

COUNTY OF ERIE, NEW YORK

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**For the Year Ended
December 31, 2002**

**Prepared By:
Erie County Comptroller's Office
NANCY A. NAPLES
County Comptroller**

COUNTY OF ERIE, NEW YORK

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INTRODUCTORY SECTION

This section contains the following:

- LETTER OF TRANSMITTAL
- SUMMARY OF ELECTED OFFICIALS
- ORGANIZATIONAL CHART
- GFOA CERTIFICATE OF ACHIEVEMENT



County of Erie

NANCY A. NAPLES
COMPTROLLER

June 30, 2003

The Erie County Legislature
25 Delaware Avenue
Buffalo, New York 14202

Honorable Joel A. Giambra
Erie County Executive
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members and County Executive Giambra:

The Comprehensive Annual Financial Report ("CAFR") of the County of Erie, New York, for the fiscal year ended December 31, 2002 is submitted in accordance with the requirements of Section 1202 (j) of the Erie County Charter.

INTRODUCTION

Management Representation

This report was prepared by the Erie County Comptroller's Office in conformance with current accounting and financial reporting principles promulgated by the Governmental Accounting Standards Board ("GASB") and the New York State Office of the State Comptroller. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the County of Erie. We believe the data as presented are accurate in all material respects, and are reported in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds. All disclosures have been included that were considered necessary to enable government decision-makers, as well as concerned citizens, to more readily understand and to better evaluate the County's financial operations.

Organization of Report

The CAFR is organized into three basic sections:

1. The INTRODUCTORY SECTION is intended to familiarize the reader with the organizational structure of the County, the nature and scope of the services that it provides, and the specifics of its legal operating environment.

2. The FINANCIAL SECTION includes the independent auditor's report on the basic financial statements, the Management's Discussion and Analysis ("MD&A") of the County's overall financial position and results of operations, the audited basic financial statements, note disclosures, and supporting statements to provide readers with a comprehensive understanding of the County's financial activities of the past fiscal year. This letter is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found on pages 3-14 of this report.
3. The STATISTICAL SECTION contains comprehensive statistical data on the County's physical, economic, social and political characteristics.

The Reporting Entity and Its Services

Consistent with criteria promulgated in the GASB Codification, the financial statement reporting entity includes the County of Erie (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. 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. It has been discretely presented because it is not simply an extension of the primary government (i.e., it has a substantively different governing body, and its services are provided to the general public). Additional detailed information relating to the specific organizations that have been included in the reporting entity as component units, and the basis for making such determinations, are also discussed in Note I (A) to the financial statements.

The County provides a variety of mandated and discretionary services and facilities to its residents covering the areas of culture, parks and recreation, social services, police, libraries, youth, health, senior services, roads, mental health, probation, corrections, emergency services, license bureau, and sanitary sewerage. Additionally, the County operates a community college.

Background Information

Erie County is a metropolitan center covering 1,058 square miles that is located on the western border of New York State, adjacent to Lake Erie. Situated within the County are 3 cities, 25 towns, and 16 villages, including the City of Buffalo, which serves as the County seat, and is the State's second largest city.

The County is a major New York industrial and commercial center, and is favorably located relative to the markets of both the United States and Canada. Access to these markets is enhanced by the fact that the County is among the largest rail centers in the United States; that it is provided trucking services by numerous transcontinental, international and common carriers; and that it is a focal point of international water-borne transportation.

Governmental Structure

Subject to the New York State Constitution, Erie County operates pursuant to the County Charter and Administrative Code. Additionally, various 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 legislative power of the County is vested in a 17-member governing board known as the County Legislature, each member of which is elected for a 2-year term. Principal functions of the Legislature include adoption of the annual budget, levying of taxes, review and approval of budget modifications, adoption of local laws, and authorization of the incurrence of all County indebtedness. In

addition to the members of the Legislature, there are five Countywide elected officials: County Executive, County Comptroller, County Clerk, District Attorney, and Sheriff.

ECONOMIC CONDITION AND OUTLOOK

Following heavy job losses in the manufacturing sector in the early 1980s, the local economy has become more diversified with growth in the financial and service sectors. This diversification has tended to cushion local impacts during economic downturns, but strengthening the local economic base and improving the local economy has been a gradual, sometimes sporadic, process ongoing since the mid-1980s. Continuing high levels of Canadian trade have helped, as has the Free Trade Agreement from which the area is uniquely positioned to benefit.

Unemployment trends in Erie County and the region followed national trends by edging upward in late 2001 and 2002. Erie County's unemployment rate was slightly over 6 percent in early 2002, but dropped slightly in 2003 to 5.7 percent, up from a historic low of 5.0 percent in 2000. Total non-farm employment was 542,900 in the Buffalo-Niagara Falls MSA, down 0.1 percent from 2002.

The Western New York area possesses numerous economic assets that provide significant potential for economic growth and diversification. The region benefits from one of the most comprehensive, state-of-the-art fiber optic networks in the world. Representatives of the region's most progressive corporate entities formed the Buffalo Niagara Enterprise ("BNE") in 2000 with \$27 million in both public and private sector funds to provide a gateway for business inquiries and economic development in the region. Officials of Erie County and other municipalities also continue to work aggressively to promote our economic assets, with an emphasis on attracting selected "high-tech" and service industries, as well as specialty manufacturing. This venture has already made inroads with the Site Selector community, and raised the profile of the Buffalo Niagara Region.

There is also an emphasis on enhancing the "quality of life" and on further developing the region's considerable cultural and recreational potential as another means of attracting and retaining investment and jobs. The County's waterfront is a major resource in this regard, and has been the focus of significant residential and commercial development. Ongoing development of the Erie Canal Harbor area is expected to provide a huge beneficial impact to the region. In 2003, a company owned by the Reichman family of Toronto, which owns London's Canary Wharf and millions of square feet of commercial real estate all across the world, was designated by Erie County as the developer of the Outer Harbor area of Buffalo's waterfront.

In 2003, the Buffalo Sabres National Hockey League franchise was purchased by B. Thomas Golisano, founder and principal shareholder of Paychex, Inc. This positive resolution to the Sabres issue keeps the anchor tenant in the HSBC Arena ("Arena"), which opened in downtown Buffalo in 1996. Public and private financing was used for this \$120 million project, which will, under the new Sabres management team, expand its bookings for major entertainment events. The Arena is home to the National Lacrosse League's Buffalo Bandits, and Arena Football League's Buffalo Destroyers, as well as the site of college basketball and future NCAA basketball tournament events.

Recent development in the theater district in downtown Buffalo has made this area an increasingly vital center of activity. Recent expansion of the backstage area of the historic Shea's Center for the Performing Arts provides a world-class venue for even the biggest of Broadway musicals and plays, and has complimented new activity in the district. In 2001, the new Andrews Irish Classical Theatre added another venue to the district. In 2002, the Market Arcade Film and Arts Center debuted directly adjacent to the Andrews.

The Free Trade Agreement with Canada has provided a positive economic impact on the County. Most analysts agree that the Buffalo area should continue to be a major American beneficiary of business investment and job creation resulting from the pact, due to its strategic location near the center of

Canadian commerce, industry, and population. The State University of New York at Buffalo established and manages the Canada-United States Trade Center devoted to the study of Canada-United States economic interactions and the development of the trade and investment corridor between Western New York and Southern Ontario.

To enhance its foreign trade opportunities, the County entered into a first-of-its-kind agreement with the Erie County Industrial Development Agency ("ECIDA"), the City of Buffalo, and the Export-Import Bank and established an Export Office in 1996. The Export Office conducts trade missions overseas and secures export loans through the Export-Import Bank for local companies. Beginning in 1998, the County has consistently provided funding for international trade development to assist local businesses in expanding their markets. In 2000, the World Trade Center Buffalo Niagara, formally known as the Niagara International Trade Council, became an official affiliate of the World Trade Center. Trade information, networking, and other services are now available to all members.

The resistance of the local economy to the worst effects of recessions, and the success to date of economic development activities, has had a positive influence on the County's finances. While the cities in the County have experienced some stagnation or erosion of their tax bases, overall the local tax base has continued to slowly grow. Additionally, in 2002 as in 2001, the County's sales tax revenue reflected positive growth.

Due to Erie County's aggressive new intervention and intake-screening measures implemented in 2000, the need for public assistance and support has declined significantly. Welfare caseloads have declined significantly from December 1994 highs of 33,033 to 11,860 in 2003. Since 2000, over 75 percent of those applying for welfare are diverted to subsidized employment, to job-training or to other means of income support. Child Support collections have grown by 22 percent.

The County budget provides aid for the County's three cities, which have not shared proportionally in benefits from the region's economic growth. The County Administration has aggressively pursued inter-municipal agreements as a means of achieving streamlined service-delivery systems. At the County's request, a private-sector panel called the "Who Does What?" Commission was established in 2000 to study governments in Erie County and has made recommendations for consolidating and streamlining government services across the County. County government has provided grants to municipalities that undertake cooperative projects that will lead to service improvements and/or a lower overall cost in public services. For example, the City of Tonawanda and the Village of Lancaster have successfully consolidated their water systems with the Erie County Water Authority, while the County facilitated police consolidations between the Village and Town of Lancaster and between the Village of Angola and the Town of Evans.

As the City of Buffalo faces the mid-2003 imposition of a state-created Financial Control Board, Erie County government is prepared to facilitate the consolidation of water, wastewater, information technology, public safety and financial reporting and control systems so that the region's largest municipal corporation can meet financial targets.

A number of activities have been developed that are targeted at strengthening the cities and urban centers throughout the County. The City of Buffalo, in 2002, was completing its Downtown Buffalo Master plan, which includes components such as transportation, tourism, downtown housing, entertainment, and cultural activities. Planning and identification of funding sources are ongoing in the development of the 72-acre Buffalo Niagara Medical Campus and for the Buffalo Center for Excellence in Bioinformatics. Erie County's investment of \$5 million in the Buffalo School District capital improvement effort starting in 2001 will leverage more than \$500 million in new school construction, providing both new education infrastructure and enduring economic stimulus to the region.

In the 2003 Erie County budget, an unprecedented \$50 million of new capital investment in bridge, culvert and road repair was authorized. The County investment leverages approximately \$50 million more in state and federal infrastructure capital. The total employment impact for the construction period is an additional 1,400 jobs.

An important project undertaken by Erie County, since 2002, is a commitment to a new enterprise software system that will reduce the need for approximately 200 mid-level administrative employees and result in better financial, personnel and inventory controls.

In October 2001, the County Executive earmarked \$1 million of Erie County's annual federal block grant budget for southern Erie County villages, to assist in the revitalization of Erie County's village, town, and hamlet communities.

Erie and Niagara Counties embarked on an effort to create a bi-county Framework for Regional Growth in April 2002. This framework will provide basic policies and principles to guide the future growth and redevelopment of the region. The plan will include policies for issues such as cities and urban centers, economic development and general land use. The plan will also include participation and adoption by multi-county agencies within the region.

The County of Erie will continue to benefit from this positive economic outlook, with a modestly growing tax base to support essential services. Medicaid relief continues to be critical for counties, as it constitutes the single costliest mandated program. Although Medicaid costs declined for several years, due to the expansion of managed care options, these favorable impacts are now fully realized and Medicaid costs have begun to grow in the past year.

The outlook for continued economic health and net job creation in the region remains positive. The regional economy is expected to slowly continue to grow, with related gains in employment.

Significant Private Investments in Erie County

- General Motors Powertrain Engine Plant, River Road, Tonawanda - \$800 million
 - Invested \$500 million to produce inline four- and five- cylinder engines which are now in pilot production; full production by July 2003.
 - In April 2003, announced it would invest another \$300 million to produce a new V-6 engine for mid-size cars; with production to begin in early 2005.
 - County reconstruction of Kenmore and Vulcan will be complete this year.
- Praxair, Tonawanda
 - \$35 million investment in renovating and equipping its 26-building campus over the last three years.
 - Initial phase of an over \$10 million plan to invest in new R&D facilities.
 - Transfer-in from other facilities of over 30 PhD-level employees.
- Fisher Price, a unit of Mattel, Inc.
 - In May 2003, the Erie County Industrial Development Agency approved a \$1.4 million sales tax waiver for Fisher-Price to invest \$17.5 million in computers and other non-production equipment at its East Aurora headquarters. The East Aurora campus employs 813 local residents, principally in design and marketing.
- M&T Bank
 - The bank announced in March 2003 that it had leased another 50,000 square feet of office space in the Lafayette Court building in downtown Buffalo to accommodate nearly 300 new employees from its acquisition of Allfirst Financial.
- Mod-Pac Corp. - printing and packaging company
 - Since 2001, invested \$20 million on new equipment and other improvements for Buffalo and Blasdell facilities. The company has 323 employees in Buffalo and Blasdell.

MAJOR INITIATIVES

Tobacco Settlement Securitization

Erie County successfully securitized its share of the payouts to which it would be entitled from the 1998 Master Settlement Agreement between 46 states and 6 other United States jurisdictions and the 4 largest United States Tobacco manufacturers. The County sold its rights to tobacco settlement revenues to the Erie Tobacco Asset Securitization Corporation ("ETASC"), which is a special purpose local development corporation organized under the New York Not-for-Profit Corporation Law. ETASC is an instrumentality of, but separate from, the County. The bonds issued by ETASC to provide funds to purchase the County's tobacco asset are not a debt of the County, nor is the County liable therefor. Neither the credit, nor the revenues or taxing power of the County has been pledged to the payment of the ETASC bonds. This securitization yielded \$211.7 million in net proceeds, which were placed in trust, the proceeds of which are being used to finance capital projects of the County.

Property Tax Relief

In the 2003 Budget as enacted, the Erie County property tax levy is \$69 million or 31 percent lower than the County property tax levy of 1999. The new County Administration implemented this policy change because of mounting evidence that Erie County was experiencing depopulation and disinvestment due, at least in part, to an unfavorable local tax burden.

Business Development and Job Growth

Graphic Controls constructed a new manufacturing facility on Exchange Street in downtown Buffalo in 2000-01. The 300,000 square foot facility is now occupied and over 300 jobs have been retained in Erie County.

In early 2003, building on major investments announced in 2001, General Motors ("GM") broke new ground again for its new engine plant at the Tonawanda Engine Facility. The new plant will manufacture high-tech four- and five-cylinder engines for trucks and SUVs. This 700,000 square foot plant represents an investment of \$500 million by GM and follows its investment of \$300 million in the new L850 engine, which is produced at Tonawanda. Both of these projects mean that the Tonawanda Engine Plant remains the largest engine manufacturing facility in the world and solidifies the over 4,000 jobs at the plant. The building is nearing completion and machinery is being installed. Full production of engines will occur in 2003.

In November 2001, Rich Products announced that the company would invest \$35 million to upgrade its Buffalo operations and create 250 jobs within five years. This project was assisted by an incentive package offered by the State and County. The County has invested in Rich Products with a \$375,000 grant, which will be used for training purposes.

In September 2001, FedEx Corporation announced it would expand its international trade services business, Tower Group International, and add at least 190 jobs. The County provided a \$237,500 training grant as part of an incentive package that included the State and ECIDA.

Administrative Consolidation

The County has sought to achieve administrative efficiencies both within and outside of County government. Among the initiatives sought since 2000, the County enacted, by public referendum, the administrative consolidation of the Erie County Holding Center with the Erie County Correctional Facility. Several other intragovernmental consolidation efforts have been completed or are underway.

As mentioned previously, the Countywide Who Does What? Commission was impaneled and reported its recommendations. Local governments, including Erie County, are now implementing various recommendations for cost-saving collaboration among the municipal entities in the County.

Responding to the recommendation of the Who Does What? Commission to explore pooled investment options available to municipalities, the County Comptroller performed a survey of investment options used by Erie County municipalities. As a result, working with local banks, a new "Erie County High-Yield Money Market Account," administered by JPMorgan Chase Bank, was created and offered to each of 108 cities, towns, villages, school districts, fire districts, and Board of Cooperative Education Services in Erie County.

In 2003, major reorganizations in the County's various social and human service agencies will be implemented, following the completion of the "Blueprint for Change" process undertaken in 2000. Facilitated in part by a top-to-bottom restructuring of the County's Information Technology systems, the reorganization will result in a significant reduction in the need for mid-level administrative personnel, with a reduction in force projected to be near 200.

Cultural Tourism Promotion and Attraction Development

The County Administration identified tourism as an appropriate target industry for regional development. Through the County Administration's efforts, an unprecedented coordination of the activities of the Convention and Visitors Bureau ("CVB") with those of the region's major cultural organizations has been undertaken.

In 2003, the CVB budget of \$2.7 million, plus the \$5.8 million County contribution to the major cultural organizations, was enhanced by additional County investments of over \$500,000 especially for out-of-market promotion activities. These investments leveraged over \$500,000 in foundation and other support for out-of market promotions of regional activities.

The County Administration has continued to invest heavily in refurbishing visitor attractions, including new exhibits at the Buffalo Zoo, the Buffalo Museum of Science, the Olmsted-designed parks system, the Buffalo and Erie County Botanical Gardens, and in architectural restoration, especially of two Frank Lloyd Wright-designed complexes, Graycliff and the Darwin Martin House. Ground will be broken in late 2003 or early 2004 for two Wright-designed structures that were never constructed, a rowing boathouse and a gas station, both structures adding to the inventory of architectural sites for which there is an identified market of out-of-market visitors.

The goal in these promotional and attraction-development efforts is two-fold: direct economic development by creating attractions that will draw tourist dollars for the hospitality industry, and indirect economic development by assisting in "re-branding" the region.

The County Administration has, in the interest of preserving the financial integrity of cultural assets currently owned by the distressed city government of Buffalo, taken over the operational support for Shea's Performing Arts Center, Kleinhans Music Hall (home of the Buffalo Philharmonic Orchestra) and the Buffalo Zoo.

Marketing and Economic Development Efforts

Unprecedented steps have been taken toward achieving a functional integration of the area's disparate economic development entities.

The County has undertaken several initiatives designed to streamline County government, to aid in business development, and to address various regional issues. Some of the more significant initiatives are discussed in this section.

In 2000, an ECIDA Alliance was created in an effort to integrate staff of the six local IDAs and the many township and city local development corporations.

The boards of the CVB and of the Convention Center Management Corporation have been consolidated. These two bodies now function as one, with the result that marketing efforts for the convention and meetings business at County and private venues are fully integrated. The County invests over \$10 million annually in combined support for the CVB and in cultural resources, and is working to better integrate these efforts into the County's regional economic development effort.

Erie County continues to provide over 20 percent of the annual budget of the BNE, the public/private partnership for marketing the region to potential investors. In support of this effort, the County created the Regional Economic Development Database ("REDD") and consolidated all County Geographic Information Systems, so that business development efforts are grounded in immediately accessible data.

Working with the State of New York and with the cities of Buffalo and Lackawanna, the County has also made a significant commitment to redeveloping abandoned industrial sites. Erie County has allocated \$4 million to turn brownfields into "shovel-ready" development parcels.

The County assisted in an effort that successfully obtained designation of Buffalo, Niagara Falls and Lackawanna as federal "renewal communities," bringing additional incentives to attract investment back to the cities.

Through grants from Erie County and Niagara County, the BNE hired Deloitte & Touche Fantus to come to the Western New York area and study 103 industrial sites. Through this study the BNE identified shovel-ready land and additional sites that could become part of an inventory with some development work.

The BNE and the ECIDA are now under the same administrative umbrella. This collaborative effort truly presents a seamless "one-stop shop" approach for business attraction and service delivery. It has already encouraged cooperation between all six industrial development agencies with an historic agreement for a common benefit policy and fee structure that creates a level playing field throughout Erie County.

Criminal Justice Programs

In Erie County, as elsewhere, criminal justice facilities are bursting at the seams. The County has responded by adding beds to its correctional facility, and successfully challenged the State of New York in court to require the timely removal of State prisoners from the overcrowded County Holding Center, thus relieving pressure on local facilities and improving conditions for local prisoners.

A major initiative completed in 1999 was the construction of a 240-bed addition to the County Correctional Facility in Alden at a cost of approximately \$5.5 million that was financed entirely with "Pay-As-You-Go" funding included in the 1998 and 1999 budgets.

Criminal activities are unfortunately not restricted to adults. There has been dramatic growth in the number of troubled youth detained at the County's detention facility. A new detention center will be constructed and opened by October 2003, at a cost of \$16 million.

To help alleviate overcrowding, efforts have been made to offer alternatives to incarceration or detention for both youth and adults. "Release Under Supervision" programs are being expanded and extended to the Detention Center's youth placed under "house arrest," and new supervised home confinement programs have been implemented for youth.

Court Facility Improvement

After considerable discussion and negotiation with the State Office of Court Administration, the County's nearly \$93.3 million Court Facility Improvement project is partially completed.

A court building to house Family Court and the Probation Department was completed and occupied in September 2001 at a cost of \$34.6 million.

In addition to construction of the new courthouse building, the Erie County Legislature also authorized bonds of \$44.6 million and an additional \$13 million in bonds was authorized in 2002 for extensive renovations to existing court facilities, including those located in the County's historic Old County Hall building. In 2003, an additional \$1.1 million was authorized for the project to allow the County to enter into PLA agreements bringing the total authorized for the project to \$58.7 million. These projects stand as premier capital investments by the County.

Welfare Reform

Building on previous successful efforts to implement welfare reform strategies such as the "Child Assistance Program," diversion programs to quickly link public assistance applicants to employment services, and creation of a special "front door unit" to assess the need for services and assistance, the Department of Social Services began in 1997 to fully implement federal welfare reform. Enhanced funding was provided in the 2000, 2001, 2002 and 2003 County budgets for expanded employment services, transportation, child care, and transitional support for clients entering the labor force, as well as for the computerized system enhancements required for implementation of welfare reform programs.

The County has implemented a proven "Work First" strategy that is aimed at employment of applicants and recipients at the earliest possible opportunity. This involves the diversion of potential new welfare recipients into employment through a required three-week structured job search activity, prior to case opening. Those who are unsuccessful are then assigned to the most appropriate follow-up activities (workfare, community service, training, etc.).

The Department of Social Services continues to re-engineer its activities and processes in significant ways to support the Work First strategy, to focus on what is necessary to successfully move recipients into self-supporting employment, and to provide the necessary transitional supports to maximize job retention once recipients enter the labor force.

Most significantly, Erie County has maintained an intensive, targeted effort to secure employment and welfare exit of those cases that would reach their 60-month federal eligibility limit. The Work First strategy has been further reinforced by conversion of the department's front door unit into a comprehensive Erie County Works Center, better integrating employment, diversion and temporary assistance eligibility functions.

FINANCIAL INFORMATION

Internal Controls

County management recognizes the need for the existence of a system of internal controls that will achieve the overall purposes of alerting management to departures from established policies and procedures, and detecting activities that have not been properly authorized or that undermine the attainment of organizational goals and objectives.

The control framework established by management includes two types of recognized controls (i.e., administrative controls and internal accounting controls). Administrative controls are broad controls governing all activities carried out by officials in order to accomplish their objectives. Internal accounting controls, which operate within the broader administrative control environment, are concerned with the safeguarding of assets and the reliability of financial records.

In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. In addition to the review and evaluation of internal accounting controls performed in conjunction with the annual independent audit of the County's financial statements, the Comptroller's Office Internal Audit Division ("Audit Division") gives continuous priority to testing compliance with, and recommending improvements to, the system of internal controls. During the course of the year, the Audit Division conducted eleven compliance audits and issued reports containing recommendations for corrective action to the Legislature and County Executive.

Accounting System

The County Comptroller is responsible for Erie County's accounting and financial reporting. The accounting system is organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. The various fund types used, as well as a summary of significant accounting policies, are described in detail in Note I to the financial statements. In brief, accounting records for all governmental funds and the agency fund are maintained on a modified accrual basis, with revenues being recognized when they become measurable and available, and expenditures being generally recognized when the related fund liability is incurred. Accounting records for the proprietary fund and the community college are maintained on an accrual basis.

Budgetary Controls

Annual appropriated budgets, adopted for control of the General Fund; Road, Sewer, Downtown Mall, and E-911 Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund, minimally detailed to the department and account level are not presented in this report due to the excessive detail involved. However, a separate budgetary comparison report is available which contains this information. A fund level budget is used for the Erie County Medical Center Enterprise Fund. These budgets are adopted on a basis consistent with generally accepted accounting principles ("GAAP"), except that encumbrances are reported as budgeted 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. Budgetary control is maintained by applying various mechanical edits when processing encumbrances and subsequent payment transactions. Encumbrances outstanding at year-end for applicable governmental funds are accounted for as a reservation of fund balance and are re-established in the next fiscal year. All unencumbered appropriations lapse at the end of the fiscal year.

Monthly Accrual/Monitoring System

Since 1985, Erie County has maintained a Budget Monitoring System that compares budgetary estimates at the department and account level to fully accrued actual data on a monthly basis. The monitoring reports are used as a management tool during the fiscal year. All major variances are reconciled and, where appropriate, corrective measures are taken to ensure any projected deficit condition will be prevented or minimized.

Debt Administration

The ratio of net general bonded debt to assessed valuation and the amount of net bonded debt per capita provide valuable information to management, citizens, and investors regarding the County's debt position. Based on the latest available data, these ratios, as of December 31, 2002, were 0.90 percent and \$251.95, respectively, based on net general bonded debt of \$238,102,351.

The County's current bond rating, as assigned by rating agencies, is as follows: Moody's: A2; and Fitch: AA-. These ratings reflect numerous positive factors relating to the County's financial condition, including the County's financial flexibility, its trend of sound financial operations and record of conservative budgeting and tight cost control, as well as its improved liquidity and manageable debt position.

Cash Management

Available cash is deposited and invested in accordance with the provisions of applicable New York State statutes, and the Comptroller's Office Investment Guidelines that have been approved by the Erie County Legislature. In brief, monies must be deposited in demand or time accounts at, or certificates of deposit issued by, FDIC-insured commercial banks or trust companies located in the State. Except for Erie Community College checking accounts, deposits must be secured by a pledge of collateral securities by the financial institution. Checking accounts of colleges are not required to be collateralized unless the board of trustees deems it necessary, per New York State Education Law. Permissible types of investments include obligations of the U.S. Treasury and various federal agencies, contractual repurchase agreements and obligations of any state, municipality, school district or district corporation. Per existing policies, the underlying securities for repurchase transactions must be only federal obligations.

The Comptroller's Office oversees the investment of available cash balances, except for those related to the proceeds from the securitization of the County's tobacco asset. For 2002, the Comptroller's Office made a total of 2,024 investments, and the weighted average yield for such investments was 2.13 percent.

Risk Management

The County assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Policies are maintained to provide coverage on items such as the Library System's rare books and valuable papers; boilers, machinery, buildings and certain contents thereof for the Community College's City and South campuses; and losses caused by crimes.

OTHER RELEVANT INFORMATION

Independent Audit

Since 1975, it has been the County's policy to have an independent audit of its annual financial statements performed by a certified public accounting firm. In 1985, Article XVIII of the Erie County Charter was amended to create an Audit Committee that is responsible for, among other things, recommending a specific firm or firms to conduct annual audits of the County of Erie, the Erie County Medical Center, and the Erie Community College. The five-member Audit Committee is comprised of two County legislators and one person from each of the following professions: law, public accounting, and banking. The requirement to have an independent audit performed has been complied with and our auditor's opinion is included in the Financial Section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Erie County for its CAFR for the fiscal year ended December 31, 2001. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such CAFR must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Erie County has received a Certificate of Achievement for the last fifteen consecutive years (i.e., the fiscal years ended December 31, 1987-2001). We believe our current CAFR continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of this report would not have been possible were it not for the efforts of the Comptroller's Office Accounting Division staff, other cooperating County departments, and our independent auditor, Deloitte & Touche LLP. I would like to express my appreciation to all those who assisted and contributed to its preparation.

Respectfully submitted,


NANCY A. NAPLES
County Comptroller

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COUNTY OF ERIE, NEW YORK
SUMMARY OF ELECTED OFFICIALS
December 31, 2002

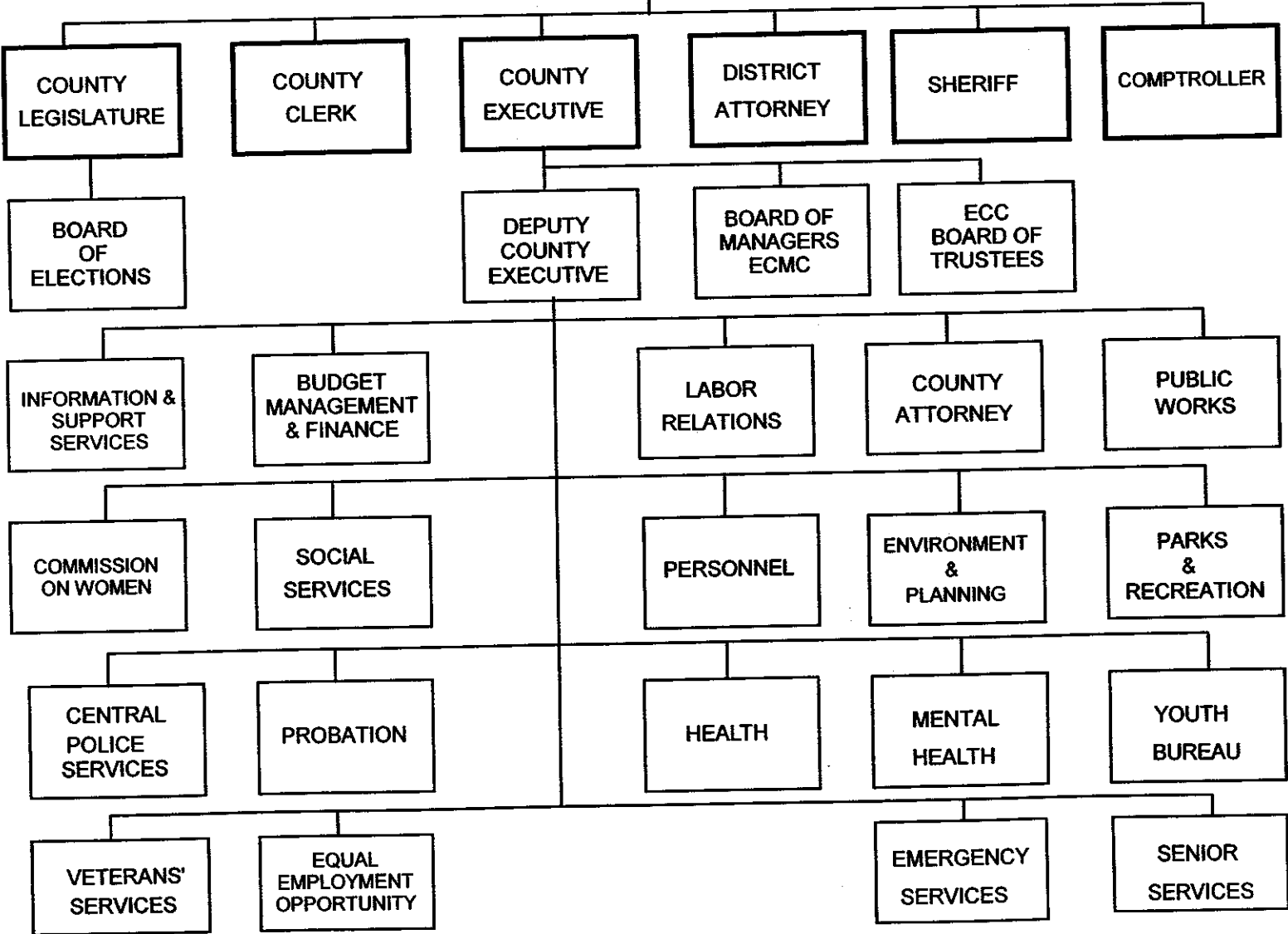
COUNTY CLERK	COUNTY EXECUTIVE	DISTRICT ATTORNEY	SHERIFF	COUNTY COMPTROLLER
David J. Swarts	Joel A. Giambra	Frank J. Clark	Patrick M. Gallivan	Nancy A. Naples

ERIE COUNTY LEGISLATORS

District No. 1	Edward J. Kuwik	District No. 10	Charles M. Swanick
District No. 2	Mark J.F. Schroeder	District No. 11	Lynn M. Marinelli
District No. 3	George A. Holt, Jr.	District No. 12	Jeanne Z. Chase
District No. 4	Judith P. Fisher	District No. 13	Steven P. McCarville
District No. 5	David Dale	District No. 14	Elise M. Cusack
District No. 6	Albert DeBenedetti	District No. 15	Barry A. Weinstein, M.D.
District No. 7	Crystal D. Peoples	District No. 16	Michael H. Ranzenhofer
District No. 8	Raymond K. Dusza	District No. 17	Dale W. Larson
District No. 9	Gregory P. Falkner		

ERIE COUNTY ORGANIZATIONAL CHART

CITIZENS OF ERIE COUNTY



xiv

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Erie,
New York

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "William Patrick Wade".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director

FINANCIAL SECTION

This section contains the following:

- INDEPENDENT AUDITORS' REPORT
- MANAGEMENT'S DISCUSSION AND ANALYSIS
- BASIC FINANCIAL STATEMENTS
- COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of County of Erie, New York (the "County") as of and for the year ended December 31, 2002, which collectively comprise the County's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, 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 unit, each major fund, and the aggregate remaining fund information of the County as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note II to the basic financial statements, during the fiscal year ended December 31, 2002 the County adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

The Management's Discussion and Analysis as listed in the forgoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the County. These financial statements and schedules are the responsibility of the management of the County. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The data in the introductory and statistical sections as listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the County. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

June 30, 2003

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2002

This section of the County of Erie's ("County") comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended December 31, 2002. Please read it in conjunction with the transmittal letter, which can be found on pages i-xii of this report, and the County's basic financial statements following this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the 2002 fiscal year by \$765,397 (*net assets*). Of this amount, \$144,064 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$183,234 is restricted for specific purpose (*restricted net assets*), and \$438,099 is invested in capital assets, net of related debt.
- The government's total net assets decreased by \$71,862. Governmental activities decreased the County's net assets by \$79,664, which was partially offset by a \$7,802 increase in business-type activities net assets.
- As of December 31, 2002, the County's governmental funds reported combined fund balances of \$377,830, a decrease of \$86,740 in comparison with the prior year. Approximately 63% of the combined fund balances, \$238,201 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 \$116,211 or 77% of total general fund balance. The amount of \$49,941 is designated for subsequent year's expenditures within the 2003 fiscal year budget.

December 31, 2002, is the first year the County's financial statements have been prepared in accordance with Government Accounting and Standards Board Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* ("GASB No. 34"). As such, only one year of data is presented. However, in future years, the Management's Discussion and Analysis will include comparative analysis of Countywide data.

In addition, the County has also implemented GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, GASB Statement No. 38, *Certain Financial Note Disclosures*, and, GASB Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences*.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Combining Statements* for nonmajor governmental funds.

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.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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).

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 the Erie County Medical Center ("Medical Center"), and Erie Community College ("College").

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 for which the County is financially accountable. Financial information for this *component unit* of the County is reported separately from the financial information presented for the primary government itself. The Library does not issue separate financial statements.

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Concluded)

The County maintains 13 individual 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, Grants Fund, and Tobacco Proceeds Projects Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

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

Proprietary funds are maintained two ways. *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 Medical Center, 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 Medical Center and College are considered to be major proprietary funds of the County.

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

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

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

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

The Notes can be found on pages 33-70 of this report.

Combining Statements, referred to earlier, provide information for non-major governmental funds, and are presented immediately following the Notes to the Basic Financial Statements.

Combining and Individual Fund Statements and Schedules can be found on pages 74-77 of this report.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

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 \$765,397 at the close of the most recent fiscal year.

Summary of Erie County's Net Assets

	Governmental Activities 2002	Business-type Activities 2002	Total 2002
Current and other assets	\$ 627,063	\$ 54,360	\$ 681,423
Capital Assets	<u>641,748</u>	<u>94,319</u>	<u>736,067</u>
Total assets	<u>1,268,811</u>	<u>148,679</u>	<u>1,417,490</u>
Long-term liabilities outstanding	331,894	58,554	390,448
Other liabilities	<u>219,771</u>	<u>41,874</u>	<u>261,645</u>
Total liabilities	<u>551,665</u>	<u>100,428</u>	<u>652,093</u>
Net assets:			
Invested in capital assets, net of related debt	414,620	23,479	438,099
Restricted	177,749	5,485	183,234
Unrestricted	<u>124,777</u>	<u>19,287</u>	<u>144,064</u>
Total net assets	<u>\$ 717,146</u>	<u>\$ 48,251</u>	<u>\$ 765,397</u>

The largest portion of the County's net assets of \$438,099 (57%) 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. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another significant portion of the County's net assets of \$183,234 (24%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of the County's net assets (19%) represents *unrestricted net assets* of \$144,064, which may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities.

The County's net assets decreased by \$71,862 during the current fiscal year.

Governmental activities. Governmental activities decreased the County's net assets by \$79,664.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

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
Revenues:			
Program revenues			
Charges for services	\$ 64,282	\$ 364,558	\$ 428,840
Operating grants and contributions	359,984	24,155	384,139
Capital grants and contributions	13,867	41	13,908
General revenues:			
Property taxes	164,620		164,620
Sales taxes	250,049		250,049
Non-operating revenue		22,186	22,186
Interest earnings not restricted to specific programs	16,442		16,442
Unrestricted interest earnings	3,351	381	3,732
Miscellaneous and other	10,487		10,487
Total revenues	883,083	411,321	1,294,404
Expenses:			
General government	80,900		80,900
Public safety	109,422		109,422
Health	61,874		61,874
Transportation	50,801		50,801
Economic assistance and opportunity	563,179		563,179
Culture and recreation	29,170		29,170
Education	48,917		48,917
Home and community service	44,137		44,137
Interest and Fiscal Charges	12,199		12,199
Medical Center		260,635	260,635
College		76,350	76,350
Utilities Aggregation		28,606	28,606
Total expenses	1,000,599	365,591	1,366,190
Excess (deficiency) before special items and transfers			
	(117,516)	45,730	(71,786)
Special items	(4,000)	4,000	0
Intergovernmental transfers	78,647	(78,647)	0
All other transfers	(36,795)	36,719	(76)
Change in net assets	(79,664)	7,802	(71,862)
Net assets - beginning	796,810	40,449	837,259
Net assets - ending	\$ 717,146	\$ 48,251	\$ 765,397

Business-type activities. Business-type activities increased the County's net assets by \$7,802.

The Medical Center experienced a 10.3% increase in acute patient discharges and a 13% increase in surgical cases that contributed to a \$6,505 increase in net assets. To help finance the operations of the Medical Center, the General Fund transferred \$26,738 to the Medical Center during the year, including a \$4,000 special item, the assumption of the Medical Center's malpractice liability. Transfers were offset by \$78,647 in intergovernmental transfers to the County.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concluded)

The College's net assets increased by \$1,030 due mainly to increased enrollment of 6%, resulting in increased tuition and fee revenue and state aid. The County sponsorship share of support to the College for the College fiscal year ended August 31, 2002 was approximately \$14,056 and is reported as a 2002 operating transfer to the College in the County's General Fund. However, \$76 of the 2002 transfers occurred subsequent to the end of the College fiscal period reported in these statements.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

At December 31, 2002, the County's governmental funds reported combined fund balances of \$377,830, a decrease of \$86,740 in comparison with the prior year. Approximately 63% of the combined fund balances, \$238,201, 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 (\$95,991); (2) to pay debt service (\$18,194); (3) to reflect prepaid items and advances to other funds that are long-term in nature and thus do not represent available spendable resources (\$21,716); and (4) for a variety of other restricted purposes (\$3,728).

The general fund is the chief operating fund of the County. At December 31, 2002, unreserved fund balance of the general fund was \$116,211 while total fund balance reached \$150,281. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 15% of total fund expenditures, while total fund balance represents 20% of that same amount.

Revenues for governmental functions totaled approximately \$917,635 in fiscal year 2002, which represents a decrease of 3% from fiscal year 2001.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

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

**Revenues Classified by Source
Governmental Funds**

Revenues:	2002 Amount	Percent of Total	2001 Amount	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Real property taxes and tax items	\$ 165,439	18.03%	\$ 164,082	\$ 1,357	0.83%
Sales, use and transfer taxes	250,049	27.25%	249,174	875	0.35%
Intergovernmental	367,919	40.09%	366,998	921	0.25%
Interfund revenue	37,303	4.07%	28,893	8,410	29.11%
Departmental	59,241	6.46%	60,808	(1,567)	-2.58%
Interest	22,217	2.42%	25,747	(3,530)	-13.71%
Miscellaneous	15,467	1.69%	46,131	(30,664)	-66.47%
Total revenues	<u>\$ 917,635</u>	<u>100.0%</u>	<u>\$ 941,833</u>	<u>\$ (24,198)</u>	

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

- Interfund Revenue – the \$8,410 increase in Interfund Revenue was principally attributable to a rise in charges to Social Services' programs in 2002.
- Interest Income – the \$3,530 decrease in Interest Income was primarily due to the decline in interest rates experienced in 2002.
- Miscellaneous Revenue – the decrease of \$30,664 was mainly due to the recognition in 2001 of non-recurring revenue in Social Services' programs.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

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

Expenditures by Function Governmental Funds					
Expenditures:	2002 Amount	Percent of Total	2001 Amount	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Current:					
General government support	\$ 81,019	7.27%	\$ 74,543	\$ 6,476	8.69%
Public Safety	106,929	9.60%	101,918	5,011	4.92%
Health	62,540	5.61%	60,838	1,702	2.80%
Transportation	36,310	3.26%	35,448	862	2.43%
Economic Assistance and opportunity	584,469	52.45%	571,214	13,255	2.32%
Culture and recreation	18,652	1.67%	16,935	1,717	10.14%
Education	45,893	4.12%	43,387	2,506	5.78%
Home and Community Service	39,771	3.57%	32,889	6,882	20.92%
Capital outlay	106,558	9.56%	74,334	32,224	43.35%
Debt service:					
Principal retirement	20,653	1.85%	21,452	(799)	-3.72%
Interest and fiscal charges	11,560	1.04%	10,930	630	5.76%
Total expenditures	<u>\$ 1,114,354</u>	<u>100.0%</u>	<u>\$ 1,043,888</u>	<u>\$ 70,466</u>	

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

- Economic Assistance and Opportunity Expenditures – the \$13,255 increase in Economic Assistance and Opportunity expenditures was due to higher Medicaid costs.
- Home and Community Service Expenditures – the \$6,882 increase was due to higher Contractual Service expenditures.
- Capital Outlay – the \$32,224 increase in Capital Outlay was partially due to an increase in Road Projects expenditures of \$17,500. The remainder of the increase was mainly due to improvements to various County Buildings.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

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

Other Financing Sources (Uses)
Governmental Funds

	FY 2002	FY 2001	Amount of Increase (Decrease)	Amount of Increase (Decrease)
Proceeds of general obligation debt	\$ 63,078	\$ 40,569	\$ 22,509	55.48%
Premium on bond issuance	4,963		4,963	100.00%
Proceeds of refunding bonds	5,340		5,340	100.00%
Payments to refunded bond escrow	(5,340)		(5,340)	-100.00%
Sale of property	126	134	(8)	-5.97%
Intergovernmental transfers	78,647	72,579	6,068	8.36%
Transfers in	90,765	69,041	21,724	31.47%
Transfers out	(127,600)	(103,132)	(24,468)	23.72%
	<u>\$ 109,979</u>	<u>\$ 79,191</u>	<u>\$ 30,788</u>	

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

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

	Major Funds			Nonmajor Funds			Total
	General	Grants	Tobacco Proceeds	Special Revenue	Debt Service	Capital Projects	
Revenues	\$ 692,691	\$ 142,472	\$ 16,442	\$ 50,102	\$ 3,565	\$ 12,363	\$ 917,635
Expenditures	(765,751)	(158,699)	(14)	(51,225)	(32,121)	(106,544)	(1,114,354)
Other financing sources (uses), net	31,259	14,864	(44,500)	(3,895)	31,185	81,066	109,979
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(41,801)	(1,363)	(28,072)	(5,018)	2,629	(13,115)	(86,740)
Fund balances - January 1, 2002	192,082	3,277	203,317	16,332	15,565	33,997	464,570
Fund balances - December 31, 2002	<u>\$ 150,281</u>	<u>\$ 1,914</u>	<u>\$ 175,245</u>	<u>\$ 11,314</u>	<u>\$ 18,194</u>	<u>\$ 20,882</u>	<u>\$ 377,830</u>

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 Medical Center had unrestricted net assets of \$16,098 or 42.3% of the total net assets of the Medical Center.
- The College had unrestricted net assets of \$2,902 at August 31, 2002, that comprise 29.3% of the total net assets of the College.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Concluded)

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

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

	Major Funds		Nonmajor Fund	Total
	Medical Center	College 8/31/2002	Utilities Aggregation	
Operating Revenues	\$ 318,933	\$ 40,907	\$ 28,873	\$ 388,713
Operating Expenditures	260,635	76,305	28,606	365,546
Operating income/(loss)	58,298	(35,398)	267	23,167
Non-operating revenues (expenses), net	116	22,447		22,563
Net income (loss) before contributions and transfers	58,414	(12,951)	267	45,730
Contributions and transfers	(51,909)	13,981		(37,928)
Change in net assets	\$ 6,505	\$ 1,030	\$ 267	\$ 7,802

The net income before contributions and transfers of enterprise funds of \$45,730 resulted from a net income of \$58,414 for the Medical Center, a net loss of \$12,951 for the College and net income of \$267 for the Utilities Aggregation Fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an \$114,124 increase in appropriations and can be briefly summarized as follows:

- The majority of the increase (\$89,298) was mainly due to additional Medicaid costs, which were mostly brought about by the State's Intergovernmental Transfer ("IGT") Program. The Program is actually cost neutral to the County's governmental funds, since the additional General Fund expenditures for the County's share of the increased Medicaid revenues paid to publicly sponsored nursing homes and hospitals are recovered fully from the Medical Center enterprise funds, which is the only recipient of IGT program payments in the County.

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, 2002, amounted to \$736,067 (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 increase in the County's investment in capital assets for the current period was 9%.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
DECEMBER 31, 2002

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concluded)

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

- Infrastructure assets of \$47,551 were added during the year, of which \$31,307 were roads, \$10,859 were bridges, and \$4,184 were underground sewer system components.
- All depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year as outlined in the County's capital asset policy.

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
Land	\$ 27,210	\$ 444	\$ 27,654
Buildings and Improvements	170,715	57,057	227,772
Improvements other than Buildings	6,125	440	6,565
Sewer and Transportation Networks	366,136		366,136
Machinery and Equipment	21,594	19,787	41,381
Library Collections		1,352	1,352
Construction in Progress	49,968	15,239	65,207
Total	\$ 641,748	\$ 94,319	\$ 736,067

The County's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB 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(J) on page 40 and Note VIII on pages 51-53 of this report.

Long-term debt

At December 31, 2002, the County had total long-term debt outstanding of \$303,365 as compared to \$262,800 in the prior year. This amount was comprised of entirely of serial bonds. During the year, retirement of debt amounted to \$33,026. Additions, accretions and other adjustments amounted to \$73,591. 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 \$2,241,906, which is significantly in excess of the County's outstanding general obligation debt.

Since 2001, the County's general obligation debt has maintained an A2 rating from Moody's and an AA-rating from Fitch.

Additional information on the County's long-term debt can be found in Note XI on pages 57-64 of this report.

COUNTY OF ERIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (Concluded)
DECEMBER 31, 2002

SUBSEQUENT EVENTS

As described in Note XVIII on page 70 of this report, the County issued \$81,540 in Bonds and \$90,000 in Revenue Anticipation Notes in June 2003.

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.

BASIC FINANCIAL STATEMENTS

These basic financial statements include the financial statements and related notes of the reporting entity that are essential to fair presentation of financial position and results of operations. The reporting entity includes the primary government and its discretely presented component unit.

COUNTY OF ERIE, NEW YORK
Statement of Net Assets
December 31, 2002
(amounts expressed in thousands)

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	
ASSETS				
Cash and investments	\$ 242,551	\$ 13,495	\$ 256,046	\$ 3,163
Patient trust cash		784	784	
Restricted cash and investments		4,695	4,695	
Receivables (net of allowances)	330,541	73,345	403,886	460
Due from primary government				681
Internal balances	44,548	(43,224)	1,324	
Inventories		3,804	3,804	
Prepaid items	9,423	684	10,107	
Other assets		777	777	
Capital assets				
Land and construction in progress	77,178	15,683	92,861	
Other capital assets, net of depreciation	564,570	78,636	643,206	19,619
Total assets	1,268,811	148,679	1,417,490	23,923
LIABILITIES				
Accounts payable	47,401	19,569	66,970	113
Accrued liabilities	83,997	14,919	98,916	704
Due to component unit	681		681	
Deferred revenue	41,661	7,386	49,047	514
Short-term debt	46,031		46,031	
Long term liabilities				
Due within one year	46,230	14,441	60,671	937
Due in more than one year	285,664	44,113	329,777	919
Total liabilities	551,665	100,428	652,093	3,187
NET ASSETS				
Invested in capital assets, net of related debt	414,620	23,479	438,099	19,619
Restricted for:				
Grants	1,914		1,914	
Capital projects	151,296		151,296	
Debt service	14,301	6	14,307	
Other purposes	10,238	5,479	15,717	145
Unrestricted	124,777	19,287	144,064	972
Total net assets	\$ 717,146	\$ 48,251	\$ 765,397	\$ 20,736

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Activities
For the fiscal year ended December 31, 2002
(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 Unit
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 80,900	\$ 18,414	\$ 14,363	\$ 3,098	\$ (45,025)	\$	\$ (45,025)	\$
Public safety	109,422	6,863	4,207		(98,352)		(98,352)	
Health	61,874	1,776	37,014		(23,084)		(23,084)	
Transportation	50,801	1,616	8,805	8,190	(32,190)		(32,190)	
Economic assistance and opportunity	563,179	25,148	251,763		(286,268)		(286,268)	
Culture and recreation	29,170	950	1,719	268	(26,233)		(26,233)	
Education	48,917	119	25,519	320	(22,959)		(22,959)	
Home and community service	44,137	9,396	16,594	55	(18,092)		(18,092)	
Interest and Fiscal Charges	12,199			1,936	(10,263)		(10,263)	
Total governmental activities	1,000,599	64,282	359,984	13,867	(562,466)		(562,466)	
Business-type activities:								
Medical Center	260,635	318,933		41		58,339	58,339	
Community College (August 31, 2002)	76,350	16,752	24,155			(35,443)	(35,443)	
Other Non-major	28,606	28,873				267	267	
Total business-type activities	365,591	364,558	24,155	41		23,163	23,163	
Total primary government	\$ 1,366,190	\$ 428,840	\$ 384,139	\$ 13,908	(562,466)	23,163	(539,303)	
Component unit:								
Library	\$ 31,292	\$ 642	\$ 6,532					(24,118)
General revenues:								
Property taxes levied for mall, sewer, and general purposes					164,621		164,621	
Property taxes levied for library								22,970
Sales, use and transfer taxes					250,049		250,049	
State and local appropriations						22,186	22,186	
Interest earnings not restricted to specific programs					16,442		16,442	
Unrestricted interest earnings					3,351	381	3,732	23
Miscellaneous					10,401		10,401	341
Payments from Erie County					(40)		(40)	40
Gain on sale of property					126		126	69
Special Item - transfer of liability					(4,000)	4,000		
Intergovernmental transfers					78,647	(78,647)		
All other transfers					(36,795)		(76)	
Total general revenues and transfers					482,802	(15,361)	467,441	23,443
Change in net assets					(79,664)	7,802	(71,862)	(675)
Net assets - beginning					796,810	40,449	837,259	21,411
Net assets - ending	\$	\$	\$	\$	717,146	48,251	765,397	20,736

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Balance Sheet
Governmental Funds
December 31, 2002
(amounts expressed in thousands)

	General	Grants	Tobacco Proceeds	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 26,912	\$ 1,124	\$ 120,141	\$ 94,374	\$ 242,551
Receivables (net of allowances)					
Real property taxes, interest, penalties and liens	49,282			111	49,393
Other	353	784	55,139	28,547	84,823
Due from other funds	97,686	1,194		6,496	105,376
Due from other governments	137,346	39,880		5,865	183,091
Prepaid items	9,423				9,423
Advances to other funds	12,293				12,293
Loan Receivable	914				914
Total assets	\$ 334,209	\$ 42,982	\$ 175,280	\$ 135,393	\$ 687,864
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	12,274	1,493		16,618	30,385
Accrued liabilities	70,184	3,429	35	6,456	80,104
Due to other funds	3,554	23,939		33,783	61,276
Due to component unit				681	681
Due to other governments	13,682			3	13,685
Retained percentages payable	95	20		2,743	2,858
Deferred revenue	41,139	12,187		21,688	75,014
Short-term debt	43,000			3,031	46,031
Total liabilities	183,928	41,068	35	85,003	310,034
Fund Balances					
Reserved for:					
Encumbrances	11,424		3,271	81,296	95,991
Advances to Proprietary funds	12,293				12,293
Debt service				18,194	18,194
Loan receivable	914				914
Prepaid items	9,423				9,423
Repairs				1,999	1,999
E-911 system costs				799	799
Handicapped Parking	16				16
Unreserved, reported in:					
General fund					
Designated	95,659				95,659
Undesignated	20,552				20,552
Special revenue funds					
Designated		1,914		4,136	6,050
Undesignated				2,379	2,379
Capital projects fund					
			171,974	(58,413)	113,561
Total fund balances	150,281	1,914	175,245	50,390	377,830
Total liabilities and fund balances	\$ 334,209	\$ 42,982	\$ 175,280	\$ 135,393	\$ 687,864

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
 Reconciliation of Statement of Net Assets
 To Governmental Fund Balances
 For The Year Ended December 31, 2002
 (amounts expressed in thousands)

	<u>Governmental Activities</u>
Total Governmental Fund Balances	\$ 377,830
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.	641,748
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	33,353
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(335,785)
Net assets of governmental activities	<u>\$ 717,146</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the fiscal year ended December 31, 2002

(amounts expressed in thousands)

	General	Grants	Tobacco Proceeds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Real property taxes and tax items	\$ 146,194	\$	\$	\$ 19,245	\$ 165,439
Sales, use and transfer taxes	239,989			10,060	250,049
Intergovernmental	219,288	125,339		23,292	367,919
Interfund revenues	22,565	14,303		435	37,303
Departmental	46,198	2,496		10,547	59,241
Interest	3,351	5	16,442	2,419	22,217
Miscellaneous	15,106	329		32	15,467
Total revenues	692,691	142,472	16,442	66,030	917,635
Expenditures:					
Current:					
General government support	73,900	5,708		1,411	81,019
Public safety	91,163	13,669		2,097	106,929
Health	42,564	19,976		0	62,540
Transportation	18,178	375		17,757	36,310
Economic assistance and opportunity	468,306	116,163		0	584,469
Culture and recreation	18,506	146		0	18,652
Education	44,379	1,514		0	45,893
Home and community service	8,447	1,148		30,176	39,771
Capital outlay			14	106,544	106,558
Debt service:					
Principal retirement				20,653	20,653
Interest and fiscal charges	308			11,252	11,560
Total expenditures	765,751	158,699	14	189,890	1,114,354
Excess (deficiency) of revenues over expenditures	(73,060)	(16,227)	16,428	(123,860)	(196,719)

COUNTY OF ERIE, NEW YORK

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the fiscal year ended December 31, 2002

(amounts expressed in thousands)

	<u>General</u>	<u>Grants</u>	<u>Tobacco Proceeds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses) :					
Proceeds of general obligation debt				63,078	63,078
Premium on bond issuance				4,963	4,963
Proceeds of refunding bonds				5,340	5,340
Payments to refunded bond escrow				(5,340)	(5,340)
Sale of property	114	3		9	126
Intergovernmental transfers in	78,647				78,647
Operating transfers in		14,861	212	75,692	90,765
Operating transfers from component unit				0	0
Operating transfers from primary government				0	0
Operating transfers out	(47,462)		(44,712)	(35,386)	(127,560)
Operating transfers to primary government				0	0
Operating transfers to component unit	(40)			0	(40)
Total other financing sources (uses)	<u>31,259</u>	<u>14,864</u>	<u>(44,500)</u>	<u>108,356</u>	<u>109,979</u>
Net change in fund balances	(41,801)	(1,363)	(28,072)	(15,504)	(86,740)
Fund balances at beginning of year	192,082	3,277	203,317	65,894	464,570
Fund balances at end of year	<u>\$ 150,281</u>	<u>\$ 1,914</u>	<u>\$ 175,245</u>	<u>\$ 50,390</u>	<u>\$ 377,830</u>

See accompanying notes to the basic 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, 2002
 (amounts expressed in thousands)

	<u>Governmental Activities</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances-total governmental funds	\$ (86,740)
Governmental funds report capital outlays as expenditures (\$90,488). However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense (\$28,850). This is the amount by which capital outlays exceeded depreciation in the current period.	61,638
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.	(819)
Change in accrual of interest payable on bonds payable.	(814)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect in the treatment of long-term debt. Neither transaction has an effect on net assets.	(47,213)
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.	(5,716)
Change in net assets of governmental activities	<u>\$ (79,664)</u>

See accompanying notes to the basic 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 fiscal year ended December 31, 2002
(amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance Final Budget- Positive (Negative)
Revenues:				
Real property taxes and tax items	\$ 143,641	\$ 146,434	\$ 146,194	\$ (240)
Sales, use and transfer taxes	233,819	240,007	239,989	(18)
Intergovernmental	205,385	212,190	219,288	7,098
Interfund revenue	26,749	27,550	22,565	(4,985)
Departmental	45,110	47,898	46,198	(1,700)
Interest	5,606	5,606	3,351	(2,255)
Miscellaneous	2,272	12,799	15,106	2,307
Total revenues	<u>662,582</u>	<u>692,484</u>	<u>692,691</u>	<u>207</u>
Expenditures:				
Current:				
General government support	103,440	90,244	76,775	13,469
Public safety	74,678	92,781	91,653	1,128
Health	48,537	52,234	43,048	9,186
Transportation	17,915	18,298	18,213	85
Economic assistance and opportunity	381,929	483,840	473,551	10,289
Culture and recreation	17,483	19,180	18,865	315
Education	45,245	45,616	44,395	1,221
Home and community service	10,953	11,803	10,367	1,436
Debt service:				
Interest and fiscal charges		308	308	
Total expenditures	<u>700,180</u>	<u>814,304</u>	<u>777,175</u>	<u>37,129</u>
Excess (deficiency) of revenues over expenditures	<u>(37,598)</u>	<u>(121,820)</u>	<u>(84,484)</u>	<u>37,336</u>
Other financing sources (uses):				
Sale of property	70	86	114	28
Operating transfers in		83,407	78,647	(4,760)
Operating transfers out	(54,503)	(57,397)	(47,462)	9,935
Operating transfers to component unit		(40)	(40)	
Total other financing sources (uses)	<u>(54,433)</u>	<u>26,056</u>	<u>31,259</u>	<u>5,203</u>
Excess (deficiency) of revenue and other financing sources over expenditures and other financing uses	<u>\$ (92,031)</u>	<u>\$ (95,764)</u>	<u>\$ (53,225)</u>	<u>\$ 42,539</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Net Assets
Proprietary Funds
For The Year Ended December 31, 2002
(amounts expressed in thousands)

	Business - Type Activities			
	Enterprise Funds			
	Medical Center	Community College August 31, 2002	Nonmajor Fund	Total
Assets				
Current Assets				
Cash and investments	\$ 2	\$ 13,493	\$	\$ 13,495
Patient trust cash	784			784
Receivables (net of allowances)	65,378	4,348		69,726
Due from other funds			230	230
Due from other governments			3,619	3,619
Inventories	3,804			3,804
Prepaid items	583		101	684
Advances to other funds				
Total Current Assets	<u>70,551</u>	<u>17,841</u>	<u>3,950</u>	<u>92,342</u>
Noncurrent assets				
Capital assets, net of depreciation				
Land and construction in progress	15,683			15,683
Other capital assets, net of depreciation	71,636	7,000		78,636
Restricted cash and investments	4,695			4,695
Long-term estimated third-party payor settlements	520			520
Other	257			257
Total Noncurrent Assets	<u>92,791</u>	<u>7,000</u>		<u>99,791</u>
Total assets	<u>163,342</u>	<u>24,841</u>	<u>3,950</u>	<u>192,133</u>
Liabilities				
Current Liabilities:				
Accounts payable	14,945	1,152	2,688	18,785
Accrued liabilities	11,399	2,812	708	14,919
Due to other funds			267	267
Advances from other funds - current	30,894			30,894
Current maturities of long-term debt	7,089			7,089
Fringe benefits payable - current	4,237	668		4,905
Estimated claims and contingencies	2,447			2,447
Accounts held in custody for others	784			784
Deferred revenue	10	7,000		7,010
Total Current Liabilities	<u>71,805</u>	<u>11,632</u>	<u>3,663</u>	<u>87,100</u>
Noncurrent Liabilities:				
Accrued liabilities		163		163
Advances from other funds - long-term	12,293			12,293
Long-term debt	19,663	3,144		22,807
Fringe benefits payable	9,604			9,604
Estimated claims and contingencies	11,539			11,539
Deferred Revenue	376			376
Total Noncurrent Liabilities	<u>53,475</u>	<u>3,307</u>		<u>56,782</u>
Total liabilities	<u>125,280</u>	<u>14,939</u>	<u>3,663</u>	<u>143,882</u>
Net Assets				
Invested in capital assets, net of related debt	16,479	7,000		23,479
Restricted for:				
Debt service	6			6
Other purposes	5,479			5,479
Unrestricted, reported in:				
Medical Center	16,098			16,098
Community College		2,902		2,902
Utilities Aggregation			287	287
Total Net Assets	<u>\$ 38,062</u>	<u>\$ 9,902</u>	<u>\$ 287</u>	<u>\$ 48,251</u>

See accompanying notes to the basic 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, 2002
(amounts expressed in thousands)

	Business - Type Activities			Total
	Enterprise Funds			
	Medical Center	Community College August 31, 2002	Nonmajor Fund	
Operating Revenues:				
Net patient service revenue	\$ 303,849	\$	\$	\$ 303,849
Student tuition and fees		16,752		16,752
Intergovernmental revenues and charges		13,886	17,383	31,269
State and local contracts		9,007		9,007
Interfund revenues		1,262	11,490	12,752
Other operating revenue	15,084			15,084
Total operating revenue	<u>318,933</u>	<u>40,907</u>	<u>28,873</u>	<u>388,713</u>
Operating Expenses:				
Employee wages	112,429	46,336	40	158,805
Employee benefits	32,409	10,716	12	43,137
Contractual, professional & temporary services	41,028		208	41,236
Scholarships		6,682		6,682
Supplies	37,700	8,269		45,969
Utilities and telephone	6,934	2,146	28,346	37,426
Depreciation and amortization	11,499	2,156		13,655
Interest	3,107			3,107
Provision for bad debts	10,364			10,364
Other operating expenses	2,920			2,920
Services provided by primary government	2,245			2,245
Total operating expenses	<u>260,635</u>	<u>76,305</u>	<u>28,606</u>	<u>365,546</u>
Operating income (loss)	58,298	(35,398)	267	23,167
Nonoperating revenues (expenses):				
State and local appropriations		22,186		22,186
Income from investments	75	306		381
Contributions	41			41
Loss on disposal of plant assets		(45)		(45)
Income before transfers	<u>58,414</u>	<u>(12,951)</u>	<u>267</u>	<u>45,730</u>
Special item - transfer of liability	4,000			4,000
Transfers in - operating	16,312	12,771		29,083
Transfers in - capital	6,426	1,210		7,636
Intergovernmental transfers out	(78,647)			(78,647)
Change in net assets	<u>6,505</u>	<u>1,030</u>	<u>267</u>	<u>7,802</u>
Total net assets-beginning	31,557	8,872	20	40,449
Total net assets-ending	<u>\$ 38,062</u>	<u>\$ 9,902</u>	<u>\$ 287</u>	<u>\$ 48,251</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2002
(amounts expressed in thousands)

	Business - Type Activities			
	Enterprise Funds			
	Medical Center	Community College August 31, 2002	Nonmajor Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from patients, students and utility customers	\$ 293,355	\$ 16,814	\$ 14,529	\$ 324,698
Payments to employees and suppliers	(239,712)	(73,720)	(26,407)	(339,839)
Federal, state and local grants		24,817		24,817
Internal activity - payments (to) from other funds			11,637	11,637
Other operating revenues	20,355			20,355
Net cash used in operating activities	73,998	(32,089)	(241)	41,668
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
County Contribution	20,740	13,981		34,721
State appropriations		21,011		21,011
Other contributions	41	1,021		1,062
Advances from other funds			241	241
Intergovernmental transfer out	(78,647)			(78,647)
Interest paid for noncapital financing activities	(1,579)			(1,579)
Net cash from non-capital financing activities	(59,445)	36,013	241	(23,191)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase/transfer of capital assets	(8,013)	(2,798)		(10,811)
Repayment of long-term debt	(7,333)			(7,333)
Interest paid for capital and related financing activities	(1,528)			(1,528)
Net cash used in capital financing activities	(16,874)	(2,798)	0	(19,672)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	75	313		388
Net cash from investing activities	75	313	0	388
NET INCREASE (DECREASE) IN CASH	(2,246)	1,439	0	(807)
CASH, beginning of year	7,727	12,054	0	19,781
CASH, end of year	\$ 5,481	\$ 13,493	0	\$ 18,974

(Continued)

COUNTY OF ERIE, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2002
(amounts expressed in thousands)

	Business - Type Activities Enterprise Funds			Total Funds
	Medical Center	Community		
		College August 31, 2003	Nonmajor Fund	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 58,298	\$ (35,398)	\$ 267	\$ 23,167
Adjustments to reconcile gain from operations				
Provided (used) by operating activities:				
Depreciation expense and amortization	11,499	2,156		13,655
Provision for bad debts	10,364			10,364
Interest paid	3,107			3,107
(Increase) decrease in assets:				
Receivables, net	(5,000)	304	1,095	(3,601)
Inventories	(371)		(78)	(449)
Other assets	(322)			(322)
Increase (decrease) in liabilities:				
Accounts and other payables	4,262	(309)	(1,739)	2,214
Accrued expenses	(1,164)	(66)	214	(1,016)
Estimated claims and contingencies	(6,599)			(6,599)
Other long-term liabilities	(76)	1,224		1,148
Net cash provided by operating activities	<u>\$ 73,998</u>	<u>\$ (32,089)</u>	<u>\$ (241)</u>	<u>\$ 41,668</u>

Noncash investing, capital and financing activities:

Liability transferred to County	\$ 4,000
Capital assets transferred from County	1,998

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Fiduciary Net Assets
Fiduciary Fund
For the fiscal year ended December 31, 2002
(amounts expressed in thousands)

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 50,719
Receivables:	
Due from other funds	473
Due from other governments	21
Other Receivables	19
Bonds and securities held in custody	4
Total assets	<u>51,236</u>
Liabilities	
Due to other funds	12,320
Due to other governments	9,006
Held in custody for others	29,910
Total liabilities	<u>51,236</u>
Net Assets	
Net assets	<u><u>\$ 0</u></u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
 Balance Sheet
 Component Unit
 December 31, 2002
 (amounts expressed in thousands)

	<u>Component Unit</u>
Assets	
Cash and investments	\$ 3,163
Receivables (net of allowances)	
Other	460
Due from primary government	681
Total assets	<u>\$ 4,304</u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 113
Retained percentages payable	704
Deferred revenue	514
Total liabilities	<u>1,331</u>
Fund Balances	
Reserved for:	
Encumbrances	145
Unreserved, reported in:	
Designated	1,663
Undesignated	1,165
Total fund balances	<u>2,973</u>
Total liabilities and fund balances	<u>\$ 4,304</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
 Reconciliation of Statement of Net Assets
 To Component Unit Fund Balance
 For The Year Ended December 31, 2002
 (amounts expressed in thousands)

	<u>Component Unit</u>
Total Component Unit Fund Balance	\$ 2,973
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.	19,619
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,856)
Net assets of component unit activities	<u>\$ 20,736</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund Balance
Component Unit
For the fiscal year ended December 31, 2002
(amounts expressed in thousands)

	<u>Component Unit</u>
Revenues:	
Real property taxes and tax items	\$ 22,970
Intergovernmental	2,958
Departmental	885
Interest	23
Miscellaneous	272
	<hr/>
Total revenues	<u>27,108</u>
Expenditures:	
Current:	
Culture and recreation	27,619
	<hr/>
Total expenditures	<u>27,619</u>
Excess (deficiency) of revenues over expenditures	<hr/> <u>(511)</u>
Other financing sources (uses) :	
Sale of property	69
Operating transfers from primary government	40
	<hr/>
Total other financing sources (uses)	<u>109</u>
Net change in fund balances	(402)
Fund balances at beginning of year	3,375
	<hr/>
Fund balances at end of year	<u>\$ 2,973</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of Component Unit
 To the Statement of Activities
 For the year Ended December 31, 2002
 (amounts expressed in thousands)

	<u>Component Unit</u>
Amounts reported for component unit activities in the statement of activities are different because:	
Net change in fund balance - component unit	\$ (402)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, contributions from the county, and donations) is to increase net assets.	3,401
In the statement of activities the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.	(3,797)
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.	123
Change in net assets of component unit activities	<u>\$ (675)</u>

See accompanying notes to the basic financial statements.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

The County of Erie was established in 1821. Subject to the New York State Constitution, the County operates pursuant to its Charter and Administrative Code, 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 Erie 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 is primarily comprised of service fees and various types of program-related charges). Additionally, the County operates a medical center, a nursing home, and a community college.

1. COMPONENT UNITS

The financial statement reporting entity includes the County of Erie (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.

The following organization was determined to have met the basic criteria for inclusion in the County of Erie reporting entity:

The Buffalo and Erie County Public 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 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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Concluded)

financially accountable. It has been discretely presented because it is not simply an extension of the primary government (i.e., it has a substantively different governing body, and its services are provided to the general public). The Library does not issue separate financial statements.

2. RELATED ORGANIZATIONS

County elected officials nominate and confirm the three-member board of the Erie County Water Authority, appoint a voting majority of the board of the Buffalo Convention Center Management Corporation, and also appoint the majority of the board of directors of the Erie Tobacco Asset Securitization Corporation ("ETASC"). 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, 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. In regard to ETASC, refer to Note XVII for additional information. These related organizations are not component units of the County and do not meet the basic criteria for inclusion in the County reporting entity.

3. JOINT VENTURE

The County is a participant in the Western Regional Off-Track Betting Corporation, a public benefit corporation established under New York State Racing, Pari-Mutuel Wagering and Breeding Law. The Corporation 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 XVI.

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. For the most part, the effects of interfund activity has 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 certain legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Grants Fund – used to account for federal and state operating grants (except the Community Development Block Grant) earmarked for specific programs, so that grantor accounting and reporting requirements can be satisfied.

Tobacco Proceeds Projects Fund – used to account for the net proceeds from the County's securitization of its share of the 1998 Master Settlement Agreement with the tobacco industry that will be used to fund capital projects that otherwise would have been supported by operating funds of the issuance of bonds.

The County reports the following major proprietary funds:

Erie County Medical Center – used to account for consolidated activities of a comprehensive primary health care center and a nursing home serving Erie County and the Western New York region.

Community College – resources received and used for community college purposes are accounted for through the Community College ("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 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.

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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The County sponsorship share of support to the College for the College fiscal year ended August 31, 2002 was \$14,056,186, and is reported as a 2002 operating transfer to the College in the County's General Fund. However, \$75,600 of the 2002 transfers occurred subsequent to the end of the College fiscal period reported in these statements.

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.

Government-wide and proprietary fund financial statements apply all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB") Opinions, and Accounting Research Bulletins ("ARBs") of the Committee on Accounting Procedure.

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

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

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

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

D. Changes in Accounting

With this financial report the County has changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In implementing this change, the historical

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Changes in Accounting (Concluded)

cost of infrastructure assets (retroactive to 1980) are included as part of the governmental capital assets reported in the government-wide statements. Thus, the depreciated value of construction costs for highways, bridges and sewers is reported. However, the value of the land on which these assets reside is excluded, because acquisition occurred before 1980, and because the historical cost of this asset is considered not material.

The County has also implemented GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, GASB Statement No. 38, *Certain Financial Note Disclosures*, and, GASB Statement No. 41, *Budgetary Comparison Schedules –Perspective Differences*.

E. Budgets and Budgetary Data

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

1. In accordance with the County Charter and Administrative Code, no later than November 10, the County Executive submits a tentative operating and capital budget which details proposed expenditures and the proposed means of financing to the Erie County Legislature for the fiscal year commencing the following January 1. The College budget is not included in the County Executive's tentative budget, since it is separately adopted during the first County legislative meeting in July for the fiscal year commencing September 1.
2. After public hearings are conducted to obtain taxpayer comments, the County Legislature (governing board) adopts the budget no later than the second Tuesday in December.
3. Annual appropriated budgets are adopted and employed for control of the General Fund; the Road, Sewer, Downtown Mall, and E-911 Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund, minimally detailed to the department and account level. A fund level budget is used for the Erie County Medical Center Enterprise Fund. These budgets are adopted on a basis consistent with GAAP, except that encumbrances are reported as budgetary expenditures in the year of incurrence of commitment to purchase, as well as in the year of expenditure if the expenditure occurs in a fiscal year subsequent to the commitment in the General and the enumerated Special Revenue Funds. All unencumbered appropriations lapse at the end of the fiscal year. Budgetary comparisons presented in this report are on the budgetary basis, and represent the budget as modified. Annual appropriated budgets are not employed for the Grants and Community Development Special Funds. A reconciliation to convert GAAP basis data to the budgetary basis is provided in Note III.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Data (Concluded)

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. Except in the case of the Erie County Medical Center Enterprise Fund, the County Executive is authorized to make budget transfers up to a cumulative total of \$1,000 between accounts or budgeted subaccounts within an administrative unit. Those budget transfers greater than \$1,000 need legislative approval.
6. At January 1, the amount of encumbrances carried forward from the prior year are reestablished 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 subaccounts within an administrative unit. During the year, numerous supplementary appropriations were necessary.

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

F. 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, exclusive of grant-related commitments, 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.

G. Investments

Investments are stated at fair value.

H. Inventories

Inventories of the Erie County Medical Center Enterprise Fund are valued at market, which does not vary significantly with the lower of cost or market, determined by the average cost method.

I. Advances to Other Funds

In the fund financial statements, non-current portions of long-term interfund loans receivable are reported as advances and are offset equally by a fund balance reserve

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Advances to Other Funds (Concluded)

account, which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

J. 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 (amount not rounded) 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 market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized. Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives.

<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

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

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

K. Property Tax Revenue Recognition

The Countywide 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.

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 all prior years estimated to be uncollectible

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Tax Revenue Recognition (Concluded)

at December 31, 2002 amounted to \$11,376,894. This amount has been recorded as an allowance against the property taxes receivable account.

L. 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, retirees may be eligible to have group health and dental insurance premiums fully paid 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 \$34,504,095 and is reported as governmental activities - \$21,673,001 and business-type activities - \$12,831,094.

The Library component unit compensated absences liability of \$1,421,517 is recorded in full in the government-wide financial statements.

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.

M. 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*. 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.

Proprietary fund type loss contingency liabilities are recorded in accordance with GASB Statement No. 10 in the Enterprise Fund, except for workers' compensation, which is only recognized as a proprietary fund type liability when invoiced from the County.

Loss contingency liabilities arising from operations of the College are recorded in accordance with GASB Statement No. 10 by the County and are reported in full within governmental activities in the government-wide financial statements and in the General

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Insurance (Concluded)

Fund when payment is due. They are only recognized as a College liability when invoiced from the County.

N. 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.

O. 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.

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

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 appropriate for expenditure by the County at December 31, 2002, and include:

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

Reserved for Advances to Proprietary Funds - representing the noncurrent portion of loans to the Erie County Medical Center Business-Type Activity.

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Restrictions, Reserves and Designations (Continued)

citizen apartment complex and for a loan to the Buffalo Zoo for the redevelopment of the Main Animal Building.

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

Reserved for Repairs – representing resources from a real estate transfer tax that have 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 Education Program – 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, 2002 were as follows:

Designated for Subsequent Years' Expenditures –representing available fund balances being appropriated to meet future years' expenditure requirements, including contingencies and aid to localities.

Designated for Local Share of Grant Programs – representing funds set aside which may be needed to fund additional County program costs. Funds are also set aside for grant program County share, which was appropriated but not needed until next year, and also set aside by the Grant Fund from planned Health program surpluses to fund future years' similar program grants.

Designated for ECMC – representing funds set aside for special assistance to ECMC in future years.

Designated for Buffalo Schools – representing funds set aside to aid City of Buffalo School programs.

Designated for County Fleet – representing funds set aside for improvements to County automotive fleet.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Restrictions, Reserves and Designations (Concluded)

Designated for Buffalo Zoo Loan – representing funds set aside for authorized but undisbursed portion of a long-term loan.

Designated for Lombardi Advance Recoupment – representing funds set aside for potential recoupment by New York State of Social Service program advance payments.

Designated for Judgments and Claims – representing funds set aside for judgment and claims expenditures.

Designated for Regional Asset Fund – set aside for operating expenses, capital expenses, and grants for regional cultural organizations.

Q. Postemployment Benefits

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

Upon retirement, the County fully pays eligible employees' group health and 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 retirees may continue group health insurance coverage, with the County contributing 50% of the base cost for active employees.

Base cost is computed each year by averaging the monthly premiums under the two least expensive insurance plans offered to employees for either individual or family coverage, as appropriate for the retirees involved. The participants are required to contribute the difference between the County contribution and the total monthly premium for their selected carrier. The cost to the retirees can vary widely depending upon the insurance plan and specific class of coverage involved, and is normally deducted directly from their monthly state retirement check.

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 2002, \$9,082,659 was paid by the County on behalf of 3,928 eligible retirees.

R. 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

S. Reclassifications

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

T. Total Columns on Combined Statements - Overview

Total columns on the Combined Statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. This data does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

U. Future Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting the portions of GASB Statement No. 38, *Certain Financial Note Disclosures*, which are required for the year ending December 31, 2003, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, effective for the year ending December 31, 2004, and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the year ending December 31, 2005. The County is, therefore, unable to disclose the impact that adopting GASB Statement Nos. 39 and 40 will have on its financial position and results of operations when such statements are adopted.

II – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENTS OF FUND BALANCES/NET ASSETS

For the year ended December 31, 2002, the County has implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Omnibus*, required portions of GASB Statement No. 38, *Certain Financial Note Disclosures*, and GASB Statement No. 41, *Budgetary Comparison Schedules –Perspective Differences*.

GASB Statement No. 34 creates new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting and financial statements that present information for individual major funds, rather than by fund type.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2001, caused by the conversion to the accrual basis of accounting.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

II – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENTS OF FUND BALANCES/NET ASSETS
(Concluded)

The transition from governmental fund balance to net assets of the governmental activities is presented below:

A. Primary Government:

1. <u>Governmental Activities</u>	(000s omitted)
Combined fund balances as previously reported	\$ 464,570
Total capital assets at historical cost	928,562
Net Assets/Accumulated depreciation	(348,452)
Bonds payable	(229,343)
Other long-term obligations	(49,429)
Accrued interest on bonds payable	(3,271)
Long term assets deferred in the funds	34,173
Combined fund balances, restated as net assets	<u>796,810</u>
2. <u>Business-Type Activities</u>	(000s omitted)
Fund balance as previously reported	54,212
Accumulated depreciation	(16,451)
Reclassification of assets	2,688
Fund balance, restated as net assets	<u>\$ 40,449</u>

B. Library Component Unit:

	(000s omitted)
Fund balance as previously reported	3,375
Total capital assets at historical cost	65,182
Accumulated depreciation	(45,167)
Other long-term obligations	(1,979)
Fund balance, restated as net assets	<u>\$ 21,411</u>

III – REPORTING ON BUDGETARY BASIS

The County reports its budgetary status with the actual data including encumbrances as charges against budget appropriations. In addition, budgetary comparison information is not presented for certain Special Revenue Funds because they are not considered part of the County's annual budgetary plan. Accordingly, the budgetary status does not include the activity of either the Community Development or the Grants Special Revenue Funds; the net result of activity for these funds is \$0 and \$2,846,517 respectively, for 2002. Neither the Community Development nor the Grants Special Revenue Funds had any encumbrances at the beginning or the end of the year. Following is a reconciliation of the budgetary and the GAAP basis operating results:

	(000s omitted)
	<u>General Fund</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses - GAAP basis	\$ (41,801)
Less:	
Encumbrances	<u>11,424</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses - basis of budgeting	<u>\$ (53,225)</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

III – REPORTING ON BUDGETARY BASIS (Concluded)

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 by the re-establishment of prior-year encumbrances and the anticipated use of prior-year's fund balance, which had been designated for 2002 expenditures through the budget process.

Commitments related directly to the Grants and the Community Development Special Revenue Funds in the amount of \$5,211,420 and \$2,261,932, respectively, at December 31, 2002, 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. Budgetary control for the Erie County Medical Center Enterprise Fund is exercised through use of a fund level budget. There were no excesses of expenditures/expenses over appropriations at the established control level except for the following: in the Social Services Subfund of the General Fund, the Interfund Expenditure – Nonsubsidy, Senior Services Grants account exceeds budget by \$8,276; in the Sewer Special Revenue Fund, Contractual Services account exceeds budget by \$402,181.

The Road Special Revenue Fund reported a \$1.5 million deficit fund balance. In addition, a \$9.3 million deficit fund balance was reported in the Highways, Roads, Bridges and Equipment Capital Projects Fund (within the Capital Projects governmental fund type).

IV - CASH AND INVESTMENTS

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

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

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

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

IV - CASH AND INVESTMENTS (Continued)

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

(000s omitted)

	<u>Primary Government</u>	<u>Agency Fund</u>	<u>Library Component Unit</u>	<u>Reporting Entity Total</u>
Petty Cash	\$ 131	\$	\$ 9	\$ 140
Cash in Banks	136,814	50,719	3,154	190,687
Investments	<u>124,580</u>	<u></u>	<u></u>	<u>124,580</u>
	<u>\$ 261,525</u>	<u>\$ 50,719</u>	<u>\$ 3,163</u>	<u>\$ 315,407</u>

Deposits – The carrying amounts for deposits of the Reporting Entity were \$205,837,757. Related bank balance amounts classified by credit risk category are as follows:

(000s omitted)

<u>Credit Risk Category</u>	<u>Reporting Entity Bank Balance</u>
Insured (FDIC)	\$ 1,759
Uninsured:	
Collateral held by Reporting Entity's agent in Reporting Entity's name	131,334
Collateral held by pledging financial institution's trust department or agent in Reporting Entity's name	<u>72,745</u>
Total Deposits	<u>\$ 205,838</u>

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

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

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

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

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

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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

IV - CASH AND INVESTMENTS (Concluded)

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

	(000s omitted)			Fair Value
	Category			
	1	2	3	
Municipal Bonds	\$ 119,833	\$	\$	\$ 119,833
U.S. Treasury Bills		2,197		2,197
U.S. Treasury Strips		2,550		2,550
Total Investments	<u>\$ 119,833</u>	<u>\$ 4,747</u>	<u>\$ -</u>	<u>\$ 124,580</u>

V - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments include:

	(000s omitted)	
	Enterprise Funds	
Construction	\$ 4,689	
Debt Service	6	
Educational Grants	550	
	<u>\$ 5,245</u>	

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

Amounts restricted for debt service represent unexpended proceeds of borrowings on completed capital projects and/or interest earned from the investment of debt proceeds which will be used to reduce future debt service per New York State Local Finance Law.

Amounts restricted for educational grants represent unused portions of funds received by the College from grantors, which can only be used for designated purposes.

VI - 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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

VI - PROPERTY TAXES (Concluded)

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 for each month thereafter. In towns of the second class, taxes are due without penalty within ten days after receipt of the tax roll by the respective collection agency. Penalties are 1.5% prior to March 16 unless waived, 7.5% prior to May 1, and 1.5% additional each month thereafter. All towns first retain their share of taxes from collections and remit the balance to the County. The County is responsible for uncollected taxes of all subordinate jurisdictions, except for the three cities.

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

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

Constitutional Tax Limit

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

The County constitutional tax limit (per New York State statutes) for the fiscal year ended December 31, 2002 is computed as follows:

	(000s omitted)
Five-Year Average Full Valuation of Taxable Real Estate (1997-2001)	\$ <u>31,996,240</u>
Tax Limit @ 1.5%	\$ 479,944
Statutory Additions	<u>31,480</u>
Total Taxing Power	511,424
Total Levy	<u>(159,162)</u>
Tax Margin	<u>\$ 352,262</u>

VII - 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, 2002 include sales, use and transfer taxes of approximately \$24.9 million; state and federal assistance for social services in excess of \$104.9 million; and other state and federal aid (including grants) approximating \$6 million.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

VIII - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2002 was as follows:

A. Primary Government

1. Governmental Activities

	(000s omitted)			
	Balance 1/1/02	Increases	Decreases	Balance 12/31/02
Capital assets, not being depreciated:				
Land	\$ 22,883	\$ 4,327	\$	\$ 27,210
Construction in progress	34,085	67,140	(51,257)	49,968
Total capital assets, not being depreciated	<u>56,968</u>	<u>71,467</u>	<u>(51,257)</u>	<u>77,178</u>
Capital assets, being depreciated:				
Buildings and improvements	325,966	7,592		333,558
Transportation Network	285,870	42,167	(69)	327,968
Sewer Network	199,877	5,384		205,261
Improvements other than buildings	9,465	1,016		10,481
Machinery and Equipment	50,417	14,223	(9,125)	55,515
Total capital assets, being depreciated	<u>871,595</u>	<u>70,382</u>	<u>(9,194)</u>	<u>932,783</u>
Less accumulated depreciation for:				
Buildings	(152,883)	(9,960)		(162,843)
Transportation Network	(102,954)	(12,389)	69	(115,274)
Sewer Network	(48,743)	(3,076)		(51,819)
Improvements other than buildings	(3,883)	(473)		(4,356)
Machinery and Equipment	(39,989)	(2,955)	9,023	(33,921)
Total accumulated depreciation	<u>(348,452)</u>	<u>(28,853)</u>	<u>9,092</u>	<u>(368,213)</u>
Total capital assets, being depreciated, net	<u>523,143</u>	<u>41,529</u>	<u>(102)</u>	<u>564,570</u>
Governmental activities capital assets, net	<u>\$ 580,111</u>	<u>\$ 112,996</u>	<u>\$ (51,359)</u>	<u>\$ 641,748</u>

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

	(000s omitted)
Governmental activities:	
General government	\$ 3,007
Public safety	2,320
Health	180
Transportation	13,457
Economic assistance and opportunity	148
Culture and recreation	3,411
Education	2,390
Home and community service	3,940
Total governmental activities depreciation expense	<u>\$ 28,853</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

VIII - CAPITAL ASSETS (Continued)

A. Primary Government (Continued)

2. Business-Type Activities

a) Medical Center

	(000s omitted)			
	Balance 1/1/02	Increases	Decreases	Balance 12/31/02
Capital assets, not being depreciated:				
Land	\$ 444	\$	\$	\$ 444
Construction in progress	10,231	6,540	(1,532)	15,239
Total capital assets, not being depreciated	<u>10,675</u>	<u>6,540</u>	<u>(1,532)</u>	<u>15,683</u>
Capital assets, being depreciated:				
Land improvements	2,877			2,877
Buildings	205,879	4,322		210,201
Fixed equipment	3,799	7		3,806
Major movable equipment	78,668	604	(263)	79,009
Capital leases	8,956			8,956
Health information computer system	2,231	67		2,298
Total capital assets, being depreciated	<u>302,410</u>	<u>5,000</u>	<u>(263)</u>	<u>307,147</u>
Less accumulated depreciation for:				
Land improvements	(2,374)	(63)		(2,437)
Buildings	(147,523)	(5,621)		(153,144)
Fixed equipment	(3,316)	(111)		(3,427)
Major movable equipment	(63,143)	(4,663)	260	(67,546)
Capital leases	(6,898)	(582)		(7,480)
Health information computer system	(1,024)	(453)		(1,477)
Total accumulated depreciation	<u>(224,278)</u>	<u>(11,493)</u>	<u>260</u>	<u>(235,511)</u>
Total capital assets, being depreciated, net	<u>78,132</u>	<u>(6,493)</u>	<u>(3)</u>	<u>71,636</u>
Medical Center capital assets, net	<u>\$ 88,807</u>	<u>\$ 47</u>	<u>\$ (1,535)</u>	<u>\$ 87,319</u>

b) Community College

	(000s omitted)			
	Balance 9/1/01	Increases	Decreases	Balance 8/31/02
Capital assets, being depreciated:				
Building Improvements	\$ 0	\$ 266	\$ 0	\$ 266
Equipment	20,168	2,268	(1,518)	20,918
Library collections	2,688	263	(240)	2,711
Total capital assets, being depreciated	<u>22,856</u>	<u>2,531</u>	<u>(1,758)</u>	<u>23,629</u>
Less accumulated depreciation for:				
Building Improvements	0			0
Equipment	(15,122)	(1,899)	1,485	(15,536)
Library collections	(1,329)	(258)	228	(1,359)
Total accumulated depreciation	<u>(16,451)</u>	<u>(2,157)</u>	<u>1,713</u>	<u>(16,895)</u>
Community College capital assets, being depreciated, net	<u>\$ 6,405</u>	<u>\$ 374</u>	<u>\$ (45)</u>	<u>\$ 6,734</u>

Total Business-Type Activities:

Land and construction in progress	\$ 10,675	\$ 6,540	\$ (1,532)	\$ 15,683
Other capital assets, net of depreciation	<u>84,537</u>	<u>(5,853)</u>	<u>(48)</u>	<u>78,636</u>
Total Business-Type activities capital assets, net	<u>\$ 95,212</u>	<u>\$ 687</u>	<u>\$ (1,580)</u>	<u>\$ 94,319</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

VIII - CAPITAL ASSETS (Concluded)

B. Library Component Unit

	(000s omitted)			
	Balance 1/1/02	Increases	Decreases	Balance 12/31/02
Capital assets, not being depreciated:				
Rare book collection	\$ 8,635	\$ _____	\$ _____	\$ 8,635
Capital assets, being depreciated:				
Machinery, Equipment and Library materials	56,547	3,380	(150)	59,777
Less accumulated depreciation for:				
Machinery, Equipment and Library materials	(45,167)	(3,776)	150	(48,793)
Total capital assets, being depreciated, net	11,380	(396)	-	10,984
Library Component Unit capital assets, net	<u>\$ 20,015</u>	<u>\$ (396)</u>	<u>\$ -</u>	<u>\$ 19,619</u>

IX – 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

IX - RETIREMENT PLANS (Continued)

A. New York State and Local Employees' Retirement System (Concluded)

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	Component Unit - ERS
2002	\$ 11,225,469	\$ 384,555
2001	8,272,394	282,794
2000	5,324,713	317,762

The employer contributions made to the ERS were equal to 100% of the contributions required for each year.

Since 1989, the billings of the ERS have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the ERS' fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay part or all of this liability; the County opted to make a partial prepayment. Due to a subsequent change in relevant state statutes, however, the portion of the prepayment made by the County that was in excess of the required minimum amortization payment due on December 15, 1989, was recognized by ERS as a credit to be applied against future contribution requirements, rather than as a reduction of the 1988 and 1989 retirement year liability. These credits have been recorded as assets by the County in the General Fund to be used for the purpose of meeting its contribution requirements for both the current year and for those retirement liabilities being amortized over 17 or 5 years. The total unpaid amount for this portion of the retirement liability at the end of the fiscal year was \$13,942,298 of which \$10,746,621 and \$2,761,448 are reported as Governmental Activities and Business-Type Activities of the primary government, respectively, and \$434,229 is reported by the Library component unit.

In addition, since 1991, the State Legislature authorized local governments to make available retirement incentive programs during a number of years. The estimated total cost to the County for the 1999 and 2000 programs, which are the only programs not fully paid as of December 31, 2002, is \$9.2 million. Program costs are billed and paid over five years, beginning on December 15 of the year after which the incentive is offered to employees, and will include interest at 8.75%. Amounts unpaid at December 31, 2002, for retirement incentive programs totaled \$5,647,280, of which \$3,896,470 is payable by governmental funds, and \$1,750,810 by the proprietary funds.

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 salary up to \$16,500, and 15% of salary in excess of \$16,500.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

IX - RETIREMENT PLANS (Continued)

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

Employees hired after July 1, 1976 contribute 3% their salary, and the College contributes 9% of salary up to \$16,500, and 12% of amounts in excess of \$16,500. Employees hired after July 1, 1994 contribute 3% of their salaries, and the College contributes 8% of total salaries. Approximate contributions made by the College and its employees in the 2002 fiscal year were \$1,753,531 and \$417,264, respectively. The total unpaid balance of this retirement liability at the end of the College's fiscal year was \$164,001.

C. New York State Teachers' Retirement Systems

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:

<u>Year</u>	<u>County TRS</u>
2002	\$ 224,975
2001	439,535
2000	409,471

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, 2002, is an estimated \$573,230 of which \$114,727 was charged to expenditures in the current fiscal year. 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

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

IX - RETIREMENT PLANS (Concluded)

C. New York State Teachers' Retirement Systems (Concluded)

after the incentive is offered to employees, or are paid in a lump sum. The total unpaid balance of this retirement liability at the end of the College's fiscal year was \$309,168.

D. Summary of Retirement Plan Liabilities:

(000s omitted)

Retirement Plan/ Description	Governmental Activities	Business-type Activities	Primary Governmental Total	Library Component Unit	Reporting Entity Total
<u>ERS</u>					
Regular	\$ 10,747	\$ 2,761	\$ 13,508	\$ 434	\$ 13,942
Early Retirement	3,896	1,751	5,647		5,647
Total	<u>14,643</u>	<u>4,512</u>	<u>19,155</u>	<u>434</u>	<u>19,589</u>
<u>TRS</u>					
Regular		46	46		46
Early Retirement		263	263		263
Total	<u>0</u>	<u>309</u>	<u>309</u>	<u>0</u>	<u>309</u>
<u>TIAA-CREF</u>					
Regular		164	164		164
Total	<u>\$ 14,643</u>	<u>\$ 4,985</u>	<u>\$ 19,628</u>	<u>\$ 434</u>	<u>\$ 20,062</u>

X - UNISSUED FINANCING AUTHORIZATIONS

The County has issued permanent financing (either in the form of bond anticipation notes or serial bonds) to fund all current approved capital projects, with the exception of the following authorized project groupings:

(000s omitted)

	at 12/31/02
Buildings	\$ 114,163
Sewers	41,959
Highways	54,974
Other	<u>23,475</u>
	<u>\$ 234,571</u>

The funding and realization of the majority of these projects is planned for future years.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT

A. Bonded Indebtedness

Bonded indebtedness is reported in the government-wide financial statements. The following is a summary of bond transactions of the County for the year ended December 31, 2002:

(000s omitted)								
Description	Issue	Maturity	Interest Rate	Balance 1/1/02	Additions	Payments	Balance 12/31/02	Due Within One Year
Serial Bonds	1983	2008	9.60-10.00	\$ 3,300	\$	\$ 1,500	\$ 1,800	\$ 1,050
"	1991	2006	6.10-6.40	3,500		800	2,700	800
"	1992	2006	2.50-8.00	4,960		1,095	3,865	1,080
"	1992	2012	4.25-7.65	15,050		2,115	12,935	1,925
"	1993	2003	2.30-10.00	3,115		1,565	1,550	1,550
"	1993	2013	3.30-5.25	3,880		1,045	2,835	1,040
"	1993	2013	Zero Coupon	5,400			5,400	0
"	1994	2004	4.18-6.57	4,420		1,420	3,000	1,500
"	1994	2009	4.90-6.50	7,480		1,185	6,295	1,185
"	1994	2014	4.40-6.90	5,340		5,340	-	0
"	1995	2015	4.40-5.60	8,020		950	7,070	950
"	1995	2025	4.10-5.63	22,365		480	21,885	500
"	1996	2015	4.20-5.20	8,905		550	8,355	560
"	1996	2011	4.30-6.00	11,150		1,300	9,850	1,300
"	1996	2016	3.73-5.90	5,610		290	5,320	295
"	1996	2015	0.00	974		60	914	62
"	1997	2017	3.75-5.35	570		30	540	30
"	1997	2012	4.50-5.50	14,420		1,860	12,560	1,420
"	1997	2009	4.50-5.25	4,680		1,050	3,630	805
"	1997	2007	4.50-4.80	980		475	505	160
"	1998	2017	3.70-5.15	545		30	515	30
"	1998	2013	4.25-5.00	20,005		4,395	15,610	4,395
"	1999	2018	3.48-5.42	210		10	200	10
"	1999	2018	0.00	104		6	98	6
"	1999	2019	4.375-5.75	24,325		1,675	22,650	1,675
"	1999	2019	5.125-6.00	2,405		85	2,320	90
"	2000	2018	3.80-5.92	3,070		140	2,930	150
"	2000	2029	5.25-6.00	35,750		2,775	32,975	2,775
"	2000	2020	5.25-5.70	670		35	635	35
"	2001	2031	2.619-5.314	2,066		50	2,016	47
"	2001	2031	0.00	4,878		130	4,748	132
"	2001	2020	2.30-5.00	35,205			35,205	2,505
"	2001	2021	2.30-5.00	920			920	50
"	2002	2031	1.362-5.082		1,426	40	1,386	40
"	2002	2024	2.521-6.181		5,340	315	5,025	175
"	2002	2031	1.333-5.323		1,061	55	1,006	25
"	2002	2017	3.00-5.00		59,390		59,390	0
"	2002	2022	3.00-5.00		1,200		1,200	0
				<u>264,272</u>	<u>68,417</u>	<u>32,851</u>	<u>299,838</u>	<u>28,352</u>
Remaining unamortized:								
discount on zero coupon bonds				(1,472)*	211	0	(1,261)*	
premium on bond issuance					4,963	175	4,788	
Bonds payable for financial statement purposes				<u>\$ 262,800</u>	<u>\$ 73,591</u>	<u>\$ 33,026</u>	<u>\$ 303,365</u>	

* Amount of unamortized discount on zero coupon bonds at issue date was \$3.348 million. Of this amount, \$1.876 million and \$0.211 million have been amortized in the prior and current years, respectively.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

A. Bonded Indebtedness (Concluded)

The following is a summary of bonded indebtedness:

	(000s omitted)			
	Balance 1/1/02	Additions	Payments	Balance 12/31/02
Governmental Activities	\$ 230,684	\$ 68,417	\$ 25,993	\$ 273,108
Business-Type Activities	33,588		6,858	26,730
	264,272	68,417	32,851	299,838
Remaining unamortized:				
discount on zero coupon bonds	(1,472) *	211		(1,261) *
premium on bond issuance		4,963	175	4,788
Bonds payable for financial statement purposes	<u>\$ 262,800</u>	<u>\$ 73,591</u>	<u>\$ 33,026</u>	<u>\$ 303,365</u>

*Of these totals, the Business-Type Activities and the Governmental Activities portions are \$0.131 million and \$1.341 million at January 1, 2002, and \$0.112 million and \$1.149 million at December 31, 2002, respectively.

B. Other Long-Term Obligations

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

1. Capitalized Lease Obligations

Through its governmental funds, the County leases portions of a building from the City of Buffalo for court facilities. Under the court facilities lease, the County is separately invoiced annually for its share of operating and maintenance costs. In addition, the Erie County Medical Center (an enterprise fund of the County) leases certain major movable equipment. These lease agreements have been determined to be capital leases for accounting purposes. Accordingly, the leases have been recorded as assets at an amount equal to the present value of the minimum lease payments at the inception of the lease. Assets acquired under capital leases are reported as capital assets in the Government-wide financial statements. The related liability, which represents the present value of net minimum lease payments payable in future years, is reported as a liability. The following is an analysis of the property leased under capital leases as of December 31, 2002:

	(000s omitted)	
	Business- Type Activities	Governmental Activities
Buildings and Improvements	\$	\$ 1,639
Major Movable Equipment	8,957	
	<u>8,957</u>	<u>1,639</u>
Less: Accumulated Amortization	7,480	
Carrying Value	<u>\$ 1,477</u>	<u>\$ 1,639</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

B. Other Long-Term Obligations (Continued)

The following is a schedule of future minimum payments under these capital leases and the present value of the net minimum lease payments at December 31, 2002:

<u>Year</u>	(000s omitted)
	Business- Type <u>Activities</u>
2003	\$ <u>138</u>
2003 Net Minimum Lease Payments	138
Less: Amounts Representing Interest	<u>3</u>
Present Value of Net Minimum Lease Payments	<u>\$ 135</u>

2. Due to Retirement Systems

To the extent that the portion of the County's retirement liability will not be liquidated with expendable available financial resources, it is reported as a liability in the government-wide financial statements. The retirement liabilities for the Library component unit have also been reported as other long-term obligations because they will not be liquidated with expendable available financial resources. The following is a summary of the retirement liability reported in the government-wide financial statements:

	(000s omitted)		
	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	Component <u>Unit</u>
Retirement Liability Outstanding at year-end	\$ 14,643	\$ 4,985	\$ 434
Less: Due within one year	<u>3,528</u>	<u>1,716</u>	<u>133</u>
	<u>\$ 11,115</u>	<u>\$ 3,269</u>	<u>\$ 301</u>

3. Compensated Absences

The value recorded in the government-wide financial statements at December 31, 2002, for governmental activities is \$21,673,001.

Compensated absences totaling \$12,831,094 have been reported for business-type activities, of which \$3,188,975 and \$9,642,119 were classified as accrued liabilities and other long-term obligations, respectively.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

B. Other Long-Term Obligations (Concluded)

Compensated absences of the Library component unit totaling \$1,421,517 have been reported as an accrued liability since its annual budget provides funding for these benefits as they become payable.

4. Judgments and Claims

As further explained in Note XIV, 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 \$10,299,296 and have been reported as long-term liabilities in the government-wide financial statements. Proprietary Fund type loss contingency liabilities (excluding workers' compensation which is only recognized when invoiced from the County) are recorded in the Enterprise Funds; the long-term portion amounts to \$11,538,681.

C. Summary of Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2002:

1. Governmental Activities

	(000s omitted)				
	<u>Balance</u> 1/1/02	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 12/31/02	<u>Due Within</u> <u>One Year</u>
Bonds Payable for financial statement purposes	\$ 229,343	\$ 73,573 ⁽¹⁾	\$ 26,168	\$ 276,748	\$ 21,918
Other Long-Term Obligations:					
Due to New York State and Local Employees' Retirement System	\$ 13,130	\$ 5,149	\$ 3,636	\$ 14,643	\$ 3,528
Compensated Absences	21,898		225	21,673	12,255
Judgments and Claims	<u>16,708</u>	<u>9,483</u>	<u>2,133</u>	<u>24,058</u> ⁽²⁾	<u>13,759</u>
	<u>\$ 51,736</u>	<u>\$ 14,632</u>	<u>\$ 5,994</u>	<u>\$ 60,374</u>	<u>\$ 29,542</u>

⁽¹⁾ Includes \$0.192 million representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is \$1.149 million.

⁽²⁾ The current portion of the governmental fund December 31, 2002 liability of \$5.23 million is recorded entirely in the General Fund as accrued liabilities on the balance sheet.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

C. Summary of Changes in Long-Term Debt (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>
Bonds Payable for financial statement purposes	\$ 33,457	\$ 18 *	\$ 6,858	\$ 26,617	\$ 6,954
Other Long-Term Obligations:					
Capitalized Leases	\$ 628	\$	\$ 493	\$ 135	\$ 135
Due to Retirement Systems	6,536		1,551	4,985	1,716
Compensated Absences	12,280	551		12,831	3,189
Judgments and Claims	24,425		10,439	13,986	2,447
	<u>\$ 43,869</u>	<u>\$ 551</u>	<u>\$ 12,483</u>	<u>\$ 31,937</u>	<u>\$ 7,487</u>

* Includes \$.019 million representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is \$0.112 million.

3. Library Component Unit

(000s omitted)

	<u>Balance 1/1/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/02</u>	<u>Due Within One Year</u>
Other Long-Term Obligations:					
Due to New York State and Local Employees' Retirement System	\$ 557	\$	\$ 123	\$ 434	\$ 133
Compensated Absences	1,422			1,422	804
	<u>\$ 1,979</u>	<u>\$ 0</u>	<u>\$ 123</u>	<u>\$ 1,856</u>	<u>\$ 937</u>

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

D. Maturity Schedules

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

(000s omitted)

<u>Year</u>	<u>Total</u>	<u>Serial Bonds</u>	<u>Capitalized Leases</u>	<u>Retirement</u>	<u>Compensated Absences</u>	<u>Judgments & Claims</u>
2003	65,381	28,352	135	5,244	15,444	16,206
2004	30,800	25,589		5,211		
2005	29,009	23,521		5,488		
2006	22,299	21,851		448		
2007	20,198	19,715		483		
2008-2012	87,467	84,713		2,754		
2013-2017	62,053	62,053				
2018-2022	20,019	20,019				
2023-2027	10,893	10,893				
2028-2032	3,132	3,132				
Various*	40,898				19,060	21,838
	<u>392,149</u>	<u>299,838</u>	<u>\$ 135</u>	<u>\$ 19,628</u>	<u>\$ 34,504</u>	<u>\$ 38,044</u>
	(1,261)	(1,261)				
	<u>4,788</u>	<u>4,788</u>				
	<u>\$ 395,676</u>	<u>\$ 303,365</u>				

Remaining unamortized discount on zero coupon bonds
 Remaining unamortized premium of bond issuance
 Long-Term Debt for financial statement purposes

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

2. Remaining Annual Maturities of Long-Term Debt (by Activity) - Primary Government

(000s omitted)

<u>Year</u>	<u>Total</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2003	65,381	50,940	14,441
2004	30,800	25,376	5,424
2005	29,009	23,670	5,339
2006	22,299	19,757	2,542
2007	20,199	17,904	2,295
2008-2012	87,466	81,286	6,180
2013-2017	62,053	60,789	1,264
2018-2022	20,019	20,019	
2023-2027	10,893	10,893	
2028-2032	3,132	3,132	
Compensated Absences *	19,060	9,418	9,642
Judgments & Claims *	21,838	10,299	11,539
	<u>392,149</u>	<u>333,483</u>	<u>58,666</u>
Remaining unamortized:			
discount on zero coupon bonds	(1,261)	(1,149)	(112)
premium on bond issuance	<u>4,788</u>	<u>4,788</u>	
Long-term debt for financial statement purposes	<u>\$ 395,676</u>	<u>\$ 337,122</u>	<u>\$ 58,554</u>

* Payment of the long-term portion of compensated absences of \$19,060 and the long-term portion of judgments and claims totaling \$21,838 are dependent upon many factors; therefore, timing of future payments is not readily determinable.

Current portions of retirement liability, and judgments and claims are reported in the government-wide financial statements as accrued liabilities.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Continued)

D. Maturity Schedules (Concluded)

3. Annual Interest Payments Due on Serial Bonds - Primary Government

	(000s omitted)
<u>Year</u>	<u>Amount</u>
2003	\$ 11,158
2004	10,251
2005	9,422
2006	8,625
2007	7,874
2008-2012	29,214
2013-2017	14,405
2018-2022	4,813
2023-2027	1,454
2028-2032	128
	<u>\$ 97,344</u>

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

	(000s omitted)
<u>Year</u>	<u>Amount</u>
2003	\$ 133
2004	144
2005	157
Various*	1,422
	<u>\$ 1,856</u>

* Payment of compensated absences of \$1,421,517 is dependent on many factors; therefore, timing of future payments is not readily determinable.

E. 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 (Continued)
DECEMBER 31, 2002

XI - LONG-TERM DEBT (Concluded)

F. Constitutional Debt Limit

The County constitutional debt limit at December 31, 2002 is computed as follows:

	(000s omitted)
Five-Year Average Full Valuation of Taxable Real Estate (1998-2002)	\$ <u>32,027,229</u>
Debt Limit @ 7%	\$ 2,241,906
Net Indebtedness (After Statutory Exclusions)	<u>(256,296) *</u>
Net Debt Contracting Margin	\$ <u>1,985,610</u>
Percentage of Debt Contracting Power Exhausted	11.43%

* Gross indebtedness of \$345.87 million less exclusions of \$89.57 million.

G. Operating Leases

Operating lease obligations are primarily for rental of space. Lease expenditures/expenses for the year were approximately \$6,450,000. The future minimum rental payments required for noncancellable operating leases are:

	(000s omitted)
<u>Fiscal</u> <u>Year</u>	<u>Primary</u> <u>Government</u>
2003	\$ 3,668
2004	2,847
2005	2,163
2006	1,808
2007	<u>211</u>
	<u>\$ 10,697</u>

H. Advanced Refunding

In June 2002, the County issued \$5,340,000 of general obligation serial bonds that were purchased by the New York State Environmental Facilities Corporation ("EFC"). The proceeds were used to advance refund \$5,340,000 of outstanding 1994 bonds that had been sold to EFC. The refunded bonds carry interest rates of 6% - 6.9%, depending on maturity date, and are scheduled to mature in the years 2002 through 2014. The interest rates on the refunding bonds are 2.52% - 6.18%, and they mature from November 2002 to November 2024.

The effect of the advance refunding transaction is an increase in total debt service payments of \$1,041,325 and an economic gain of \$390,151. The economic gain is the difference between the present values of the old and new debt service payments.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XII - SHORT-TERM DEBT

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

The following is a summary of the County's short-term debt:

Description	Date of Issue	Maturity	Rate	General Fund	(000s omitted)	
					Capital Projects Funds	Total
Bond Anticipation Notes	6/1/00	6/1/03	0%	\$	\$ 309	\$ 309
Bond Anticipation Notes	7/20/00	7/20/03	0%		1,938	1,938
Bond Anticipation Notes	6/28/01	6/28/04	0%		550	550
Bond Anticipation Notes	10/17/02	10/17/05	0%		234	234
Revenue Anticipation Notes	9/18/02	9/17/03	2.5%	43,000	0	43,000
				<u>\$ 43,000</u>	<u>\$ 3,031</u>	<u>\$ 46,031</u>

The current portion of proprietary fund type bonds totals \$6,954,282 and is included within the bonds payable classification on the balance sheet.

The current portion of proprietary fund type capitalized leases totals \$134,846 included within the other long-term obligations classification on the balance sheet.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XIII - INTERFUND TRANSACTIONS

A. Interfund receivables and payables of the County at December 31, 2002 consisted of the following:

	(000s omitted)	
<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
1. <u>Primary Government</u>		
a. <u>Governmental activities</u>		
General	\$ 97,686	\$ 3,554
Special Revenue:		
Road	228	1,164
Sewer	368	314
Downtown Mall		6
Community Development		43
Grants	1,194	23,939
Debt Service	2,900	
Capital Projects:		
General Government Buildings, Equipment and Improvements	3,000	7,741
Highways, Roads, Bridges & Equipment		19,747
Sewers, Facilities, Equipment & Improvements		3,173
Special Capital Projects		1,595
Total Governmental Activities	<u>105,376</u>	<u>61,276</u>
b. <u>Business-type activities</u>		
Enterprise:		
Medical Center		30,894
Utilities	<u>230</u>	<u>267</u>
Total Business-type activities	<u>230</u>	<u>31,161</u>
Total Primary Government	105,606	92,437
2. Agency	<u>473</u>	<u>12,320</u>
	<u>\$ 106,079</u>	<u>\$ 104,757</u>

Interfund receivables exceed interfund payables by \$1,322,101. This difference represents payments made by the County on behalf of the College that are not reflected as a Due To in the College balance sheet because of the difference between the County and the College fiscal year end.

Noncurrent portions of County long-term interfund loans receivable and payable (which are reported as advances to/from) at December 31, 2002 were as follows:

	(000s omitted)	
<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>
General	\$ 12,293	
Enterprise:		
Medical Center		\$ 12,293

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XIV - 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.

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.

Proprietary type fund claims and judgments applicable to self-insured claims are recorded as expenses and liabilities in the Enterprise Funds (except workers' compensation, which is only recognized when invoiced from the County, and malpractice, which has been assumed by the County). Proprietary type fund workers' compensation liability that was not recorded in the Enterprise Funds at December 31, 2002 totaled \$8,702,157; this amount was recorded as a Governmental Activities long-term liability. In 2002, the County assumed the Medical Center's malpractice liability. As a result, the County recorded a Governmental Activities long-term liability and special item of \$4,000,000. At December 31, 2002, the claims and judgments recorded as proprietary type fund liabilities amounted to \$561,371 and is recorded as an other long-term obligation on the balance sheet. This liability is the County's best estimate based on available information. Changes in the reported liability in the proprietary funds since December 31, 2000, resulted from the following:

Claims and judgments reportable as part of the County's governmental type fund activities

<u>Year</u>	<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>
2001	\$ 4,710,000	\$ 550,000	\$ 484,000	\$ 4,776,000
2002	4,776,000	133,049	4,347,678	561,371

are recognized as expenditures and fund liabilities in the General Fund when payment is due. Claims and judgments recorded as a Governmental Activities long-term liability instead of in the General Fund at December 31, 2002, because they did not meet the criteria for recognition as fund liabilities, amounted to \$18,828,431 (including workers' compensation liability of \$8,702,157 relating to proprietary type funds that are only recognized when invoiced by the County).

In addition, the County has claims in the range of \$2,930,000 to \$28,926,100 for which there is a reasonable possibility of a future loss.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XIV - CONTINGENCIES (Concluded)

A. Self-Insurance Programs (Concluded)

The changes since December 31, 2000 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>
2001	\$ 3,695,402	\$ 10,737,727	\$ 12,126,429	\$ 2,306,700
2002	2,306,700	5,055,545	2,132,742	5,229,503

The governmental fund December 31, 2002 liability is recorded entirely in the General Fund as accrued liabilities on the balance sheet.

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, 2002, 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 \$113.5 million for the year ended December 31, 2002. The enabling legislation allowing this additional tax expires February 28, 2004. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

D. Other Contingent Liabilities

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 is 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, 2002, the County has recorded \$2,447,120 and \$10,977,310 as accrued liabilities and other long-term obligations, respectively, in the Erie County Medical Center Enterprise Fund for probable third-party payor settlements. The amount of any other expenditures that may be disallowed cannot be determined at this time, although the County expects such amounts to be immaterial.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2002

XV - FUND BALANCE DESIGNATIONS

Designations are not required segregations, but are segregated for a specific purpose by the County at December 31, 2002 and include:

(000s omitted)

	County at 12/31/02		College at 8/31/02	Total Primary Government	Library Component Unit at 12/31/02	Total Reporting Entity
	General	Special Revenue				
Designated for:						
Subsequent year's expenditures	\$ 49,941	\$ 4,136	\$ 500	\$ 54,577	\$ 1,663	\$ 56,240
Local share of Grant programs	5,694	1,914		7,608		7,608
ECMC	24,800			24,800		24,800
Buffalo Schools	206			206		206
County Fleet	67			67		67
Buffalo Zoo Loan	86			86		86
Lombardi Advance Recoupment	11,053			11,053		11,053
Judgments and Claims	842			842		842
Regional Asset Fund	2,970			2,970		2,970
Total Fund Balance Designations	<u>\$ 95,659</u>	<u>\$ 6,050</u>	<u>\$ 500</u>	<u>\$ 102,209</u>	<u>\$ 1,663</u>	<u>\$ 103,872</u>

XVI - 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 net revenue available for distribution for 2001 (latest available audited data) was \$9,595,090, of which \$118,194 was still payable to participating municipalities at December 31, 2001. In addition, cumulative net revenue retained for capital acquisitions was \$28,087,715 at December 31, 2001. 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.

COUNTY OF ERIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (Concluded)
DECEMBER 31, 2002

XVII – RELATED ORGANIZATION – Erie Tobacco Securitization Corporation

The County entered into a Purchase and Sale Agreement with the ETASC dated September 1, 2000 pursuant to which ETASC acquired all of the County's right, title and interest to tobacco settlement revenues to which the County would otherwise be entitled from October 5, 2000 in perpetuity under the Master Settlement Agreement (the "MSA") and the New York Consent Decree and Final Judgment (the "Decree") under the MSA. The consideration provided to the County for such acquisition consisted of the \$211,722,302 in net proceeds from the sale of the Series 2000 bonds by ETASC and a 100% beneficial ownership interest in the ETASC Residual Trust. Beneficial ownership of the Residual Trust entitles the County each year to any excess tobacco settlement revenues received by ETASC that are not required to pay debt service or fund required reserves with respect to the bonds ETASC issued, or to pay the various expenses of ETASC; as well as to the net proceeds of any bonds (other than refunding bonds) issued subsequent to the Series bonds. ETASC's right to receive Tobacco Settlement Revenues is its most significant asset and is expected to produce funding for all its obligations. 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 Erie County. ETASC is a related organization and does not meet the criteria of a component unit as defined in GASB Statement No. 14, *The Financial Reporting Entity*. Accordingly, the financial statements are prepared on a "stand alone" basis and not included in the County's financial statements.

A copy of the audited financial statements can be obtained from the Erie Tobacco Asset Securitization Corporation, c/o Joseph Passafiume, Treasurer, 95 Franklin Street, Room 1600, Buffalo, New York 14202.

XVIII – SUBSEQUENT EVENTS

The County issued \$79,135,000 of public improvement serial bonds and \$2,405,000 of Sewer District serial bonds dated June 15, 2003. The proceeds will be used to finance various capital projects. The interest rate for the bonds is 2% - 5%, and they mature March 2005 through March 2023.

The County issued \$90,000,000 of revenue anticipation notes dated June 24, 2003. These general obligation notes, which have an interest rate of 1.5%, 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 23, 2004, 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.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

These financial statements and schedules provide more detailed information than is presented in the basic financial statements.

Combining statements are presented for the non-major governmental funds.

Individual fund schedules present comparisons of budgetary and actual data.

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. These funds include the Road, Sewer, Downtown Mall, E-911 and Community Development Funds.

- **Road Special Revenue Fund**
Used to account for all revenues and expenditures related to the maintenance of County roads and bridges, snow removal, construction and reconstruction of County roads not required to be recorded in a Capital Projects Fund.
- **Sewer Special Revenue Fund**
Used to account for the activities of the various sewer districts currently in operation within the County.
- **Downtown Mall Special Revenue Fund**
Used to account for revenues raised through a special district charge levy and the subsequent expenditure of these monies for the operation and maintenance of a downtown pedestrian/transit mall.
- **E-911 Special Revenue Fund**
Used to account for revenues raised through a telephone access line surcharge and the subsequent expenditure of these monies for the establishment and maintenance of an Enhanced 911 emergency telephone system.
- **Community Development Special Revenue Fund**
Used to assist participating municipalities in the development of locally approved community or economic development activities that are eligible under federal program regulations.

NONMAJOR GOVERNMENTAL FUNDS (Continued)

DEBT SERVICE FUNDS

Debt Service Funds are used to account for current payments of principal and interest on general obligation long-term debt, and for financial resources that have been accumulated to make future principal and interest payments on general long term indebtedness.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities:

- **General Government Buildings, Equipment and Improvements Fund**

Used to account for capital projects administered by the Department of Public Works involving the acquisition, construction, or reconstruction of major or permanent facilities having a relatively long useful life and equipment purchased from the proceeds of long-term debt.

- **Highways, Roads, Bridges and Equipment Fund**

Utilized to account for capital projects administered by the Department of Public Works for the construction or reconstruction of County roads and bridges and the acquisition of equipment not accounted for in the Road Fund.

- **Sewers, Facilities, Equipment and Improvements Fund**

Used to account for capital projects relating to the construction and acquisition of sewer facilities and equipment by the operating sewer districts.

- **Special Capital Projects Fund**

Utilized to account for capital projects administered by departments other than Public Works that are primarily for the acquisition or construction of buildings, improvements and equipment.

COUNTY OF ERIE, NEW YORK
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2002
(amounts expressed in thousands)

/-----Special Revenue -----/

	Road	Sewer	Downtown Mall	E-911	Community Development	Total	Debt Service
Assets							
Cash and investments	\$ 3	\$ 17,433	\$	\$ 723	\$	\$ 18,159	\$ 15,339
Receivables (net of allowances)							
Real property taxes, interest, penalties and liens			111			111	
Other		1		177	21,538	21,716	
Due from other funds	228	368				596	2,900
Due from other governments	1,933				878	2,811	237
Total assets	2,164	17,802	111	900	22,416	43,393	18,476
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	1,480	508		83	637	2,708	
Accrued liabilities	1,088	4,906	83	16	45	6,138	282
Due to other funds	1,164	314	6		43	1,527	
Due to component unit							
Due to other governments					3	3	
Retained percentages payable		15				15	
Deferred revenue					21,688	21,688	
Short-term debt							
Total liabilities	3,732	5,743	89	99	22,416	32,079	282
Fund balances:							
Reserved for:							
Encumbrances	327	1,672		2		2,001	
Debt service							18,194
Repairs	1,999					1,999	
E-911 system costs				799		799	
Unreserved, reported in:							
Special revenue funds							
Designated		4,136				4,136	
Undesignated	(3,894)	6,251	22			2,379	
Capital projects fund							
Total fund balances	(1,568)	12,059	22	801		11,314	18,194
Total liabilities and fund balances	\$ 2,164	\$ 17,802	\$ 111	\$ 900	\$ 22,416	\$ 43,393	\$ 18,476

COUNTY OF ERIE, NEW YORK
 Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2002
 (amounts expressed in thousands)

	/-----Capital Projects-----/					
	General Government Buildings, Equipment and Improvements	Highways, Roads, Bridges and Equipment	Sewers, Facilities Equipment and Improvements	Special Capital Projects	Total	Total Nonmajor Governmental Funds
Assets						
Cash and investments	\$ 41,679	\$ 8,263	\$ 7,133	\$ 3,801	\$ 60,876	\$ 94,374
Receivables (net of allowances)						
Real property taxes, interest, penalties and liens						111
Other	5	5,779	179	868	6,831	28,547
Due from other funds	3,000				3,000	6,496
Due from other governments	2,817				2,817	5,865
Total assets	47,501	14,042	7,312	4,669	73,524	135,393
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	9,297	2,310	154	2,149	13,910	16,618
Accrued liabilities	36				36	6,456
Due to other funds	7,741	19,747	3,173	1,595	32,256	33,783
Due to component unit				681	681	681
Due to other governments						3
Retained percentages payable	1,020	1,282	270	156	2,728	2,743
Deferred revenue						21,688
Short-term debt			3,031		3,031	3,031
Total liabilities	18,094	23,339	6,628	4,581	52,642	85,003
Fund balances:						
Reserved for:						
Encumbrances	65,737	7,840	3,850	1,868	79,295	81,296
Debt service						18,194
Repairs						1,999
E-911 system costs						799
Unreserved, reported in:						
Special revenue funds						
Designated						4,136
Undesignated						2,379
Capital projects fund	(36,330)	(17,137)	(3,166)	(1,780)	(58,413)	(58,413)
Total fund balances	29,407	(9,297)	684	88	20,882	50,390
Total liabilities and fund balances	\$ 47,501	\$ 14,042	\$ 7,312	\$ 4,669	\$ 73,524	\$ 135,393

COUNTY OF ERIE, NEW YORK
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

-----Special Revenue -----

	Road	Sewer	Downtown Mall	E-911	Community Development	Total	Debt Service
Revenues:							
Real property taxes and tax items	\$	\$ 18,050	\$ 1,195	\$	\$	\$ 19,245	\$
Sales, use and transfer taxes	8,018			2,042		10,060	
Intergovernmental	4,738	14			5,045	9,797	1,615
Interfund revenues	2					2	
Departmental	1,664	7,915			968	10,547	
Interest		432				432	1,936
Miscellaneous		19				19	14
Total revenues	<u>14,422</u>	<u>26,430</u>	<u>1,195</u>	<u>2,042</u>	<u>6,013</u>	<u>50,102</u>	<u>3,565</u>
Expenditures:							
Current:							
General government support			1,195			1,195	216
Public safety				2,097		2,097	
Health							
Transportation	17,757					17,757	
Economic assistance and opportunity							
Education							
Home and community service		24,248			5,928	30,176	
Capital outlay							
Debt service:							
Principal retirement							20,653
Interest and fiscal charges							11,252
	<u>17,757</u>	<u>24,248</u>	<u>1,195</u>	<u>2,097</u>	<u>5,928</u>	<u>51,225</u>	<u>32,121</u>
	<u>(3,335)</u>	<u>2,182</u>	<u>0</u>	<u>(55)</u>	<u>85</u>	<u>(1,123)</u>	<u>(28,556)</u>
Other financing sources (uses) :							
Proceeds of general obligation debt							4,963
Premium on bond issuance							5,340
Proceeds of refunding bonds							(5,340)
Payments to refunded bond escrow							
Sale of property	4				5	9	
Operating transfers in	450	30				480	26,222
Operating transfers from component unit							
Operating transfers from primary government							
Operating transfers out		(4,294)			(90)	(4,384)	
Operating transfers to primary government							
Operating transfers to component unit							
	<u>454</u>	<u>(4,264)</u>	<u>0</u>	<u>0</u>	<u>(85)</u>	<u>(3,895)</u>	<u>31,185</u>
Net change in fund balances	(2,881)	(2,082)	0	(55)	0	(5,018)	2,629
Fund balances at beginning of year	1,313	14,141	22	856		16,332	15,565
Fund balances at end of year	<u>\$ (1,568)</u>	<u>\$ 12,059</u>	<u>\$ 22</u>	<u>\$ 801</u>	<u>\$ 0</u>	<u>\$ 11,314</u>	<u>\$ 18,194</u>

COUNTY OF ERIE, NEW YORK
 Combining Statement of Revenues, Expenditures
 and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	-----Capital Funds-----					
	Buildings, Equipment and Improvements	Roads, Bridges and Equipment	Facilities Equipment and Improvements	Special Capital Projects	Total	Nonmajor Governmental Funds
Revenues:						
Real property taxes and tax items	\$	\$	\$	\$	\$	\$ 19,245
Sales, use and transfer taxes						10,060
Intergovernmental	3,555	8,188	19	118	11,880	23,292
Interfund revenues	433				433	435
Departmental						10,547
Interest	11	2	36	2	51	2,419
Miscellaneous	(1)				(1)	32
Total revenues	<u>3,998</u>	<u>8,190</u>	<u>55</u>	<u>120</u>	<u>12,363</u>	<u>66,030</u>
Expenditures:						
Current:						
General government support						1,411
Public safety						2,097
Health						
Transportation						17,757
Economic assistance and opportunity						
Education						
Home and community service						30,176
Capital outlay	47,000	46,337	4,394	8,813	106,544	106,544
Debt service:						
Principal retirement						20,653
Interest and fiscal charges						11,252
	<u>47,000</u>	<u>46,337</u>	<u>4,394</u>	<u>8,813</u>	<u>106,544</u>	<u>189,890</u>
	<u>(43,002)</u>	<u>(38,147)</u>	<u>(4,339)</u>	<u>(8,693)</u>	<u>(94,181)</u>	<u>(123,860)</u>
Other financing sources (uses) :						
Proceeds of general obligation debt	31,375	25,555	3,688	2,460	63,078	63,078
Premium on bond issuance						4,963
Proceeds of refunding bonds						5,340
Payments to refunded bond escrow						(5,340)
Sale of property						9
Operating transfers in	27,435	3,132	490	17,933	48,990	75,692
Operating transfers from component unit						
Operating transfers from primary government						
Operating transfers out	(18,187)		(359)	(12,456)	(31,002)	(35,386)
Operating transfers to primary government						
Operating transfers to component unit						
	<u>40,623</u>	<u>28,687</u>	<u>3,819</u>	<u>7,937</u>	<u>81,066</u>	<u>108,356</u>
Net change in fund balances	(2,379)	(9,460)	(520)	(756)	(13,115)	(15,504)
Fund balances at beginning of year	31,786	163	1,204	844	33,997	65,894
Fund balances at end of year	<u>\$ 29,407</u>	<u>\$ (9,297)</u>	<u>\$ 684</u>	<u>\$ 88</u>	<u>\$ 20,882</u>	<u>\$ 50,390</u>

COUNTY OF ERIE, NEW YORK
 Road Special Revenue Fund
 Schedule of Revenues-Budget and Actual (Non-GAAP Basis of Budgeting)
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget- Positive (Negative)
Revenues:				
Sales, use and transfer taxes	\$ 6,019	\$ 6,019	\$ 8,018	\$ 1,999
Intergovernmental	4,800	4,800	4,738	(62)
Interfund revenue	6,400	6,400	2	(6,398)
Departmental	1,524	2,360	1,664	(696)
Total revenues	<u>18,743</u>	<u>19,579</u>	<u>14,422</u>	<u>(5,157)</u>
Expenditures:				
Transportation	<u>19,307</u>	<u>21,934</u>	<u>18,085</u>	<u>3,849</u>
Excess (deficiency) of revenues over expenditures	<u>(564)</u>	<u>(2,355)</u>	<u>(3,663)</u>	<u>(1,308)</u>
Other financing sources (uses):				
Sale of property	3	3	5	2
Operating transfers in	<u>450</u>	<u>450</u>	<u>450</u>	<u>0</u>
Total other financing sources (uses)	<u>3</u>	<u>453</u>	<u>455</u>	<u>2</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (561)</u>	<u>\$ (1,902)</u>	<u>\$ (3,208)</u>	<u>\$ (1,306)</u>

COUNTY OF ERIE, NEW YORK
 Sewer Special Revenue Fund
 Schedule of Revenues-Budget and Actual (Non-GAAP Basis of Budgeting)
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget- Positive (Negative)
Revenues:				
Real property taxes and tax items	\$ 18,057	\$ 18,057	\$ 18,050	\$ (7)
Intergovernmental			14	14
Departmental	7,705	7,705	7,915	210
Interest	1,042	1,042	432	(610)
Miscellaneous	(16)	(16)	19	35
	<u>26,788</u>	<u>26,788</u>	<u>26,430</u>	<u>(358)</u>
Total revenues				
Expenditures:				
Home and community services	28,114	28,387	25,920	2,467
	<u>(1,326)</u>	<u>(1,599)</u>	<u>510</u>	<u>2,109</u>
Excess (deficiency) of revenues over expenditures				
Other financing sources (uses):				
Operating transfers in		30	30	
Operating transfers out	(5,543)	(5,543)	(4,294)	1,249
	<u>(5,543)</u>	<u>(5,513)</u>	<u>(4,264)</u>	<u>1,249</u>
Total other financing sources (uses)				
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses				
	<u>\$ (6,869)</u>	<u>\$ (7,112)</u>	<u>\$ (3,754)</u>	<u>\$ 3,358</u>

COUNTY OF ERIE, NEW YORK
 Downtown Mall Special Revenue Fund
 Schedule of Revenues-Budget and Actual (Non-GAAP Basis of Budgeting)
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget- Positive (Negative)
Revenues:				
Real property taxes and tax items	\$	\$ 1,195	\$ 1,195	\$
Expenditures:				
General government support	\$	1,195	1,195	\$
Excess (deficiency) of revenues over expenditures	\$ 0	\$ 0	\$ 0	\$

COUNTY OF ERIE, NEW YORK
 E-911 Special Revenue Fund
 Schedule of Revenues-Budget and Actual (Non-GAAP Basis of Budgeting)
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget- Positive (Negative)
Revenues:				
Sales, use and transfer taxes	\$ 2,054	\$ 2,054	\$ 2,042	\$ (12)
Expenditures:				
Public safety	2,270	2,270	2,099	171
Excess (deficiency) of revenues over expenditures	\$ (216)	\$ (216)	\$ (57)	\$ 159

COUNTY OF ERIE, NEW YORK
 Debt Service Fund
 Schedule of Revenues, Expenditures, Budget and Actual
 For the fiscal year ended December 31, 2002
 (amounts expressed in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget- Positive (Negative)
Revenues:				
Intergovernmental	\$ 1,615	\$ 1,615	\$ 1,615	\$
Interest	3,794	3,794	1,936	(1,858)
Miscellaneous			14	14
Total revenues	5,409	5,409	3,565	(1,844)
Expenditures:				
Current:				
General Government Support	200	216	216	
Debt Service:				
Principal Retirement	21,124	21,124	20,653	471
Interest and fiscal charges	11,661	11,660	11,252	408
Total expenditures	32,985	33,000	32,121	879
Excess (deficiency) of revenues over expenditures	(27,576)	(27,591)	(28,556)	(965)
Other financing sources (uses):				
Premium on bond insurance	200	216	4,963	4,747
Proceeds of refunding bonds		5,340	5,340	
Payments to refund bond escrow		(5,340)	(5,340)	
Operating transfers In	24,238	24,238	26,222	1,984
Total other financing sources (uses)	24,438	24,454	31,185	6,731
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (3,138)	\$ (3,137)	\$ 2,629	\$ 5,766

STATISTICAL SECTION

This section contains tables that reflect social and economic data, and financial trends of Erie County, New York.

NOTE: The County of Erie has not levied any special assessments or issued any revenue bonds during the past ten years. Therefore, tables normally required to present data reflecting these activities have not been included.

COUNTY OF ERIE, NEW YORK
 Government-wide Expenses by Function
 Fiscal Year - 2002 (1)
 (amounts expressed in thousands)

FUNCTION	2002
General government support	80,900
Public safety	109,422
Health	61,874
Transportation	50,801
Economic assistance and opportunity	563,179
Culture and recreation	29,170
Education	48,917
Home and community services	44,137
Debt service	12,199
Business-type activities:	
Medical Center	260,635
Community College	76,350
Other	28,606
 Total	 1,366,190

Note:

(1) December 31, 2002, is the first year the County's financial statements have been prepared in accordance with Government Accounting and Standards Board Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments ("GASB No. #34"). As such, only one year of data is presented.

Source: Erie County Basic Financial Statements

COUNTY OF ERIE, NEW YORK
 Government-wide Revenues
 Fiscal Year - 2002 (1)
 (amounts expressed in thousands)

Source	2002
Program Revenues	
Charges for Services	\$ 428,840
Operating Grants and Contributions	384,139
Capital Grants and Contributions	13,908
General Revenues	
Taxes	414,670
State and local appropriations	22,186
Interest earnings not restricted to specific programs	16,442
Unrestricted interest earnings	3,732
Miscellaneous	10,401
Payments from Erie County	(40)
Gain on sale of property	126
Total	<u>\$ 1,294,404</u>

Note:

(1) December 31, 2002, is the first year the County's financial statements have been prepared in accordance with Government Accounting and Standards Board Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments ("GASB No. #34"). As such, only one year of data is presented.

Source: Erie County Basic Financial Statements

COUNTY OF ERIE, NEW YORK
 General Governmental Expenditures by Function
 Last Ten Fiscal Years
 (amounts expressed in thousands)

<u>FUNCTION</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
General government support	\$ 66,842	\$ 73,766	\$ 66,571	\$ 71,966	\$ 80,137	\$ 83,518	\$ 68,936	\$ 75,671	\$ 74,543	\$ 81,019
Public safety	63,097	64,930	67,478	73,249	74,377	82,254	89,283	92,544	101,918	106,929
Health	44,037	47,069	44,558	42,992	42,062	45,218	50,080	53,719	60,838	62,540
Transportation	33,050	35,521	35,228	37,867	36,864	37,483	39,632	40,653	35,448	36,310
Economic assistance and opportunity	448,789	475,586	461,904	474,758	487,132	484,531	516,529	541,517	571,214	584,469
Culture and recreation (1)	10,370	11,310	11,939	12,708	14,179	11,514	16,263	16,273	16,935	18,652
Education	26,509	28,527	30,593	39,053	36,978	36,830	37,362	40,128	43,387	45,893
Home and community services	25,856	27,364	24,783	27,847	26,661	28,089	28,285	31,222	32,889	39,771
Capital outlay	20,941	42,449	64,801	35,561	38,136	38,771	40,496	57,213	74,334	106,558
Debt service	46,906	45,309	43,521	43,217	43,044	41,854	39,041	35,599	32,382	32,213
Total	<u>\$ 786,397</u>	<u>\$ 851,831</u>	<u>\$ 851,376</u>	<u>\$ 859,218</u>	<u>\$ 879,570</u>	<u>\$ 890,062</u>	<u>\$ 925,907</u>	<u>\$ 984,539</u>	<u>\$ 1,043,888</u>	<u>\$ 1,114,354</u>

Source: Erie County Basic Financial Statements (General, Special Revenue, Debt Service and Capital Funds)

COUNTY OF ERIE, NEW YORK
 General Revenues By Source
 Last Ten Fiscal Years
 (amounts expressed in thousands)

SOURCE	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Real property taxes & tax items (1)	\$ 212,862	\$ 220,303	\$ 223,216	\$ 220,389	\$ 233,295	\$ 244,779	\$ 234,842	\$ 198,230	\$ 164,082	\$ 165,439
Sales, use and transfer taxes	190,097	201,685	208,557	216,057	219,985	216,965	235,571	246,914	249,174	250,049
Intergovernmental (1)	297,014	317,216	302,236	291,616	290,794	326,477	327,747	318,755	366,998	367,919
Interfund revenues (2)	26,811	17,058	12,640	24,068	22,297	25,157	26,262	28,006	28,893	37,303
Departmental	67,368	67,605	65,489	66,543	66,753	59,103	62,262	59,269	60,808	59,241
Interest	7,472	11,054	15,681	17,096	19,127	19,766	18,528	22,537	25,747	22,217
Miscellaneous	4,454	3,845	4,509	10,558	15,023	19,077	25,073	234,624	46,131	15,467
Total	<u>\$ 806,078</u>	<u>\$ 838,766</u>	<u>\$ 832,328</u>	<u>\$ 846,327</u>	<u>\$ 867,274</u>	<u>\$ 911,324</u>	<u>\$ 930,285</u>	<u>\$ 1,108,335</u>	<u>\$ 941,833</u>	<u>\$ 917,635</u>

Notes:

- (1) The Real Property Taxes and Intergovernmental revenue sources do not include Buffalo and Erie County Public Library activity beginning in 1993 because this legally separate entity is classifiable as a discretely presented component unit of the financial reporting entity under GASB Statement No. 14.
- (2) In 1993, a separate Interfund revenues source was established mainly due to the creation of the Grants Special Revenue Fund. Prior to 1993, most grants were reported as part of the General Fund. As a result, the Interfund source primarily represents revenues generated by quasi-external type transactions between the Grant Fund and other funds that were heretofore treated as expenditure credits when the grants were part of the General Fund.

Source: Erie County Basic Financial Statements (General, Special Revenue, Debt Service and Capital Funds)

COUNTY OF ERIE, NEW YORK
Property Tax Levies And Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	County-Wide Tax (1)	Current Tax Collections (2)	Percent of Levy Collected	Delinquent Tax Collections (3)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
1993	\$ 437,594,540	\$ 207,008,138	\$ 416,014,252	95.07%	\$ 21,167,072	\$ 437,181,324	99.91%	\$ 413,216	0.09%
1994	451,542,704	214,252,695	430,192,543	95.27%	20,881,007	451,073,550	99.90%	469,154	0.10%
1995	465,140,196	217,720,117	442,025,058	95.03%	22,436,485	464,461,543	99.85%	678,653	0.15%
1996	469,836,892	217,720,117	447,666,016	95.28%	21,397,099	469,063,115	99.84%	773,777	0.16%
1997	488,941,336	226,286,170	464,527,786	95.01%	23,554,968	488,082,754	99.82%	858,582	0.18%
1998	493,970,979	226,286,170	467,230,476	94.59%	25,629,984	492,860,460	99.78%	1,110,519	0.22%
1999	490,692,273	221,666,390	464,500,604	94.66%	24,726,087	489,226,691	99.70%	1,465,582	0.30%
2000	446,019,358	181,766,441	425,586,559	95.42%	16,349,348	441,935,907	99.08%	4,083,451	0.92%
2001	424,554,739	152,529,551	406,271,888	95.69%	10,421,058	416,692,946	98.15%	7,861,793	1.85%
2002	430,565,663	152,529,551	411,904,105	95.67%	4,602,520	416,506,625	96.73%	14,059,038	3.27%

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Notes:

- (1) Totals shown exclude amounts levied in accordance with State law to recover from municipalities election expenditures incurred by the County.
- (2) Current tax collections - total levy less uncollected taxes at the date of the tax sale in November of the levy year.
- (3) Delinquent tax collections - uncollected taxes at the date of the tax sale less uncollected taxes as of 12/31/02

Source: Erie County Division of Budget, Management and Finance

COUNTY OF ERIE, NEW YORK
 Assessed And Equalized Full Value Of Taxable Property
 Last Ten Fiscal Years

Fiscal Year	Real Property				Ratio: Assessed Value to Equalized Full Value
	Assessed Value		Equalized Full Value		
	Total	Excluding Exemptions	Total	Excluding Exemptions	
1993	\$ 23,318,051,142	\$ 21,359,129,243	\$ 27,433,123,893	\$ 25,128,499,599	84.9996%
1994	26,234,284,278	24,167,935,502	29,635,197,533	27,300,975,128	88.5241%
1995	26,475,428,721	24,514,938,849	32,677,007,141	30,257,294,047	81.0216%
1996	26,658,444,758	24,721,950,480	33,529,556,101	31,093,934,671	79.5073%
1997	26,636,307,686	24,685,032,643	34,706,677,222	32,164,197,465	76.7469%
1998	27,220,052,203	25,239,970,236	34,855,995,432	32,320,448,201	78.0929%
1999	27,295,843,036	25,180,476,853	35,077,868,534	32,359,412,952	77.8150%
2000	27,349,084,894	25,233,718,711	35,147,763,839	32,429,194,230	77.8117%
2001	29,042,626,017	26,849,506,255	34,550,397,674	31,941,365,010	84.0587%
2002	28,539,704,335	26,480,690,610	34,644,719,329	32,145,255,713	82.3782%

Notes:

- (1) Equalization rates are provided by New York State and applied by the County to the assessed valuation of taxable real estate to arrive at equalized full value which is comparable to estimated actual value.

Source: Erie County Division of Budget, Management and Finance

COUNTY OF ERIE, NEW YORK
 Property Tax Rates - Direct And Overlapping Governments
 Last Ten Fiscal Years

Fiscal Year	Erie County			Other Taxing Entities (2)				City of Buffalo & County General Fund	Total County & Other Taxing Entities(2)
	General Fund	Special Revenue Funds	Total County	Cities, Towns & Villages	School Districts	Special Districts	City of Buffalo		
1993	\$ 8.24	\$ 1.44	\$ 9.68	\$ 4.17	\$ 17.64	\$ 6.18	\$ 26.07	\$ 34.31	\$ 37.67
1994	7.85	1.34	9.19	3.98	17.16	5.86	25.62	33.47	36.19
1995	7.20	1.23	8.43	3.83	16.63	5.57	22.78	29.98	34.46
1996	7.00	1.24	8.24	3.75	16.78	5.45	22.90	29.90	34.22
1997	7.04	1.27	8.31	3.77	16.94	5.46	22.89	29.93	34.48
1998	7.00	1.35	8.35	3.79	17.32	5.47	22.86	29.86	34.93
1999	6.85	1.33	8.18	3.63	17.11	5.39	25.57	32.42	34.31
2000	5.61	1.29	6.90	3.59	17.58	5.25	26.00	31.61	33.32
2001	4.71	1.28	5.99	3.86	18.36	5.48	24.28	28.99	33.69
2002	4.75	1.34	6.09	3.89	18.49	5.32	25.10	29.85	33.79

Notes:

- (1) Rates shown are per \$1,000 of equalized full value (excluding exemptions).
- (2) City of Buffalo is presented separately and is, therefore, not included in the column for cities, towns, and villages or the column for total county & other taxing entities.
 The rate shown for Buffalo includes the levy for the Buffalo school system which receives funding from the City and cannot levy taxes.

Source: Erie County Division of Budget, Management and Finance

COUNTY OF ERIE, NEW YORK
Ratio Of Net General Bonded Debt To Assessed Value
And Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value (Excl. Exemptions)	Gross Bonded Debt	Less Self-Supporting Debt and Debt Service Funds(1)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value(Excl. Exemptions)	Net Bonded Debt Per Capita
1993	969,350	\$ 21,359,129,243	\$ 257,840,000	\$ 50,129,839	\$ 207,710,161	0.97%	\$ 214.28
1994	965,328	24,167,935,500	259,485,885	54,771,088	204,714,797	0.85%	212.07
1995	959,630	24,514,938,849	270,660,000	57,801,041	212,858,959	0.87%	221.81
1996	952,378	24,721,950,480	276,371,993	68,266,312	208,105,681	0.84%	218.51
1997	942,832	24,685,032,643	262,790,330	69,030,524	193,759,806	0.78%	205.51
1998	933,702	25,239,970,236	256,904,291	69,780,143	187,124,148	0.74%	200.41
1999	925,957	25,180,476,853	250,832,774	74,263,033	176,569,741	0.70%	190.69
2000	950,265	25,233,718,711	253,675,260	56,655,021	197,020,239	0.78%	207.33
2001	946,625	26,849,506,255	264,271,856	58,627,879	205,643,977	0.77%	217.24
2002	945,049	26,480,690,610	299,838,517	61,736,166	238,102,351	0.90%	251.95

Notes:

(1) Self-supporting debt includes sewer bonds but not enterprise activity bonds. Bonds for the enterprise activities are not treated as an exclusion in calculating net bonded debt because Erie County provides substantial operating subsidies to these funds and guarantees all enterprise debt.

Sources:

Population: 1993 to 1999 and 2001 to 2002 estimates were compiled by the New York State Department of Commerce and the New York State Department of Economic Development, respectively, using data provided by the United States Bureau of the Census.

2000 is the decennial census of the population conducted by the federal government.

Assessed Value (Excluding Exemptions): Erie County Division of Budget, Management and Finance

Debt: Erie County General Purpose Financial Statements

COUNTY OF ERIE, NEW YORK
 Computation Of Debt-Contracting Margin (1)
 December 31, 2002

Full valuation - fiscal year ended December 31: (2)

1998		\$ 32,201,630,216
1999		32,098,754,941
2000		31,749,141,509
2001		31,941,364,997
2002		32,145,255,700
Total five-year valuation		<u>\$ 160,136,147,363</u>
Average five-year valuation		<u>\$ 32,027,229,473</u>
Debt limit - 7% of average five-year full valuation		\$ 2,241,906,063
Total indebtedness: (3)		
Short term	\$ 46,031,225	
Long term	299,838,517	
	<u>345,869,742</u>	
Less indebtedness excluded from debt limit (3)	<u>89,574,165</u>	
Net indebtedness (after statutory exclusions)		<u>(256,295,577)</u>
Net debt-contracting margin		<u>\$ 1,985,610,486</u>
Percentage of debt-contracting power exhausted		<u>11.4320%</u>

Notes:

- (1) The computation of net debt-contracting margin performed by municipalities in New York State is akin to the computation of legal debt margin performed by municipalities in other states.
- (2) Equalization rates are provided by New York State and applied by the County to the assessed valuations of taxable real estate to arrive at equalized full value.
- (3) Indebtedness illustrated in this table is comprised of the following:
 - Short term - RANs \$43,000,000, BANs \$3,031,225
 - Long term - Bonds \$299,838,517 (Includes \$1,261,132 unamortized discount on zero coupon bonds);
 - Exclusions - Sewer Bonds \$43,542,940, RANs 43,000,000, BANs \$3,031,225

Sources:

Property value - Erie County Division of Budget, Management and Finance
 Indebtedness and exclusions - Erie County Comptroller's Office

COUNTY OF ERIE, NEW YORK
 Computation Of Direct And Overlapping Debt
 December 31, 2002

<u>Jurisdiction</u>	<u>Fiscal Year Ended</u>	<u>Net Debt Outstanding(1)</u>	<u>Percentage Applicable to Erie County</u>	<u>Amount Applicable to Erie County</u>
<u>Direct:</u>				
Erie County	12/31/02	\$ 256,295,577	100%	\$ <u>256,295,577</u>
<u>Overlapping:</u>				
Cities	06/30/01	239,748,375	100%	239,748,375
Towns	12/31/01	161,852,723	100%	161,852,723
Villages	05/31/01	21,360,295	100%	21,360,295
School districts	06/30/01	655,093,453	100%	655,093,453
Fire districts	12/31/01	14,978,308	100%	<u>14,978,308</u>
Total Overlapping				<u>1,093,033,154</u>
Total				\$ <u><u>1,349,328,731</u></u>

Note:

(1) The amounts presented represent the net debt subject to legal limitations. Items such as water and certified sewer debt, tax and revenue anticipation notes, etc. are legally excludable in the determination of net indebtedness by municipalities, as is estimated state building aid for school districts.

Sources:

Net debt outstanding of Erie County - Erie County Comptroller's Office
 All other information presented is the latest available from the New York State Office of the State Comptroller.

COUNTY OF ERIE, NEW YORK
Ratio of Annual Debt Service Expenditures
For General Obligation Bonded Debt
to Total General Governmental Expenditures
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total General Obligation Debt Service(1)</u>	<u>Total General Expenditures(2)</u>	<u>Ratio of General Debt Service to Total General Expenditures</u>
1993	\$ 30,546,000	\$ 16,360,000	\$ 46,906,000	\$ 786,397,000	5.96%
1994	32,041,000	13,268,000	45,309,000	851,831,000	5.32%
1995	26,843,000	16,678,000	43,521,000	851,376,000	5.11%
1996	26,930,000	16,287,000	43,217,000	859,218,000	5.03%
1997	27,573,000	15,471,000	43,044,000	879,570,000	4.89%
1998	27,535,000	14,319,000	41,854,000	890,062,000	4.70%
1999	26,422,000	12,619,000	39,041,000	925,907,000	4.22%
2000	25,250,000	10,349,000	35,599,000	984,539,000	3.62%
2001	21,452,000	10,930,000	32,382,000	1,043,888,000	3.10%
2002	20,653,000	11,252,000	31,905,000	955,641,000	3.34%

Notes:

- (1) Debt service amounts shown include payments made from any governmental type funds.
- (2) General expenditures include amounts recorded in the general, special revenue, capital projects and debt service funds.

Source: Erie County Basic Financial Statements

COUNTY OF ERIE, NEW YORK
Demographic Statistics

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Population	969,350	965,328	959,630	952,378	942,832	933,702	925,957	950,265	946,625	945,049
Per Capita Income	\$ 20,698	\$ 21,507	\$ 22,530	\$ 23,297	\$ 24,296	\$ 25,549	\$ 26,460	\$ 27,873	\$ 28,484	N/A
Public School Enrollment (K to 12)	138,109	139,163	141,724	142,354	142,007	142,273	141,885	141,205	139,776	138,031
Non Public School Enrollment (K to 12)	27,783	27,758	27,636	27,558	27,586	27,099	27,053	26,405	25,489	25,292
Unemployment Rate	6.5%	5.9%	5.2%	4.9%	5.1%	5.1%	5.2%	4.8%	5.1%	5.8%
	<u>Total</u>	<u>Ages 0 to 17</u>	<u>Ages 18 to 24</u>	<u>Ages 25 to 34</u>	<u>Ages 35 to 44</u>	<u>Ages 45 to 54</u>	<u>Ages 55 to 64</u>	<u>Ages 65 to 74</u>	<u>Ages 75 & up</u>	
Population by Age (per 2000 Census)	950,265	230,550	82,668	119,168	150,498	130,062	86,061	76,207	75,051	

N/A - Not Available

Sources:

Population: The 1993 to 1999 and 2001 to 2002 estimates were compiled by the New York State Department of Commerce and the New York State Department of Economic Development, respectively, using data provided by the United States Bureau of the Census. 2000 is the decennial census of the population conducted by the federal government.

Per Capita Income: United States Department of Commerce, Bureau of Economic Analysis; material compiled by New York State Department of Commerce. Data for 2002 is not available at this time.

Population by Age: The United States Bureau of the Census.

School Enrollment: New York State Education Department, Information Center on Education. School enrollment data represents the 1993-94 to 2002-2003 school years.

Unemployment Rate: New York State Department of Labor

COUNTY OF ERIE, NEW YORK
Property Value, Construction And Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Residential Construction		Bank Deposits in Thousands(1)	Equalized Full Value of Real Property	
	No. of Units	Value		Commercial and Residential	Nontaxable(2)
1993	1,947	\$ 241,429,775	\$ 12,238,606	\$ 27,433,123,893	\$ 2,304,624,294
1994	1,871	249,472,738	11,760,356	29,635,197,533	2,334,222,405
1995	1,538	203,305,667	12,946,773	32,677,007,141	2,419,713,094
1996	1,530	225,365,681	12,966,947	33,529,556,101	2,435,621,430
1997	1,278	216,472,639	13,436,317	34,706,677,222	2,542,479,757
1998	1,250	202,466,742	14,620,940	34,855,995,432	2,535,547,231
1999	1,562	234,940,187	14,009,686	35,077,868,534	2,718,455,582
2000	1,441	244,919,141	14,221,285	35,147,763,839	2,718,569,609
2001	1,571	290,852,853	16,028,496	34,550,397,674	2,609,032,664
2002	2,059	361,438,943	19,817,354	34,644,719,329	2,499,463,116

Notes:

- (1) These amounts are as of each fiscal June 30th and include commercial banks and all FDIC and FSLIC insured financial institutions.
- (2) Nontaxable property represents exempt and partially exempt property.

Sources:

Bank deposit information obtained from the Federal Deposit Insurance Corporation and the Department of the Treasury, Office of Thrift Supervision.

Construction data: Compiled by the U.S. Bureau of the Census, Construction Statistics Division, Building Permits Branch.

Property value information supplied by the Erie County Division of Budget, Management and Finance.

COUNTY OF ERIE, NEW YORK
Principal Taxpayers
Year Ended December 31, 2002

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2002 Equalized Full Value</u>	<u>Percentage of Equalized Full Value(1)</u>
National Fuel Gas	Utility	\$ 552,380,355	1.7184%
Niagara Mohawk Power Corp.	Utility	497,606,975	1.5480%
Benderson Development	Real estate development & management	379,460,578	1.1805%
Verizon New York Inc.	Utility	255,473,797	0.7947%
N.Y. State Elect. & Gas Corp.	Utility	225,800,321	0.7024%
Pyramid Company of Buffalo	Retail shops	133,100,153	0.4141%
Pennsylvania Lines LLC	Railroad	104,291,962	0.3244%
Norfolk & Western Rail	Railroad	67,800,137	0.2109%
Wegman's Food Market	Food Retailer	59,507,986	0.1851%
Hamburg Peripheral	Retail Shops	58,756,180	0.1828%
Bethlehem Steel Corp.	Steel Mill	49,040,733	0.1526%
Marine Buffalo Associates	Office Building	46,262,074	0.1439%
Home Properties of NY	Apartment Complexes	44,374,322	0.1380%
M & T Bank	Bank	39,957,356	0.1243%
Boulevard Mall	Retail Shops	39,741,400	0.1236%
		<u>\$ 2,553,554,329</u>	7.9438%

Note:

(1) Percentage of equalized full value is calculated by dividing the valuation shown for each of the listed taxpayers by the County's total equalized full value (excluding exemptions) of \$ 32,145,255,713

Source: Erie County Division of Budget, Management and Finance

COUNTY OF ERIE, NEW YORK
 Miscellaneous Statistics
 December 31, 2002

Date of Incorporation	April 2, 1821	
Form of Government	Executive/Legislature	
Area	1,058 square miles	
Highways: (County maintained and operated only)		
Miles of roads	1,172	
Highway maintenance facilities	11	
Emergency Services: (1)		
Emergency communication stations (County operated)	2	
Training centers operated by the County	3	
Instructors (County personnel only)	28	
Firefighters trained in 2002	3,500	
Police Protection - Erie County Sheriff's Office: (2)		
Stations	16	
Officers	597	
Support personnel	109	
Education:		
School districts	29	
Professional staff (grades K to 12)	16,206	(public-12,417)
Students (grades K to 12)	163,323	(public-138,031)
Colleges and universities	7	
Community and junior colleges	6	
Library:		
Outlets	59	
Books	3,166,533	
Audio-visual materials	302,243	
Non-book items	1,524,850	
County Employees	9,043	

Notes:

(1) The Department of Emergency Services provides firefighting and other emergency related training to employees of and volunteers from municipalities in the County.

(2) Police protection is provided directly to residents by most municipalities within the County.

Sources:

Education - New York State Department of Education
 All other - Various Erie County departments

COUNTY OF ERIE, NEW YORK
 Recreational Facilities
 Operated By County Government
 December 31, 2002

#	Name of Park	Type of Facility	2002 Attendance	Acres
1)	Akron Falls	Picnic, skating, tennis, baseball, waterfall	206,938	284
2)	Chestnut Ridge	Picnic, toboggan, tennis, baseball, ski-lift, lodge	268,213	1,431
3)	Como Lake	Picnic, baseball, tennis, skating, fishing	125,068	534
4)	Ellicott Creek	Picnic, baseball, tennis, boating, fishing	210,139	165
5)	Emery	Picnic, baseball, tennis, ski-lift, lodge	72,160	489
6)	Isle View	Picnic, boat races, launch, grandstand, fishing	67,216	49
7)	Sprague Brook	Picnic, camping, tennis, baseball, hiking	108,838	974
8)	Elma Meadows	18 hole golf, clubhouse, picnic, cross country skiing	95,685	220
9)	Grover Cleveland	18 hole golf, clubhouse	46,724	91
10)	Wendt Beach	Picnic, sandy beach, swimming, baseball	60,452	178
11)	Botanical Gardens	Indoor and outdoor plant and floral garden	99,073	11
12)	Bennett Beach	Picnic, sandy beach, swimming	58,627	45
13)	Forestry (12 Lots)	Reforestation lots, unspoiled nature trails	5,963	3,200
14)	Scobey Dam Park	Dam, fishing	33,992	28
15)	18 Mile Creek	Significant archeological area, scenic, undeveloped	N/A (1)	464
16)	Hunters Creek	Undeveloped, hiking	N/A (1)	759
17)	Beeman Creek	Undeveloped, hiking	N/A (1)	391
18)	Franklin Gulf	Undeveloped, hiking	N/A (1)	637
19)	Boston Forest	Undeveloped, hiking	N/A (1)	707
	Total		<u>1,459,088</u>	<u>10,657</u>

N/A - Not available

Notes:

(1) Park is undeveloped; attendance is not monitored.

Source: Erie County Department of Parks, Recreation and Forestry

COUNTY OF ERIE, NEW YORK
Principal Employers
December 31, 2002

<u>Employer</u>	<u>Type of Activity</u>	<u>Number of Full Time Employees</u>
State of New York	Government & University	15,564
U.S. Government	Government	11,700
City of Buffalo	Government (includes schools)	10,626
County of Erie	Government	9,043
HSBC	Commercial bank	5,246 (1)
Kaleida Health	Health Care	5,243
Delphi Harrison	Radiator Manufacturer	5,000
M & T Bank	Commercial Bank	4,612
Catholic Health System	Health Care	4,471
Catholic Diocese of Buffalo	Religious Organization	4,000
General Motors Corporation	Automobile Manufacturer	3,600
Tops Markets Inc.	Food Retailer	3,367
Verizon Communications	Telecommunications	2,400
Roswell Park Cancer Institute	Cancer Treatment & Research	2,000
Adelphia Communications	Communications	1,979
Total		<u><u>88,851</u></u>

Note:

(1) Information is from 2001, as stated in Business First 2003

Sources:

Erie County employment - Erie County Division of Budget, Management and Finance
All other employment - Business First - 2003 Book of Lists