year ended December 31, 2005, and the Community College for the year ended August 31, 2005, consisted of the following:

		(000s omitted)	
<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>	<u>Purpose - provide financial resources:</u>
General Fund	Nonmajor Governmental Funds	\$ 3,522	For the local share of Grant programs
	Nonmajor Governmental Funds	27,154	For general debt service
	Nonmajor Governmental Funds	370	For highway improvements
	Community College	<u>13,570</u>	To support College operations
		<u>44,616</u>	
ECFSA	General Fund	<u>157,164</u>	For general operations from sales tax receipts
Nonmajor Governmental Funds	General Fund	90,231	For deficit financing
	Nonmajor Governmental Funds	480	To support sewer operations
	Nonmajor Governmental Funds	3,185	For sewer debt service
	Nonmajor Governmental Funds	138	To support community development operations
	Nonmajor Governmental Funds	13,325	For general debt service
	Nonmajor Governmental Funds	31,234	To support various capital projects
	Community College	<u>1,849</u>	For movable equipment
		<u>140,442</u>	
Total Transfers Out		342,222	
Less: Timing Differences		(275)	
Total Transfers In		<u>\$ 341,947</u>	

Transfers Out exceed Transfers In by \$275,000. This difference represents payments made by the County that are not reflected as Transfers In by the College because of the difference between the County and the College fiscal year end.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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, 2005, because they did not meet the criteria for recognition as fund liabilities, amounted to \$44,117,172.

In addition, the County has claims in the range of \$3,585,000 to \$20,806,187 for which there is a reasonable possibility of a future loss. No accrual has been recorded for such possible losses as of December 31, 2005.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XV – CONTINGENCIES (Continued)

A. Self-Insurance Programs (Concluded)

The changes since December 31, 2003 in the reported governmental fund liability for risk financing activities were as follows:

	<u>Beginning of Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Year End</u>
2004	\$ 853,412	\$ -	\$ 853,412	\$ 0
2005	-	600,000	-	600,000

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, 2005, 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 \$125 million for the year ended December 31, 2005. The enabling legislation allowing this additional tax expires February 29, 2008. An added requirement of this legislation is that the County is required to share \$12.5 million of this tax with other local municipalities in 2007. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

D. Supplemental 0.25% Sales Tax

Through legislation approved by the County and the State of New York, the County initiated an additional 0.25% sales and compensating use tax effective July 1, 2005. This tax generated approximately \$14.5 million for the year ended December 31, 2005. The enabling legislation allowing this additional tax expires November 30, 2007. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

E. 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 47% of 2006 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XV – CONTINGENCIES (Concluded)

E. 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.

F. 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, 2005, ECMCC, a component unit of the County has recorded \$3,446,370 as an accrued liability, 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, 2005 and were as follows:

	(000's omitted)				
	General	Other Governmental Funds	Total Primary Government	Library Component Unit	Total Reporting Entity
Designated for:					
Subsequent year's expenditures	\$ 2,676	\$ 11,645	\$ 14,321	\$ 1,900	\$ 16,221
Total Fund Balance Designations	<u>\$ 2,676</u>	<u>\$ 11,645</u>	<u>\$ 14,321</u>	<u>\$ 1,900</u>	<u>\$ 16,221</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

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 \$1,543,484 for the year ended December 31, 2005. The Corporation reported a net revenue available for distribution to participating municipalities of \$1,410,335. In addition, cumulative net revenue retained for capital acquisitions was \$23,997,909 at December 31, 2005. 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. Revenue Anticipation Note Sale

The County issued \$110,000,000 of revenue anticipation notes dated June 13, 2006. These general obligation notes, which have an interest rate of 3.89%, 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 June 13, 2007, 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.

B. Increase of Sales Tax

The County Legislature approved a home rule message requesting approval of the New York State Legislature to raise the sales tax ½% to 8.75%. The New York State Legislature approved the Sales Tax Request in January 2006 and the County Legislature enacted the tax increase effective January 15, 2006. Absent future reauthorization, the increase expires on November 30, 2007.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XVIII – SUBSEQUENT EVENTS (Continued)

C. Bond Sale

On January 5, 2006, ETASC issued \$17.7 million of tobacco settlement asset-backed bonds, Series 2006A. ETASC entered into a purchase and sale agreement with the County on January 1, 2006, in which ETASC purchased the County's sole undivided beneficial interest in and to the trust established by ETASC pursuant to the Declaration and Agreement of Trust dated September 1, 2000 between ETASC and the Wilmington Trust Company ("2000 Residential Trust), in its capacity as trustee, including the County's right to receive residual tobacco settlement revenues payable to the County, as sole beneficiary of the 2000 Residential Trust.

XIX – 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 had been reduced to \$4.9 million at December 31, 2004. The 2005 fiscal year turned that trend around resulting in a \$9.475 million surplus and total fund balance in excess of \$14 million at December 31, 2005.

The 2005 year-end results were a product of a number of actions and initiatives by the County. The inability of the County to implement a 1% additional sales tax effective March 1, 2005 resulted in over 1,000 positions being eliminated from the budget as part of an approximately \$80 million in annualized budget cuts enacted by the County legislature in February and March 2005. A subsequent report issued by the State Comptroller's Office identified that the budget was still out of balance. This resulted in the plan to have ETASC issue approximately \$319 million of tobacco settlement asset-backed bonds, an advance refunding of its 2000 Series issues, with a subsequent transfer of \$90.2 million to the County General Fund to help balance the 2005 budget. Finally, the County enacted a .25% sales tax effective July 1, 2005.

On July 12, 2005, the Governor of the State of New York signed into law legislation creating the Erie County Fiscal Stability Authority ("ECFSA") a seven person State authority that presently advises County leadership on ways to improve the County's fiscal situation. The ECFSA's enabling legislation required the County to prepare and submit to ECFSA a four-year financial plan, which plan must be updated at least once a year.

The ECFSA began its work in an advisory role, and reviewed and approved the four-year financial plan submitted by the County in addition to the 2006 budget in October 2005. During 2006 the County has prepared revisions to the four year plan to address various fiscal changes that impacted the County. ECFSA has requested that a revised four year plan be provided to ECFSA by August 22, 2006.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

XIX – RECENT FINANCIAL DIFFICULTIES (Concluded)

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.

While the County is not required to meet the goals outlined in its financial plan, if it does not meet those objectives, the role of the ECFSA could 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.

* * * * *