County of Erie, New York

Basic Financial Statements, Required Supplementary Information and Federal Financial Assistance Schedules for the Year Ended December 31, 2012 and Independent Auditors' Reports

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FOR THE YEAR ENDED DECEMBER 31, 2012

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Erie, New York (the "County") as of and for the year ended December 31, 2012 (with the Erie Community College for the year ended August 31, 2012), and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Erie Community College Foundation, Inc. or the Buffalo and Erie County Industrial Land Development Corporation and Subsidiary ("ILDC"), which are shown as aggregate discretely presented component units, and represent 51.7% and 4.1%, respectively, of the assets and 48.3% and 1.9%, respectively, of the revenues of the other component units. We did not audit the financial statements of the Erie County Fiscal Stability Authority ("ECFSA"), which represents 5.5% and 2.1% of the assets and revenues, respectively, of the governmental activities. We did not audit the financial statements of Erie County Medical Center Corporation ("ECMCC"), a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of such other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Erie Community College Foundation, Inc. and the Auxiliary Services Corporation of Erie Community College, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Required Supplementary Information, as listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Drescher & Malecki LLP

June 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

(unaudited)

This section of the County of Erie, New York's (the "County") Basic Financial Statements and Management's Discussion and Analysis presents a discussion and analysis of the County's financial performance during the year ended December 31, 2012, and incorporates financial information from the year ended December 31, 2011 for comparative analysis purposes. Please read it in conjunction with the County's basic financial statements following this section. **All amounts in this *Management's Discussion and Analysis*, unless otherwise indicated, are expressed in thousands of dollars.**

FINANCIAL HIGHLIGHTS

The County's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the 2012 fiscal year by $24,519 *(deficit net position*). This consists of $34,960 restricted for specific purposes *(restricted net position*), $406,604 net investment in capital assets and a deficit in unrestricted net position of $466,083 at December 31, 2012.

- As a result of current year activity, the primary government's total net position decreased by $4,480. Governmental activities decreased the County's net position by $2,779 and business-type activities decreased the County's net position by $1,701.

- As of December 31, 2012, the County's governmental funds reported combined fund balances of $265,379, an increase of $2,610 in comparison to the prior year. Approximately 33.1% of the total combined governmental funds fund balance, $87,823, is available to meet the County's current and future needs *(unassigned fund balance).*

- At the end of the fiscal year, unassigned fund balance for the General Fund was $88,332 or 73.5% of the total General Fund fund balance of $120,141. Total nonspendable, restricted and assigned General Fund fund balance totaled $31,809 at December 31, 2012.

- The total bonded debt of the primary government decreased by $26,084 or 2.7% during the 2012 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the County's basic financial statements. The County's basic financial statements include three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, required supplementary information is included.

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

The *Statement of Net Position* presents financial information on all County assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 Erie Community College ("College") and the Utilities Aggregation Fund. A fiscal year ending August 31 is mandated by New York State law for the College. Accordingly, financial information for the College is presented as of and for the fiscal year then ended.

On July 12, 2005, the Governor of the State of New York signed legislation creating the Erie County Fiscal Stability Authority ("ECFSA"). The ECFSA began its work during 2005 in an advisory role and provides the County with financial oversight while giving local leaders the ability to improve the County's fiscal condition without further State intervention. The ECFSA is included as a governmental activity in the government-wide financial statements. On November 3, 2006, the ECFSA imposed a control period on the County empowering the ECFSA to operate with its maximum authorized compliment of control and oversight powers over County finances. On that date, the ECFSA also imposed a hiring freeze and a contract review process. The ECFSA reverted to an advisory status on June 2, 2009 and maintained its advisory status through the 2012 fiscal year.

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

Fund Financial Statements – A fund is a grouping of related accounts that is 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 are divided into three categories: *governmental funds*, *proprietary funds,* and *fiduciary fund*s.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The County maintains fourteen (14) individual governmental funds. Additionally, the County reports the activities of its *blended component units* within its governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and ECFSA blended component unit (reported as a major special revenue fund). Data from the other governmental funds and blended component units are combined into a single, aggregated presentation.

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

Proprietary funds - The County maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the College and the Utilities Aggregation Fund, which is used to account for the bulk purchase and resale of gas, oil, and electric utilities.

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

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

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

Required Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide other post-employment benefits to its employees. Required supplementary information can be found immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve, over time, as a useful indicator of a government's financial position. In the case of the County, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $24,519 at the close of the most recent fiscal year.

Summary of Net Position as of December 31, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 668,489	$ 679,687	$ 51,420	$ 48,475	$ 719,909	$ 728,162
Capital assets	818,795	813,406	20,828	17,474	839,623	830,880
Total assets	1,487,284	1,493,093	72,248	65,949	1,559,532	1,559,042
Total deferred outflows of resources	32,235	33,476	-	-	32,235	33,476
Long-term liabilities	1,292,520	1,281,622	61,172	54,452	1,353,692	1,336,074
Other liabilities	211,821	239,680	21,194	19,914	233,015	259,594
Total liabilities	1,504,341	1,521,302	82,366	74,366	1,586,707	1,595,668
Total deferred inflows of resources	29,579	28,574	-	-	29,579	28,574
Net position:						
Net investment in capital assets	385,776	361,546	20,828	17,474	406,604	379,020
Restricted	34,960	27,317	-	-	34,960	27,317
Unrestricted (deficit)	(435,137)	(412,170)	(30,946)	(25,891)	(466,083)	(438,061)
Total net position	**$ (14,401)**	**$ (23,307)**	**$ (10,118)**	**$ (8,417)**	**$ (24,519)**	**$ (31,724)**

A significant portion of the County's net position at December 31, 2012 ($406,604) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding and any unspent proceeds from bond issues. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position ($34,960) represents resources that are subject to external restrictions on how they may be used.

The remaining component of the County's net position, a deficit of $466,083, represents *unrestricted net position* which reflects all liabilities that are not related to the County's capital assets and which are not expected to be repaid from restricted resources. Long-term liabilities are typically funded annually in the funds with revenues of that year. The combined total of (1) Erie Tobacco Asset Securitization Corporation ("ETASC", a blended component unit of the County) bonds net of discount, ($334,818), issued to be paid back with future tobacco proceeds which will be received annually over the next forty-eight (48) years, and (2) the long-term liability associated with other post-employment benefits ($328,640), is greater than this deficit. As the revenue recognition criteria for the future funding of these liabilities has not been met, no assets have been recorded to offset these liabilities.

At the end of the current fiscal year, the County is able to report positive balances in two of the three categories of net position for the County as a whole and in one category for its business-type activities. Governmental and business-type activities have unrestricted deficit net position of $435,137 and $30,946, respectively, at December 31, 2012.

The following table indicates the changes in net position for governmental and business-type activities for the current and prior fiscal years:

Summary of Changes in Net Position for the Year Ended December 31, 2012 and 2011

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 79,912	$ 75,198	$ 56,204	$ 58,633	$ 136,116	$ 133,831
Operating grants and contributions	401,431	410,157	5,654	6,584	407,085	416,741
Capital grants and contributions	25,630	12,206	-	-	25,630	12,206
General revenues:						
Property taxes	270,806	275,705	-	-	270,806	275,705
Sales and use taxes	707,995	691,208	-	-	707,995	691,208
Transfer taxes	9,432	8,353	-	-	9,432	8,353
Non-operating revenues:						
Federal, state and local appropriations	-	-	69,684	72,370	69,684	72,370
Unrestricted interest earnings	1,012	1,280	102	139	1,114	1,419
Miscellaneous and other	9,592	24,734	-	-	9,592	24,734
Total revenues	**1,505,810**	**1,498,841**	**131,644**	**137,726**	**1,637,454**	**1,636,567**
Expenses:						
General government	434,922	462,487	-	-	434,922	462,487
Public safety	152,968	131,715	-	-	152,968	131,715
Health	72,928	71,714	-	-	72,928	71,714
Transportation	71,685	70,201	-	-	71,685	70,201
Economic assistance and opportunity	578,592	591,057	-	-	578,592	591,057
Culture and recreation	20,709	19,295	-	-	20,709	19,295
Education	69,833	73,777	-	-	69,833	73,777
Home and community service	54,618	59,127	-	-	54,618	59,127
Interest and fiscal charges	34,905	43,985	-	-	34,905	43,985
College	-	-	129,424	133,416	129,424	133,416
Purchase and resale of utilities	-	-	21,350	25,947	21,350	25,947
Total expenses	**1,491,160**	**1,523,358**	**150,774**	**159,363**	**1,641,934**	**1,682,721**
Excess (deficiency) before transfers	14,650	(24,517)	(19,130)	(21,637)	(4,480)	(46,154)
Transfers	(17,429)	(17,429)	17,429	17,429	-	-
Change in net position	**(2,779)**	**(41,946)**	**(1,701)**	**(4,208)**	**(4,480)**	**(46,154)**
Net position - beginning of year, as previously stated	(23,307)	18,733	(8,417)	(4,209)	(31,724)	14,524
Prior period adjustment	11,685	(94)	-	-	11,685	(94)
Net position - beginning of year, as restated	(11,622)	18,639	(8,417)	(4,209)	(20,039)	14,430
Net position - ending	**$ (14,401)**	**$ (23,307)**	**$ (10,118)**	**$ (8,417)**	**$ (24,519)**	**$ (31,724)**

Governmental Activities

During the year ended December 31, 2012, governmental activities decreased the County's net position by $2,779. Revenues increased by $6,969 (.5%) while expenses decreased by $32,198 (2.1%) from 2011 to 2012. Key elements of this decrease are as follows:

- The $16,787 (2.4%) increase in the sales and use taxes category was primarily the result of taxable sales growth due in part to neighboring Canadian consumers taking advantage of the stronger Canadian dollar and the County's lower sales tax rate.
- Revenue from property taxes decreased by $4,899 (1.8%). A decrease in collections of prior year taxes accounted for the decrease.
- Transfer tax revenues that are used for the repair and maintenance of the County's transportation network increased $1,079 (12.9%) compared to 2011 as a result of increased real property sales.
- Miscellaneous and other revenues decreased by $15,142 (61.2%) primarily due to decreased excess operating credit of $14,011 received from ECMCC.
- Capital grants and contributions increased $13,424 (110.0%) during the year as a result of increased Federal aid for road and bridge projects ($4,764) and increased State aid for various projects at ECC's three campuses ($7,322).
- Operating grants and contributions decreased $8,726 (2.1%) during the year. Net decreases in State and Federal aid for social services ($14,490) and ECFSA accrued interest receivable ($7,192), with increases for emergency services programs ($4,100) and new equipment for the Board of Elections ($7,412) were the primary reasons for the overall decrease.
- General government expense decreased by $27,565 (6.0%) chiefly due to a one-time subsidy to ECMCC for the construction of a new nursing home ($11,500) made in 2011, a decrease in OPEB ($23,004) expense and increased retirement expense ($1,299) and payments to local municipalities for their share of County sales and use tax ($6,844).
- Economic assistance and opportunity expense decreased by $12,465 (2.1%). The amount for Disproportionate Share Hospital ("DSH") payments to ECMCC decreased by $22,081, while expenditures for a variety of social services programs increased by $10,842 compared to the prior year.
- Home & community service expenses decreased $4,509 (7.6%) mainly as a result of capital asset related activity ($7,141), net of an increase in depreciation expense ($1,745).
- Interest and fiscal charges decreased by $9,080 (20.6%). Decreases in accrued interest payable to the ECFSA ($7,192) and accreted interest for ETASC's Subordinate Turbo CABs ($2,223) accounted for this change.

Business-type Activities

Business-type activities decreased the County's net position by $1,701 in the 2012 fiscal year compared to a decrease of $4,208 in 2011. The College generated decreases in net position of $1,043 and $4,278 for the years ended August 31, 2012 and 2011, respectively. The College's operating loss at August 31, 2012 was less than the operating loss at August 31, 2011 by $5,965 as operating revenues generated increased $1,967 and operating expenses decreased $3,998. Revenues generated during the fiscal year ended August 31, 2012 increased primarily as a result of a tuition rate increase. Decreases in salaries and wages reflecting the College's hiring freeze and the replacement of retired faculty at lower salaries comprises much of the expense decrease. The County sponsorship share of support to the College for the College's fiscal year ended August 31, 2012 was $17,429 and is reported as a 2012 operating transfer to the College from the County's General ($15,629) and Special Capital ($1,800) funds.

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 Projects 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, *unassigned fund balance*, which is available to meet the County's current and future operational needs, 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, 2012, the County's governmental funds reported combined fund balances of $265,379, which is an increase of $2,610 in comparison with the prior year.

Nonspendable fund balance totaling $12,681 consists of prepaid items. Nonspendable amounts represent net current financial resources that are either not in in spendable form or legally or contractually required to be maintained intact.

Restricted fund balance in the amount of $111,178 is constrained to specific purposes and consists of $129 for education, advocacy and increased public awareness of handicapped parking laws, $67 to be utilized exclusively to support and maintain the Sheriff's Office Aviation Division, $1,176 to be utilized solely on the E-911 system, $25,211 for the future repayment of bonded debt service and $84,595 to fund capital projects and the purchase of capital assets.

Assigned fund balance includes amounts intended to be used for a specific purpose that are subject to a purpose constraint imposed by a formal action of the Erie County Legislature. Significant assignments by the County at December 31, 2012 include $16,778 to meet expenditure requirements in the 2013 year, $1,964 for future settlements of various claims and litigation, $7,400 to fund the County's cost of a building to be constructed at one of the College's campuses, $2,535 to repair various roads, $8,915 to fund year-end encumbrances, and $15,728 that represents the positive residual balances of the County's Special Revenue Funds that have not been classified as nonspendable, restricted or assigned for another purpose.

Approximately 33.1% of the County's total fund balances ($87,823) consists of *unassigned fund balance*.

Following is a discussion of the significant balances and operations of selected funds.

- **General Fund –** The General Fund is the chief operating fund of the County. At December 31, 2012, unassigned fund balance of the General Fund was $88,332 while total fund balance was $120,141. As a measure of the General Fund's liquidity, it is useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 7.1% of total expenditures (excluding other financing uses), while total fund balance represents 9.7% of that same amount. Fund balance in the County's General Fund increased by $4,006 during the 2012 fiscal year compared to 2011 when the General Fund experienced a decrease of $9,178.

- **ECFSA General Fund** – This fund is the chief operating fund of the ECFSA and is reported as a special revenue fund of the County. Total fund balance at the end of the current fiscal year was $977, a decrease of $295 from the 2011 amount, and is classified as assigned fund balance in the County's fund financial statements.

- **Sewer Special Revenue Fund –** Ending fund balance increased by $2,870 compared to a $4,116 increase in 2011 primarily due to a $1,284 increase in transfers out to subsidize the Debt Service Fund for sewer district projects that were bonded.

- **E-911 Special Revenue Fund –** Total expenditures increased by $184 and total revenues decreased by $492 compared to the 2011 amounts. The 2012 decrease to fund balance was $668 compared to an originally budgeted decrease of $401.

- **Debt Service Fund –** The Debt Service Fund has a total fund balance of $5,204 which is restricted solely for the purpose of payment of future debt service. The net decrease in fund balance during the current year of $429 was less than the appropriation of prior year ending fund balance in the amount of $499.

- **ECFSA Debt Service Fund –** At year-end, the ECFSA held County cash in the amount of $17,699 that was accumulated by intercepting and withholding the County's sales tax receipts from New York State. These monies will be used for future debt service payments.

- **Capital Projects Funds –** The County maintains six (6) capital projects funds which account for the construction and re-construction of general public improvements. At the end of the 2012 fiscal year, the total fund balances restricted for future capital projects amounted to $84,595 of which $22,591 was encumbered for contracted projects underway.

During 2012, the County's capital outlay increased in the Special Capital Projects Fund ($6,205) and decreased in the ECMCC Capital Projects Fund ($96,877), General Government Buildings, Equipment and Improvements Fund ($490), Highways, Roads, Bridges and Equipment Capital Projects Fund ($2,308) and Sewers, Facilities, Equipment and Improvements Fund ($3,403).

Proprietary funds - The County's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. The College had an unrestricted deficit net position of $32,855 at August 31, 2012.

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

Summary of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
For the Year ended December 31, 2012 and 2011

	Major Fund		Non-major Fund			
	College August 31,		Utilities Aggregation		Total	
	2012	2011	2012	2011	2012	2011
Operating revenues	$ 41,166	$ 39,200	$ 20,692	$ 26,017	$ 61,858	$ 65,217
Operating expenses	129,402	133,401	21,350	25,947	150,752	159,348
Operating (loss) income	(88,236)	(94,201)	(658)	70	(88,894)	(94,131)
Non-operating revenues, net	69,764	72,494	-	-	69,764	72,494
Net (loss) income before contributions and transfers	(18,472)	(21,707)	(658)	70	(19,130)	(21,637)
Transfers	17,429	17,429	-	-	17,429	17,429
Change in net position	**$ (1,043)**	**$ (4,278)**	**$ (658)**	**$ 70**	**$ (1,701)**	**$ (4,208)**

The net loss before contributions and transfers of enterprise funds of $19,130 is comprised of a net loss of $18,472 for the College and net loss of $658 for the Utilities Aggregation Fund.

The College reported a total deficit net position of $12,027 at August 31, 2012. The College's net position has decreased significantly in each of the past four fiscal years as a result of the adoption in 2007 of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

An annual appropriated budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles, except that encumbrances are reported as budgeted expenditures in the year of incurrence of commitment to purchase.

During the 2012 fiscal year there was a $390,907 decrease in total budgeted revenues between the original and final budget. The main component of the net decrease is the reclassification of $397,764 from the 'Sales and Use Taxes' line to the 'Transfers In' line to match sales tax transfers received from the ECFSA which intercepts the County portion of sales tax remitted by the New York State Department of Taxation and Finance.

The budget for other financing sources was increased during the year by $397,764, primarily for the sales and use taxes reclassification referred to in the previous paragraph.

Budgeted appropriations and other financing uses increased by $12,781. Budgeted expenditures increased in general government support ($8,342), primarily for full time salaries and fringe benefits ($3,720) and decreases in economic assistance and opportunity ($4,783), primarily due to decreases in social services salaries and fringe benefits ($4,217).

For the year, actual revenues fell short of budget by $13,581. This was mainly due to a negative budgetary variance in intergovernmental category of $18,314 mainly due to reduced reimbursable expenditures. Sales and use taxes experienced a negative variance of $398 and miscellaneous revenues exceeded budget by $2,717.

Actual expenditures were less than budget by $29,451 primarily due to savings in various categories as follows: general government support ($8,132), principally for personnel services ($1,847) and fringe benefits ($1,873); economic assistance and opportunity ($5,251), mainly for social services programs ($3,163) and personal services and fringe benefits ($3,161).

The total favorable budget to actual variance for the year amounted to $17,456.

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, 2012, amounted to $839,623 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure, buildings and improvements, improvements other than buildings, equipment, College library collections, and construction in progress. The total increase in the County's investment in capital assets for the current period was 1.1%.

The County's infrastructure assets are recorded at historical cost in the government-wide financial statements as required by GASB Statement No. 34. The County has elected to depreciate infrastructure assets.

Major capital asset events during the current fiscal year included an increase to the transportation network of $36,591. Depreciation on machinery and equipment exceeded additions by $726.

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

Summary of Capital Assets at December 31, 2012 and 2011
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 30,479	$ 29,958	$ -	$ -	$ 30,479	$ 29,958
Buildings and Improvements	249,900	250,157	10,243	9,428	260,143	259,585
Improvements other than Buildings	13,575	14,025	40	43	13,615	14,068
Sewer and Transportation Networks	443,370	429,069	-	-	443,370	429,069
Machinery and Equipment	33,312	34,778	3,807	3,457	37,119	38,235
Library Collections	-	-	1,170	1,199	1,170	1,199
Construction in Progress	48,159	55,419	5,568	3,347	53,727	58,766
Total	**$ 818,795**	**$ 813,406**	**$ 20,828**	**$ 17,474**	**$ 839,623**	**$ 830,880**

Additional information on the County's capital assets can be found in Note I(G)(4) and Note VII of this report.

Debt Administration

At December 31, 2012, the primary government had total bonded debt outstanding of $930,243 as compared to $956,327 in the prior year. During the year, payments and other reductions of bonded debt amounted to $58,691. Additions, accretions and other adjustments amounted to $32,607. The issuance of long-term debt is a direct function of the County and is reported within the governmental activities columns in the government-wide financial statements.

Summary of Long-term Debt at December 31, 2012 and 2011

	Governmental Activities	
	2012	**2011**
Erie County bonds	$ 470,780	$ 495,118
Less: ECFSA mirror bonds	(267,115)	(282,105)
Net Erie County bonds	**203,665**	**213,013**
ECFSA bonds	353,365	368,355
ETASC tobacco settlement bonds	346,048	343,005
Unamortized bond discounts	(6)	(20)
Unamortized bond discounts - ETASC	(11,230)	(11,304)
Unamortized bond premiums	38,401	43,278
Total Primary Government long-term debt	**$ 930,243**	**$ 956,327**

Tobacco settlement bonds are payable only from the assets of ETASC and are not legal obligations of the County.

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 $2,691,770 which is only 15.27% exhausted by the County’s outstanding general obligation debt of $485,170 (which includes a $92,550 bond guaranty to ECMCC).

During the year, Standard & Poor’s upgraded the County’s underlying rating to A- while affirming a stable outlook. The County’s other bond ratings were unchanged during the year and are as follows: Moody's at A2 (stable outlook) and Fitch Ratings at A (stable outlook).

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

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 Erie County Office of the Comptroller, 95 Franklin Street, Room 1100, Buffalo, New York 14202.

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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 units.

Statement of Net Position

December 31, 2012

(dollars in thousands)

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 36,436	$ 46,224	$ 82,660
Investments	37,890	-	37,890
Restricted cash and cash equivalents	85,126	-	85,126
Receivables (net of allowances)	395,325	4,871	400,196
Due from primary government	-	-	-
Due from component unit	96,650	1,510	98,160
Internal balances	2,109	(1,187)	922
Inventories	-	-	-
Prepaid items	12,681	2	12,683
Other assets	2,272	-	2,272
Capital assets:			
Land, rare books and construction in progress	78,638	5,568	84,206
Other capital assets, net of depreciation	740,157	15,260	755,417
Total assets	**1,487,284**	**72,248**	**1,559,532**
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charge on refunding	27,355	-	27,355
Deferred outflow on forward purchase agreement swap	4,880	-	4,880
Total deferred outflows of resources	**32,235**	**-**	**32,235**
LIABILITIES:			
Accounts payable	55,917	4,426	60,343
Accrued liabilities	55,007	6,277	61,284
Due to component unit	2,342	-	2,342
Due to primary government	-	-	-
Unearned revenue	23,820	10,491	34,311
Short-term debt	74,735	-	74,735
Long-term liabilities:			
Due within one year	73,224	3,565	76,789
Due in more than one year	1,219,296	57,607	1,276,903
Total liabilities	**1,504,341**	**82,366**	**1,586,707**
DEFERRED INFLOWS OF RESOURCES:			
Deferred community development loans	**29,579**	**-**	**29,579**
NET POSITION:			
Net investment in capital assets	385,776	20,828	406,604
Restricted for:			
Capital projects	18,673	-	18,673
Debt service	14,915	-	14,915
Public safety	1,243	-	1,243
Other purposes	129	-	129
Unrestricted (deficit)	(435,137)	(30,946)	(466,083)
Total net position	**$ (14,401)**	**$ (10,118)**	**$ (24,519)**

See accompanying notes to the financial statements.

COMPONENT UNITS

Library	ECMCC	Other
$ 8,826	$ 21,724	$ 3,492
-	4,186	2,057
-	187,761	-
741	86,871	149
510	1,832	-
-	-	-
-	-	-
-	-	48
789	7,341	1
-	6,591	865
11,214	94,393	-
6,179	153,443	438
28,259	**564,142**	**7,050**
-	-	-
-	-	-
-	**-**	**-**
429	32,298	134
566	60,278	962
-	-	-
-	98,160	-
996	-	-
-	-	-
807	6,936	-
18,364	241,841	-
21,162	**439,513**	**1,096**
-	**-**	**-**
17,393	92,906	438
-	-	-
-	11,069	-
-	-	-
-	12,814	3,187
(10,296)	7,840	2,329
$ 7,097	**$ 124,629**	**$ 5,954**

Statement of Activities

For the year ended December 31, 2012

(dollars in thousands)

		PROGRAM REVENUES		
Functions / Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
General government	$ 434,922	$ 31,239	$ 34,070	$ 983
Public safety	152,968	6,846	6,134	-
Health	72,928	2,777	58,272	-
Transportation	71,685	-	7,535	17,325
Economic assistance and opportunity	578,592	27,147	246,628	-
Culture and recreation	20,709	1,460	846	7,322
Education	69,833	95	35,780	-
Home and community service	54,618	10,348	9,534	-
Interest and fiscal charges	34,905	-	2,632	-
Total governmental activities	**1,491,160**	**79,912**	**401,431**	**25,630**
Business-type activities:				
College (August 31, 2012)	129,424	35,512	5,654	-
Utilities aggregation	21,350	20,692	-	-
Total business-type activities	**150,774**	**56,204**	**5,654**	**-**
Total primary government	**$ 1,641,934**	**$ 136,116**	**$ 407,085**	**$ 25,630**
Component units:				
Library	$ 28,243	$ 765	$ 3,548	$ -
ECMCC	481,953	393,934	2,637	-
Other component units	4,734	3,144	2,502	-
Total component units	**$ 514,930**	**$ 397,843**	**$ 8,687**	**$ -**

General revenues:

Property taxes levied for mall, sewer, and general purposes

Property taxes levied for library

Sales and use taxes

Transfer taxes

Unrestricted state and local appropriations

Federal and state student financial aid

Interest earnings not restricted to specific programs

Unrestricted interest earnings

Miscellaneous

Gain on sale of capital assets

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning of year, as previously stated

Prior period adjustment (Note XVIII).

Net position - beginning of year, as restated

Net position - ending

See accompanying notes to the financial statements.

NET (EXPENSE) REVENUE and CHANGES IN NET POSITION

PRIMARY GOVERNMENT			COMPONENT UNITS		
Governmental Activities	**Business-type Activities**	**Total**	**Library**	**ECMCC**	**Other**
$ (368,630)	$ -	$ (368,630)	$ -	$ -	$ -
(139,988)	-	(139,988)	-	-	-
(11,879)	-	(11,879)	-	-	-
(46,825)	-	(46,825)	-	-	-
(304,817)	-	(304,817)	-	-	-
(11,081)	-	(11,081)	-	-	-
(33,958)	-	(33,958)	-	-	-
(34,736)	-	(34,736)	-	-	-
(32,273)	-	(32,273)	-	-	-
(984,187)	**-**	**(984,187)**	**-**	**-**	**-**
-	(88,258)	(88,258)	-	-	-
-	(658)	(658)	-	-	-
-	**(88,916)**	**(88,916)**	**-**	**-**	**-**
(984,187)	**(88,916)**	**(1,073,103)**	**-**	**-**	**-**
			(23,930)	-	-
			-	(85,382)	-
			-	-	912
			(23,930)	**(85,382)**	**912**
270,806	-	270,806	-	-	-
-	-	-	19,872	-	-
707,995	-	707,995	-	-	-
9,432	-	9,432	-	-	-
-	30,157	30,157	-	-	-
-	39,527	39,527	-	-	-
-	-	-	14	10,851	-
1,012	102	1,114	-	-	175
9,231	-	9,231	2,332	88,062	-
361	-	361	-	-	-
998,837	**69,786**	**1,068,623**	**22,218**	**98,913**	**175**
(17,429)	17,429	-	-	-	-
981,408	**87,215**	**1,068,623**	**22,218**	**98,913**	**175**
(2,779)	**(1,701)**	**(4,480)**	**(1,712)**	**13,531**	**1,087**
(23,307)	**(8,417)**	**(31,724)**	**8,809**	**111,098**	**4,867**
11,685	-	11,685	-	-	-
(11,622)	**(8,417)**	**(20,039)**	**8,809**	**111,098**	**4,867**
$ (14,401)	**$ (10,118)**	**$ (24,519)**	**$ 7,097**	**$ 124,629**	**$ 5,954**

Balance Sheet

Governmental Funds

December 31, 2012

(dollars in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 160	$ 849	$ 35,427	**$ 36,436**
Investments	-	-	37,890	**37,890**
Restricted cash and cash equivalents	196	-	84,930	**85,126**
Receivables (net of allowances)				
Real property taxes, interest, penalties and liens	84,523	-	18	**84,541**
Other	5,036	-	30,802	**35,838**
Due from other funds	98,537	75,000	22,738	**196,275**
Due from component unit	1,909	-	-	**1,909**
Due from other governments	158,493	55,187	45,907	**259,587**
Prepaid items	9,322	11	3,348	**12,681**
Total assets	**$ 358,176**	**$ 131,047**	**$ 261,060**	**$ 750,283**
LIABILITIES:				
Accounts payable	$ 16,478	$ -	$ 10,544	**$ 27,022**
Accrued liabilities	36,664	30	6,485	**43,179**
Due to other funds	76,163	51,021	66,982	**194,166**
Due to component unit	671	510	-	**1,181**
Due to other governments	27,113	-	-	**27,113**
Retained percentages payable	-	-	1,782	**1,782**
Unearned revenue	18,626	3,774	1,427	**23,827**
Short-term debt	-	74,735	-	**74,735**
Total liabilities	**175,715**	**130,070**	**87,220**	**393,005**
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue – property taxes	62,320	-	-	**62,320**
Unavailable revenue – community development loans	-	-	29,579	**29,579**
Total deferred inflows of resources	**62,320**	**-**	**29,579**	**91,899**
FUND BALANCES:				
Nonspendable:				
Prepaid items	9,322	11	3,348	**12,681**
Restricted for:				
Handicapped parking	129	-	-	**129**
Law enforcement	67	-	-	**67**
E-911 system costs	-	-	1,176	**1,176**
Debt service	-	-	25,211	**25,211**
Capital expenditures	-	-	84,595	**84,595**
Assigned:				
Subsequent year's expenditures	9,028	-	7,750	**16,778**
Judgments and claims	1,964	-	-	**1,964**
Other purposes	11,299	966	22,690	**34,955**
Unassigned	88,332	-	(509)	**87,823**
Total fund balances	**120,141**	**977**	**144,261**	**265,379**
Total liabilities, deferred inflows of resources and fund balances	**$ 358,176**	**$ 131,047**	**$ 261,060**	**$ 750,283**

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet

Governmental Funds to the Statement of Net Position

December 31, 2012

(dollars in thousands)

		Governmental Activities
Total fund balances - governmental funds	**$**	**265,379**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		818,795
Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported as revenue in the funds		15,359
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds		62,327
ECFSA interest receivable is recognized when earned in the government-wide financial statements, but in the fund financial statements income is accrued only if it will be received within sixty days of year-end.		3,348
Items associated with the issuance of ECFSA bonds are capitalized in the statement of net position and are expensed in the governmental funds in the year the bonds are issued.		2,272
Due from a component unit was deemed to be not due and payable in the current period and, therefore, not reported in the funds.		94,741
Certain deferred outflows of resources represent a consumption of net position in a future period and, therefore, are not reported in the funds.		
Unamortized deferred amounts on refundings		7,030
Unamortized deferred amounts on refundings - ETASC		20,325
Certain current liabilities and long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued bond interest		(9,152)
Accrued bond interest - ETASC		(1,144)
Compensated absences		(22,693)
Judgments and claims		(63,518)
Other postemployment benefits (OPEB)		(276,066)
Due to component unit		(1,161)
Unamortized bond premiums		(38,401)
Unamortized bond discounts		6
Unamortized bond discounts - ETASC		11,230
Bonds payable		(557,030)
Bonds payable - ETASC		(346,048)
Total net position - governmental activities	**$**	**(14,401)**

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended December 31, 2012

(dollars in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Real property taxes and tax items	$ 230,772	$ -	$ 37,297	**$ 268,069**
Sales and use taxes	306,124	398,220	3,651	**707,995**
Transfer taxes	-	-	9,432	**9,432**
Intergovernmental	328,199	1,407	96,770	**426,376**
Interfund revenues	1,197	-	126	**1,323**
Departmental	66,710	-	12,133	**78,843**
Interest	984	28	5,055	**6,067**
Miscellaneous	6,777	-	3,310	**10,087**
Total revenues	**940,763**	**399,655**	**167,774**	**1,508,192**
EXPENDITURES:				
Current:				
General government support	369,309	470	16,940	**386,719**
Public safety	129,818	-	18,783	**148,601**
Health	65,463	-	6,949	**72,412**
Transportation	21,947	-	23,305	**45,252**
Economic assistance and opportunity	561,534	-	15,992	**577,526**
Culture and recreation	18,313	631	-	**18,944**
Education	68,067	-	85	**68,152**
Home and community service	2,432	-	41,848	**44,280**
Capital outlay	-	-	61,896	**61,896**
Debt service:				
Principal retirement	-	-	50,643	**50,643**
Interest and fiscal charges	-	1,232	40,656	**41,888**
Total expenditures	**1,236,883**	**2,333**	**277,097**	**1,516,313**
Excess (deficiency) of revenues over (under) expenditures	**(296,120)**	**397,322**	**(109,323)**	**(8,121)**
OTHER FINANCING SOURCES (USES):				
Issuance of general obligation debt	-	-	24,110	**24,110**
Premium on BAN issuance	-	444	-	**444**
Premium on bond issuance	-	-	3,245	**3,245**
Sale of property	361	-	-	**361**
Transfers in	397,764	479	130,556	**528,799**
Transfers out	(97,999)	(398,540)	(49,689)	**(546,228)**
Total other financing sources (uses)	**300,126**	**(397,617)**	**108,222**	**10,731**
Net change in fund balances	4,006	(295)	(1,101)	**2,610**
Fund balances - beginning of year	116,135	1,272	145,362	**262,769**
Fund balances at end of year	**$ 120,141**	**$ 977**	**$ 144,261**	**$ 265,379**

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds to the Statement of Activities

For the year ended December 31, 2012

(dollars in thousands)

		Governmental Activities
Net change in fund balances - total governmental funds		**$ 2,610**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and depreciated. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlays, net of disposals of $381	$ 59,794	
Depreciation	(54,405)	
Net adjustment		5,389
Governmental funds report loans to a component unit to be repaid on a long-term basis as expenditures. In the statement of net position, however, the cost of those outlays increases the due from component unit and does not affect the statement of activities. Similarly, repayment of long-term loan principal is a revenue in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, repayment of long-term loan principal reduces the amount due from the component unit and does not affect the statement of activities.		
Loan principal retirement		(1,898)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Real property taxes	2,737	
Unearned revenue-miscellaneous	(44)	
Net adjustment		2,693
Revenues of the ECFSA in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		(3,257)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term debt and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the governmental funds and thus contributes to the change in fund balance. In the statement of net position, however, payment of debt reduces the long-term debt liability and does not affect the statement of activities.		
Principal retirement	48,448	
Bonds issued	(24,110)	
Premium on bond issuance	(3,245)	
Amortization of fiscal charges	8,109	
Principal retirement, amortization of bond discount - ETASC	2,121	
Net adjustment		31,323
Certain activity reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported in the governmental funds.		
Due to component unit	(1,161)	
Interest on bonds	4,590	
Deferred charge on refunding	(316)	
Compensated absences	(98)	
Judgments and claims (long-term change only)	(2,684)	
Amortization of ECFSA bond items	(361)	
ECFSA BAN premium	582	
Interest on bonds and turbo CAB accretions - ETASC	(5,227)	
Deferred charge on refunding - ETASC	(764)	
Other postemployment benefits (OPEB)	(34,200)	
Net adjustment		(39,639)
Change in net position of governmental activities		**$ (2,779)**

See accompanying notes to the financial statements.

General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual (Non-GAAP Basis of Accounting)
For the year ended December 31, 2012
(dollars in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget
REVENUES:				
Real property taxes and tax items	$ 228,628	$ 228,862	$ 230,772	$ 1,910
Sales and use taxes	704,742	306,522	306,124	(398)
Intergovernmental	345,162	346,513	328,199	(18,314)
Interfund revenue	1,472	1,472	1,197	(275)
Departmental	61,489	65,610	66,710	1,100
Interest	1,333	1,305	984	(321)
Miscellaneous	2,425	4,060	6,777	2,717
Total revenues	**1,345,251**	**954,344**	**940,763**	**(13,581)**
EXPENDITURES:				
Current:				
General government support	368,938	377,280	369,148	8,132
Public safety	121,889	130,443	130,081	362
Health	71,017	72,015	65,469	6,546
Transportation	21,980	21,980	21,947	33
Economic assistance and opportunity	571,223	566,440	561,189	5,251
Culture and recreation	18,681	18,857	18,323	534
Education	77,325	76,600	68,067	8,533
Home and community service	2,172	2,636	2,576	60
Debt service:				
Interest and fiscal charges	479	-	-	-
Total expenditures	**1,253,704**	**1,266,251**	**1,236,800**	**29,451**
Excess (deficiency) of revenues over (under) expenditures	**91,547**	**(311,907)**	**(296,037)**	**15,870**
OTHER FINANCING SOURCES (USES):				
Sale of property	225	225	361	136
Transfers in	-	397,764	397,764	-
Transfers out	(99,215)	(99,449)	(97,999)	1,450
Total other financing sources (uses)	**(98,990)**	**298,540**	**300,126**	**1,586**
Net change in fund balances *	**$ (7,443)**	**$ (13,367)**	**$ 4,089**	**$ 17,456**

* The net change in fund balances was included in the budget as an appropriation (i.e., spendown) of fund balance.

See accompanying notes to the financial statements.

Statement of Net Position

Proprietary Funds

December 31, 2012

(dollars in thousands)

	Business - Type Activities Enterprise Funds: Major Fund	Business - Type Activities Enterprise Funds: Non-Major Fund	
	College August 31, 2012	Utilities Aggregation Fund	Total
ASSETS:			
Current Assets:			
Cash	$ 45,221	$ 1,003	**$ 46,224**
Receivables (net of allowances)	3,256	389	**3,645**
Due from other funds	121	566	**687**
Due from component unit	-	1,510	**1,510**
Due from other governments	-	1,226	**1,226**
Prepaid items	-	2	**2**
Total current assets	**48,598**	**4,696**	**53,294**
Noncurrent Assets:			
Capital assets, net of depreciation:			
Construction in progress	5,568	-	**5,568**
Other capital assets, net of depreciation	15,260	-	**15,260**
Total noncurrent assets	**20,828**	**-**	**20,828**
Total assets	**69,426**	**4,696**	**74,122**
LIABILITIES:			
Current Liabilities:			
Accounts payable	1,642	2,611	**4,253**
Accrued liabilities	6,274	3	**6,277**
Due to other funds	1,874	-	**1,874**
Due to other governments	-	173	**173**
Fringe benefits payable - current	3,565	-	**3,565**
Unearned revenue	10,491	-	**10,491**
Total current liabilities	**23,846**	**2,787**	**26,633**
Noncurrent Liabilities:			
Fringe benefits payable	5,033	-	**5,033**
Net OPEB obligation	52,574	-	**52,574**
Total noncurrent liabilities	**57,607**	**-**	**57,607**
Total liabilities	**81,453**	**2,787**	**84,240**
NET POSITION:			
Net investment in capital assets	20,828	-	**20,828**
Unrestricted (deficit), reported in:			
College	(32,855)	-	**(32,855)**
Non-major Fund	-	1,909	**1,909**
Total net position	**$ (12,027)**	**$ 1,909**	**$ (10,118)**

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Net Position (Deficit)

Proprietary Funds

For the year ended December 31, 2012

(dollars in thousands)

	Business - Type Activities Enterprise Funds		
	Major Fund	Non-Major Fund	
	College August 31, 2012	Utilities Aggregation Fund	Total
OPERATING REVENUES:			
Student tuition and fees	$ 34,702	$ -	**$ 34,702**
Intergovernmental revenues and charges	1,923	-	**1,923**
State and local contracts	3,731	-	**3,731**
Interfund revenues	-	6,917	**6,917**
Other operating revenue	810	13,775	**14,585**
Total operating revenues	**41,166**	**20,692**	**61,858**
OPERATING EXPENSES:			
Employee wages	58,669	46	**58,715**
Employee benefits	31,202	27	**31,229**
Scholarships	20,237	-	**20,237**
Supplies	16,027	-	**16,027**
Utilities and telephone	1,546	21,277	**22,823**
Depreciation	1,721	-	**1,721**
Total operating expenses	**129,402**	**21,350**	**150,752**
Operating (loss) income	**(88,236)**	**(658)**	**(88,894)**
NONOPERATING REVENUES (EXPENSES):			
Unrestricted state and local appropriations	30,157	-	**30,157**
Federal and state student financial aid	39,527	-	**39,527**
Income from investments	102	-	**102**
Loss on disposal of plant assets	(22)	-	**(22)**
(Loss) gain before transfers	**(18,472)**	**(658)**	**(19,130)**
Transfers in	17,429	-	**17,429**
Change in net position	**(1,043)**	**(658)**	**(1,701)**
Total net position - beginning	**(10,984)**	**2,567**	**(8,417)**
Total net position - ending	**$ (12,027)**	**$ 1,909**	**$ (10,118)**

See accompanying notes to the financial statements.

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2012

(dollars in thousands)

	Business - Type Activities Enterprise Funds		
	Major Fund	Non-Major Fund	
	College August 31, 2012	Utilities Aggregation Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from students and utility customers	$ 34,948	$ 13,078	**$ 48,026**
Payments to employees for services	(84,269)	(72)	**(84,341)**
Payments to suppliers for goods and services	(17,211)	(20,017)	**(37,228)**
Payments for scholarships	(20,237)	-	**(20,237)**
Federal, state and local grants	8,166	-	**8,166**
Internal activity - payments from other funds	-	6,661	**6,661**
Other operating revenues	1,315	-	**1,315**
Net cash (used in) provided by operating activities	**(77,288)**	**(350)**	**(77,638)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
County contribution	17,429	-	**17,429**
State appropriations	29,455	-	**29,455**
Municipal chargebacks	831	-	**831**
Federal and state student financial aid grants	39,510	-	**39,510**
Net cash provided by non-capital financing activities	**87,225**	**-**	**87,225**
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(5,097)	-	**(5,097)**
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:			
Interest received	102	-	**102**
Net (decrease) increase in cash	**4,942**	**(350)**	**4,592**
Cash, beginning of year	40,279	1,353	**41,632**
Cash, end of year	**$ 45,221**	**$ 1,003**	**$ 46,224**

(Continued)

See accompanying notes to the financial statements.

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2012

(dollars in thousands)

	Business - Type Activities Enterprise Funds: Major Fund	Business - Type Activities Enterprise Funds: Non-Major Fund	
	College August 31, 2012	Utilities Aggregation Fund	Total Funds
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:			
Operating (loss) income	$ (88,236)	$ (658)	**$ (88,894)**
Adjustments to reconcile operating (loss) income to net cash used by operating activities:			
Depreciation expense	1,721	-	**1,721**
Decrease (increase) in assets:			
Receivables, net	2,788	(91)	**2,697**
Due from other funds	-	(106)	**(106)**
Due from component unit	-	(909)	**(909)**
Due from other governments	-	182	**182**
Increase (decrease) in liabilities:			
Accounts and other payables	363	1,271	**1,634**
Due to other governments	-	173	
Accrued expenses	268	(212)	**56**
Unearned revenue	91	-	**91**
Other long-term liabilities	5,717	-	**5,717**
Net cash (used in) provided by operating activities	**$ (77,288)**	**$ (350)**	**$ (77,811)**

(Concluded)

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position

Fiduciary Fund

December 31, 2012

(dollars in thousands)

		Agency Fund
ASSETS:		
Cash and cash equivalents	$	29,626
Receivables:		
Other receivables		454
Bonds and securities held in custody		25
Total assets	**$**	**30,105**
LIABILITIES:		
Held in custody for others		30,105
Total liabilities	**$**	**30,105**

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2012

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Some amounts reported as interfund activity have been eliminated from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

B. Financial Reporting Entity

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

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

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

1. Discretely Presented Component Units

Financial data of the County's component units that are not part of the primary government is reported in the component units columns in the government-wide financial statements, to emphasize that these component units are legally separate from the County. The aggregate discretely presented component units are not simply an extension of the primary government (e.g. substantially different governing body and services are provided to the general public). These discretely present component units include the following:

The Buffalo and Erie County Public Library (the "Library"), formed through a consolidation of several public and private libraries, was established by the County and chartered by the State University Board of Regents in 1953. It is a separate and distinct legal corporation that receives an annual budgetary contribution from the County. Library operations are governed by a board of trustees who are appointed by the County Legislature. Bonds and notes for Library capital costs are issued by the County and are obligations of the County. Title to real and personal property acquired with County funds vests with the County. The Library is included as a component unit of the County in the financial statements, based on the fact that it is a legally separate entity for which the County is financially accountable. The Library does not issue separate financial statements.

Erie County Medical Center Corporation ("ECMCC") is a public benefit corporation created in 2003 for the purpose of acquiring and operating the health facilities of the County. Effective January 1, 2004 (the "Transfer Date"), a transaction was executed which transferred ownership of the capital assets, equipment, inventories and certain other assets to ECMCC in exchange for a payment of $85,000,000 from ECMCC to the County. Concurrent with the transaction, $101,375,000 of ECMCC bonds were issued, which are guaranteed by the County. Pursuant to consent decrees entered into between the County and ECMCC, the County is committed to providing ongoing operating and capital support to ECMCC. The following component units are included within ECMCC:

> *Research for Health in Erie County, Inc.* - ("RHEC") is a nonprofit organization dedicated to developing and increasing the facilities of the public health institutions, agencies, and departments of the County. Additionally, RHEC is committed to provide more extensive conduct of studies and research into the causes, nature, and treatment of diseases, disorders, and defects of particular importance to the public health. RHEC's support comes primarily from various grants from federal, state, and other agencies. The financial statements of RHEC have been prepared on the accrual basis of accounting. The annual financial report can be obtained by writing Grant Administration, Research for Health in Erie County, Inc., 462 Grider Street, Buffalo, NY 14215.
>
> *ECMC Lifeline Foundation, Inc.* - (the "Foundation") is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed for the purpose of supporting hospital programs generated both by the Foundation and the Erie County Medical Center. The annual financial report can be obtained by writing Director, ECMC Lifeline Foundation, Inc., 462 Grider Street, Buffalo, NY 14215.
>
> *The Grider Initiative, Inc.* - (the "Physician Endowment") is a nonprofit organization exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code. The Physician Endowment was formed in 2009, and funded in 2010, for the purpose of recruiting physicians who shall practice on the

Grider Street campus of the Corporation. The entity was funded with an initial transfer of $10,000 from the Corporation. Earnings from the investment of the initial transfer may be used only for physician recruitment and reasonable and necessary expenses of the entity. The annual financial report can be obtained by writing to: Chair, The Grider Initiative, Inc. 424 Main Street, Suite 2000, Buffalo, NY 14202.

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

Other Discretely Presented Component Units:

The Auxiliary Services Corporation of Erie Community College, Inc. (the "ECC Auxiliary Corporation"), and the *Erie Community College Foundation, Inc.* (the "ECC Foundation") are both included as discretely presented component units of the County's primary government pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations are Component Units* based on the fact that they are legally separate entities for which the College and County are financially accountable. They receive or hold economic resources that are significant to and can be accessed by the College that are entirely or almost entirely for the direct benefit of its constituents (students).

The purpose of the ECC Auxiliary Corporation, a New York nonprofit corporation, is to promote and cultivate educational and social relations through the operation of bookstores, on-campus dining services, vending facilities, childcare, and student centers for the convenience of the students, faculty and staff of the College. The ECC Auxiliary Corporation is funded through sales of merchandise and food, Federal and State grants, and other fees. Separate financial statements can be obtained from the Auxiliary Services Corporation of Erie Community College, Inc., Executive Director, 4041 Southwestern Blvd., Orchard Park, NY 14127.

The ECC Foundation is a New York State nonprofit corporation established to support the College. Its purpose is to raise, receive, and administer all private gifts and program services for the College, its programs and its students. Separate financial statements can be obtained from Erie Community College Foundation, Inc., Executive Director, 121 Ellicott Street, Buffalo, NY 14203.

The Buffalo and Erie County Industrial Land Development Corporation, Inc. ("ILDC") is a legally separate entity of which the County, acting by and through the County Executive, is the sole member. It is discretely presented in the County's financial statements because the County is financially accountable for it.

A voting majority of the board members are appointed by, and can be removed at will by, the County. The ILDC is managed by the board.

In 2009, ILDC by–laws and organizing documents were changed and specific activities first became under the direct governance of Erie County. These changes allow the ILDC to provide tax-exempt financing to not-for-profit organizations. Such debt of the ILDC can never be the debt of Erie County or any political subdivision thereof and can only be paid out of specific revenues and receipts of the ILDC. The ILDC provides no services to the County.

Separate financial statements can be obtained from Buffalo Erie County Industrial Land Development Corporation Inc., Chief Operating Officer, 275 Oak Street, Buffalo, NY 14203.

2. Blended Component Units

Erie County Fiscal Stability Authority ("ECFSA") is included as a blended component unit of the County's primary government pursuant to GASB because exclusion would be misleading. The ECFSA was created to monitor and oversee the finances of the County. Agencies and departments by the ECFSA's activities include all the County's departments and sewer districts, the College and the Library. It reports using the governmental model and its general fund is reported as part of the County's special revenue funds.

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

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

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

On November 3, 2006, the Authority imposed a control period on the County in accordance with Section 3595(1)(e) of New York Public Authorities Law through resolution 06-49. The resolution empowered the ECFSA to operate with its maximum authorized compliment of control and oversight powers over County finances. During a control period all County contracts of $50,000 or more and filling of any positions are subject to ECFSA approval and ECFSA has the power to approve or reject all proposed County borrowings and the County may not borrow without formal ECFSA approval. In addition, the ECFSA has the right to freeze wages, although it has not elected to exercise that right. On June 2, 2009, the ECFSA revoked the control period and reverted to an advisory status with limited control and oversight powers over County finances.

During 2012, the ECFSA issued serial bonds and a bond anticipation note that were used to purchase mirror bonds and a revenue anticipation note that were issued by the County. The ECFSA also issued serial bonds to assist ECMCC in the construction of a new residential health care facility. Loan agreements were executed whereby the ECFSA loaned the proceeds to the County, who in turn loaned the monies to ECMCC. The facility was opened in February 2013.

Revenues of the ECFSA consist of sales tax revenues, defined as net collections from sales and compensating use taxes, penalties and interest authorized by the State and imposed by the County on the sales and use of tangible personal property and services in the County ("Sales Tax Revenues"), and investment earnings on money and investments on deposit in various ECFSA accounts. Sales tax revenues collected by the State Comptroller for transfer to the ECFSA are not subject to appropriation by the State or County. Revenues of the

ECFSA that are not required to pay debt service, operating expenses and other costs of the ECFSA are payable to the County as frequently as practicable. Separate financial statements for ECFSA can be obtained from the Erie County Fiscal Stability Authority, 295 Main Street, Room 946, Buffalo, New York, 14203.

Erie Tobacco Asset Securitization Corporation ("ETASC") is a special purpose local development corporation organized under the Not-for-Profit Corporation Law of the State of New York and is an instrumentality of, but separate and apart from the County. ETASC was incorporated, for the sole purpose of issuing tobacco settlement asset backed bonds in order to provide funds to purchase from the County all of the County's right, title, and interest in annual payments to be received in settlement of certain smoking-related litigation. Tobacco settlement bonds are payable only from the assets of ETASC and are not legal obligations of the County. Although legally separate and independent of Erie County, ETASC is considered an affiliated organization under GASB and reported as a component unit of the County for financial reporting purposes and, accordingly, is included in the County's financial statements. Separate financial statements for ETASC can be obtained from the Erie Tobacco Asset Securitization Corporation, Treasurer, 95 Franklin Street, Room 1600, Buffalo, New York, 14202.

3. Related Organizations

County elected officials nominate and confirm the three-member board of the Erie County Water Authority, ("Water Authority") and also appoint a voting majority of the board of the Buffalo Convention Center Management Corporation ("BCCMC"). 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 BCCMC, the entity and the County are parties to an exchange transaction under which the BCCMC is responsible for operating and managing the area's convention center. These related organizations are not component units of the County and do not meet the basic criteria for inclusion in the County reporting entity.

4. Joint Venture

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

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. 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.

The County has five discretely presented component units with two major component units being shown in separate columns and three nonmajor component units being aggregated into a single column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are interfund services provided and used such as Utilities Aggregation Fund billings to other funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. <u>Basis of Presentation – Fund Financial Statements</u>

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

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

<u>ECFSA General Fund</u> – used to account for all of the operations of the ECFSA, included as a blended component unit. This fund accounts for sales tax revenues received by ECFSA and for general operating expenditures of ECFSA.

The County reports the following major proprietary fund:

<u>Erie Community College</u> – resources received and used for college purposes are accounted for through the College. The College is not a legally separate entity from the County. A fiscal year ending August 31 is mandated by New York State law for the College. Accordingly, financial information for the College is presented as of and for the fiscal year then ended.

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

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

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

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

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

Agency Fund – used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

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.

E. Measurement Focus and Basis of Accounting

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 (60-day rule). 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 judgments and claims, 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 and are measurable.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Property taxes, sales and use taxes, state and federal aid and various grant program revenues associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government, subject to the 60-day rule noted above.

F. Budgetary Information

Annual appropriated budgets are adopted and employed for control of the General Fund; the Road, Sewer, Downtown Mall, and E-911 Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund, minimally detailed to the department and account level. These budgets are adopted on a basis consistent with GAAP, except that encumbrances are reported as budgetary expenditures in the year of incurrence of commitment to purchase, in the General Fund, the enumerated Special Revenue Funds and the Debt Service Fund. 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.

G. Assets, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents. Investments are stated at fair value, the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

2. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent restricted fund balance and unspent proceeds of debt.

3. Prepaid Items

Certain payments to vendors and the New York State and Local Employees' Retirement System reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

All capital assets which are acquired or constructed for general governmental purposes are reported as expenditures in the fund that finances the asset acquisition and are accounted for and reported in the government-wide financial statements as capital assets, if they meet the County’s capitalization criteria. These statements also contain the County’s infrastructure elements that are required to be capitalized under GAAP. Infrastructure assets include public domain assets such as roads, bridges, and sewer systems. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Equipment with an initial individual cost equal to or greater than $10,000 and an estimated useful life of three or more years is capitalized. All purchases of library books are capitalized because there is no minimum capitalization threshold.

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Improvements Other Than Buildings	5 - 25 years
Buildings and Improvements	15 - 40 years
Infrastructure	20 - 100 years
Library Collections	5 - 10 years

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

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.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The County has two items that qualify for reporting in this category in the government-wide statement of net position. One is the deferred charge on refunding which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other is the deferred outflow on ETASC's forward purchase agreement swap relating to the accumulated increase in its fair value.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and community development loans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. Fund Balance Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The County itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the County's highest level of decision-making authority. The Erie County Legislature is the highest level of decision-making authority for the County that can, by adoption of a Legislative Resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to rescind or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as committed. The Legislature authorizes assigned amounts of fund balance.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

2. Property Tax Revenue Recognition

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

Delinquent property taxes not collected at year-end (excluding collections in the 60-day subsequent period) are recorded as deferred revenue in the fund financial statements. The portion of delinquent property taxes for prior years estimated to be uncollectible at December 31, 2012, amounted to $33,148,269. This amount has been recorded as an allowance against the property taxes receivable account.

3. 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 receive a direct cash payment for a portion of unused sick time upon retirement.

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

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.

4. 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.

5. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing educational services and the purchase and resale of utilities in connection with the proprietary fund's ongoing operations. The principal operating revenues of the College, the County's major proprietary fund are charges to students for tuition and fees. Operating expenses for the College are employee wages and benefits and student scholarships. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. Other

1. 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.

2. Reclassifications

Certain amounts were reclassified from ECFSA's financial statements to conform to the County's reporting presentation. In the ECFSA's statement of revenue, expenditures, and change in fund balances, $33,769,284 representing principal and interest revenue received from the County relating to mirror bonds and a revenue anticipation note purchased by the ECFSA, and $398,540,308 representing sales tax revenue and other distributions to the County, were reclassified as transfers in and transfers out, respectively.

3. Adoption of New Accounting Pronouncements

During the year ended December 31, 2012, The County adopted the provisions of Governmental Accounting Standards Board ("GASB") Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented (with the exception of the ECFSA), No. 65, *Items Previously Reported as Assets and Liabilities*. These statements require reporting of deferred outflows and inflows of resources separately from assets and liabilities and replace the term net assets with net position. In addition, certain items previously reported as assets and liabilities, such as bond issuance costs, are now recognized as outflows and inflows of resources. GASB No. 63 did not have a material impact on the County's financial position or results from operations. As a result of the implementation of GASB Statement No. 65, net position of governmental activities at December 31, 2011 has been restated for unamortized bond issuance costs of $3,711,975 associated with the issuance of the Subordinate Turbo CABs.

The County also implemented GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – amendment of GASB Statement No. 53*, which had no impact on the County's financial position or results of operations.

4. Future Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34", and* "No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, No. 69, *Government Combinations and Disposals of Government Operations", and* No.70, *Accounting and Financial Reporting for Non exchange Financial/Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, effective for the year ending December 31, 2015. The County is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68, 69 and 70 will have on its financial position and results of operations when such statements are adopted.

II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. In accordance with the County Charter and Administrative Code, no later than October 15, the County Executive submits a tentative operating and capital budget which details proposed expenditures and the proposed means of financing to the Erie County Legislature for the fiscal year commencing the following January 1. The College budget is not included in the County Executive's tentative budget, since it is separately adopted during the first County legislative meeting in July for the fiscal year commencing September 1.

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

3. The County Executive is authorized to make budget transfers within the same administrative unit up to a cumulative total of $10,000 between accounts or line items. Any proposed transfer which would result in an increase exceeding $10,000 in any one line item in the budget, as adopted during the fiscal year or would affect any salary rate or salary total, would need prior approval by resolution of the County Legislature. In no instance shall a transfer be made from appropriations for debt service, and no appropriations may be reduced below any amount which is required by law to be appropriated.

4. The Emergency Response Special Revenue Fund was established to account for revenues received from the Federal Emergency Management Agency and expenditures associated with the cleanup of major damage from a storm that occurred in October 2006 and is expected to be closed out during 2013.

5. 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.

6. Expenditures within the General, Special Revenue, Utilities Aggregation Enterprise, and the Debt Service Funds may not legally exceed the amount appropriated for such accounts within a department. During the year, numerous supplementary appropriations were necessary.

   Individual governmental fund comparisons of budgetary and actual data at the legal level of control established by the adopted budget (i.e., minimally the department 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.

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 moneys are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in all County funds except Enterprise and the Fiduciary Fund. Outstanding encumbrances at year end, except for grant-related commitments that are not reported in the financial statements, are presented for GAAP reporting purposes as reservations of fund balances, and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Unencumbered appropriations lapse at fiscal year-end.

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

	General Fund
Excess of revenues and other financing sources over expenditures and other financing uses - GAAP basis	$ 4,006
Less:	
Encumbrances at December 31, 2012	3,523
Plus:	
Encumbrances at January 1, 2012	3,606
Excess of revenues and other financing sources over expenditures and other financing uses - basis of budgeting	$ 4,089

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 anticipated use of prior-year's fund balance, which had been designated for 2012 expenditures through the budget process.

Commitments related directly to the Grants and the Community Development Special Revenue Funds in the amount of $4,004,242 and $1,412,815, respectively, at December 31, 2012, are not reported on the GAAP financial statements. Budget appropriations are not made available for these commitments until grant revenues are recognized at the time of expenditure.

B. **Deficit Unassigned Fund Balances**

Deficit unassigned fund balance amounts in the Grants and the Community Development Special Revenue Fund in the amounts of $479,912 and $29,384, respectively, are caused by nonspendable fund balance amounts recorded for prepaid items.

C. **Deficit Net Position**

The Governmental Activities reported a total net deficit of $14,401,000 at December 31, 2012 resulting primarily from ETASC's net deficit of $279,944,763 that is caused by its recognition of bonds payable with no offsetting capital assets.

The College Proprietary Fund reported a total net position deficit of $12,026,575 that primarily represents the effect of the implementation of GASB Statement No. 45 in their 2007 fiscal year. It is anticipated that this trend will continue.

III – CASH, CASH EQUIVALENTS AND INVESTMENTS

Primary Government, Agency Fund and Library Component Unit

Available cash of the County is deposited and invested in accordance with the County's own written investment guidelines which have been established by the Comptroller's Office, approved by the County Legislature and are in compliance with provisions of applicable State statutes. The ECFSA does not have a formal investment policy.

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

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

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

Custodial Credit Risk – For investments, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the County's name. For deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Banks can satisfy collateral requirements by furnishing a letter of credit, a surety bond, or by pledging eligible securities as specified in Section 10 of New York State General Municipal Law. New York State Education Law does not require collateral for college checking accounts, unless the Board of Trustees deems it necessary. If collateral is required, it can be in the form of a surety bond or obligations of the United States, the State, or any municipality or college of the State. Certain balances for accounts held in trust are collateralized by the State of New York.

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

Deposits - The County deposits cash into a number of bank accounts. Moneys must be deposited in demand or time accounts or certificates of deposit issued by FDIC-insured commercial banks or trust companies located within the State. Some of the County's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for County operating cash and for investment purposes.

As of December 31, 2012 (August 31, 2012 as to the College), bank deposits of the Primary Government, Library, and Agency Fund were either insured or fully collateralized with securities held by the pledging financial institution's agent in the County's name.

Cash and Cash Equivalents - All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents. Existing policies require that any underlying securities for repurchase transactions must be only federal obligations. Such obligations are explicitly guaranteed by the U.S. Government and therefore not considered to have credit risk. At December 31, 2012, the fair value of money market accounts was $184,406,358 which were fully collateralized with securities held by the pledging financial institution's agent in the County's name.

Investments **-** All investments are carried at fair value and are held by a third party in the County's, ETASC's or ECFSA's name. Investments for the Primary Government at year-end are shown below (dollars in thousands):

	Fair Value
Municipal bonds	$ 200
Institutional liquidity funds	410
Corporate commercial paper	19,581
Treasury securities	17,699
Total investments	$ 37,890

The County's investment in municipal bonds at December 31, 2012 consists of $200,000 of Gulf Coast Waste Disposal Authority of Texas revenue bonds maturing September 1, 2025 that were rated Aaa by Moody's and AAA by Standard and Poor's.

ETASC's investment in corporate commercial paper at December 31, 2012 consisted of $19,581,018 of Fortis Funding LLC obligations. Rating information was not available. ETASC's $409,539 investment in Blackrock Liquidity Funds was rated AAAm by S&P.

ECFSA had $17,698,943 in Treasury securities at December 31, 2012.

<u>ECMCC Component Unit</u>

The ECMCC maintains various accounts for depositing, disbursing and investing its funds. The ECMCC's investments are made in accordance with State regulations and its investment guidelines.

Cash and Cash Equivalents – Include cash on hand and monies deposited in checking and money market accounts. Excluding assets whose use is limited, cash and cash equivalents total $21,724 as of December 31, 2012.

***Investments* -** All investments are carried at fair value, and are categorized as insured or uninsured, and collateralized by securities held by the pledging financial institution in the ECMCC's name. The ECMCC's investments and restricted cash and cash equivalents as of December 31, 2012 are shown below (dollars in thousands).

	Fair Value
Money market mutual funds, bank accounts and deposits	$ 32,432
Commercial paper	4,770
Marketable equity securities	29,420
U.S. Government and Agency Obligations	31,594
Corporate bonds	33,161
Short term fixed income	47,800
Foundation Component Unit	1,648
RHEC Component Unit	1,074
Physician Endowment Component Unit	10,048
Total investments and restricted cash and cash equivalents	$ 191,947

	Fair Value
Investments - unrestricted.	$ 4,186
Restricted cash and cash equivalents	187,761
Total	$ 191,947

Other Component Units

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

Fair values and net unrealized gains and losses pertaining to the investment portfolio as of August 31, 2012 are as follows (dollars in thousands):

	Cost	Fair Value
Fixed income	$ 622	$ 625
International equities	473	521
Domestic stocks	717	772
Mixed assets	135	139
Total	$ 1,947	$ 2,057
Net unrealized gain		$ 110

IV - RESTRICTED CASH AND CASH EQUIVALENTS

Primary Government

Restricted Cash and Cash Equivalents – At December 31, 2012 the County reported the following restricted cash and cash equivalents (dollars in thousands):

	Fair Value
Handicapped parking	$ 129
Law enforcement	67
E-911 system costs.	564
Capital expenditures	84,366
Total	$ 85,126

ECMCC Component Unit

Assets Whose Use is Limited - Assets whose use is limited are reported as restricted cash and cash equivalents at December 31, 2012 and consist of the following (dollars in thousands):

	Fair Value
Patient and resident's trust cash	$ 397
Restricted for debt service principal and interest	11,067
Designated for retiree health obligations	29,750
Designated for acquisition of capital assets	25,000
Designated for self insurance	63,400
Designated for long-term investment	25,058
Construction Fund	21,393
Foundation Component Unit	1,648
Physicians Endowment Component Unit	10,048
Total	$ 187,761

V - PROPERTY TAXES

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

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

With respect to the towns, the countywide property tax is levied by the County together with town property taxes, which include special district, fire district, and highway taxes. In towns of the first class, taxes are due without penalties by February 15. Penalties are 1.5% prior to March 1; 3% prior to March 16; 4.5% prior to April 2; 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, 2012 is computed as follows (dollars in thousands):

Five-year average full valuation of taxable real estate (2008-2012)	$ 45,384,862
Tax limit @ 1.5%	$ 680,773
Statutory additions	68,554
Total taxing power	749,327
Total levy	(249,749)
Tax margin	$ 499,578

VI – RECEIVABLES AND DUE FROM OTHER GOVERNMENTS

All major revenues of the County are considered "susceptible to accrual" based on the 60 day rule 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, 2012 include sales and use taxes in excess of $50,505,817; state and federal assistance for social services of $100,850,051; and other state and federal aid (including grants) approximating $99,649,117.

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

Receivables and due from other governments - Governmental Funds	General Fund	ECFSA General	Other Governmental Funds	Total
Real property taxes, interest, penalties and liens	$ 117,671	$ -	$ 18	$ 117,689
Sales and use tax	-	50,506	-	50,506
Federal and state assistance for social services programs	100,850	-	-	100,850
Other federal and state aid	52,859	4,681	42,109	99,649
Other	11,354	-	34,600	45,954
Gross receivables	282,734	55,187	76,727	414,648
Less: allowances for uncollectibles	34,682	-	-	34,682
Total receivables	$ 248,052	$ 55,187	$ 76,727	$ 379,966

Receivables and due from other governments - Proprietary Funds	College 8/31/12	Utilities Aggregation Fund	Total
Accounts receivable	$ 7,729	$ 389	$ 8,118
Other	1,682	1,226	2,908
Gross receivables	9,411	1,615	11,026
Less: allowances for uncollectibles	6,155	-	6,155
Total receivables	$ 3,256	$ 1,615	$ 4,871

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

VII - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows (dollars in thousands):

A. Primary Government

1. Governmental Activities

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated:				
Land	$ 29,958	$ 521	$ -	$ 30,479
Construction in progress	55,419	52,799	(60,059)	48,159
Total capital assets, not being depreciated	85,377	53,320	(60,059)	78,638
Capital assets, being depreciated:				
Buildings and improvements	537,530	16,420	-	553,950
Transportation network	520,860	36,591	-	557,451
Sewer network	267,720	4,743	-	272,463
Improvements other than buildings	27,602	930	-	28,532
Machinery and equipment	119,072	8,230	(4,347)	122,955
Total capital assets, being depreciated	1,472,784	66,914	(4,347)	1,535,351
Less accumulated depreciation for:				
Buildings and improvements	(287,373)	(16,677)	-	(304,050)
Transportation network	(274,277)	(22,752)	-	(297,029)
Sewer network	(85,234)	(4,281)	-	(89,515)
Improvements other than buildings	(13,577)	(1,380)	-	(14,957)
Machinery and equipment	(84,294)	(9,315)	3,966	(89,643)
Total accumulated depreciation	(744,755)	(54,405)	3,966	(795,194)
Total capital assets, being depreciated, net	728,029	12,509	(381)	740,157
Governmental activities capital assets, net	$ 813,406	$ 65,829	$ (60,440)	$ 818,795

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

Governmental activities:	
General government	$ 12,539
Public safety	7,893
Health	472
Transportation	23,706
Economic assistance and opportunity	115
Culture and recreation	1,254
Education	1,719
Home and community service	6,707
Total governmental activities depreciation expense	$ 54,405

2. Business-Type Activities*

	Balance 9/1/11	Increases	Decreases	Balance 8/31/12
Capital assets, not being depreciated:				
Construction in progress	$ 3,347	$ 3,614	$ (1,393)	$ 5,568
Capital assets, being depreciated:				
Building improvements	10,861	1,393	-	12,254
Land improvements	64	-	-	64
Equipment	23,231	1,267	(8,514)	15,984
Library collections	2,481	217	(264)	2,434
Total capital assets, being depreciated	36,637	2,877	(8,778)	30,736
Less accumulated depreciation for:				
Building improvements	(1,433)	(578)	-	(2,011)
Land improvements	(21)	(3)	-	(24)
Equipment	(19,774)	(908)	8,505	(12,177)
Library collections	(1,282)	(232)	250	(1,264)
Total accumulated depreciation	(22,510)	(1,721)	8,755	(15,476)
Total capital assets, being depreciated, net	14,127	1,156	(23)	15,260
College capital assets, net	$ 17,474	$ 4,770	$ (1,416)	$ 20,828

* The College (August 31, 2012)

Depreciation expense for the College was $1,721,228 for the year ended August 31, 2012.

B. Component Units

1. Library

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated:				
Rare book collection	$ 11,179	$ 35	$ -	$ 11,214
Capital assets, being depreciated:				
Machinery, equipment and library materials	60,695	3,007	(4,092)	59,610
Less accumulated depreciation for:				
Machinery, equipment and library materials	(53,886)	(3,224)	3,679	(53,431)
Total capital assets, being depreciated, net	6,809	(217)	(413)	6,179
Library component unit capital assets, net	$ 17,988	$ (182)	$ (413)	$ 17,393

Depreciation expense for the Library was $3,223,801 for the year ended December 31, 2012.

2. ECMCC

	Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Capital assets, not being depreciated:				
Construction in progress	$ 68,313	$ 97,423	$ (71,343)	$ 94,393
Capital assets, being depreciated:				
Land and land improvements	1,320	5,157	-	6,477
Buildings and building improvements	246,025	61,101	-	307,126
Fixed equipment	2,135	31	-	2,166
Major moveable equipment	106,956	9,734	-	116,690
Total capital assets, being depreciated	356,436	76,023	-	432,459
Less accumulated depreciation	(261,734)	(17,282)	-	(279,016)
Total capital assets, being depreciated, net	94,702	58,741	-	153,443
Total ECMCC component unit capital assets	$ 163,015	$ 156,164	$ (71,343)	$ 247,836

Depreciation expense for ECMCC was $17,282,000 for the year ended December 31, 2012.

VIII – PAYABLES

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

Governmental Funds	General Fund	ECFSA General	Other Governmental Funds	Total
Accounts payable	$ 16,478	$ -	$ 10,544	$ 27,022
Other governments	27,113	-	-	27,113
Health and social service programs and agencies	24,678	-	924	25,602
Retained percentages	-	-	1,782	1,782
Salaries & fringes	9,945	-	1,582	11,527
Other	2,041	30	3,979	6,050
Total payables	$ 80,255	$ 30	$ 18,811	$ 99,096

Proprietary Funds	College 8/31/12	Utility Aggregation Fund	Total
Accounts payable	$ 1,642	$ 2,611	$ 4,253
Fringes benefits payable	8,598	3	8,601
Other	6,274	173	6,447
Total payables	$ 16,514	$ 2,787	$ 19,301

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

Plan description – 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, 110 State Street, Albany, New York 12244.

Funding policy – The plan is noncontributory except for those employees who joined the ERS after July 27, 1976 who contribute 3% of their salary for the first ten years of membership and employees who joined on or after January 10, 2010. Those joining after April 1, 2012 (Tier 6) are required to contribute 3.5% of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employer's contributions based on the salaries paid during the ERS's fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of contributions required and were as follows:

	Contribution Amount		
Year	Primary Government-ERS	Library Component Unit - ERS	ECMCC Component Unit - ERS
2012	$ 41,640,821	$ 1,899,263	$ 27,000,000
2011	33,906,617	1,514,901	22,000,000
2010	27,705,762	1,345,141	16,000,000

The County's contributions made to the ERS were equal to 100% of the contributions required for each year. The annual payment is due on February 1 of the subsequent year.

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

TIAA-CREF is a defined contribution annuity plan that is an optional retirement program ("ORP") authorized by the trustees of the State University of New York. TIAA/CREF provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in the ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. TIAA/CREF is contributory for employees who joined after July 27, 1976, who contribute 3 percent of their salary. For employees enrolled after June 30, 1992, the College contributes 8% of salary for the first seven years of employment and 10% of salary thereafter. For employees enrolled between July 27, 1976 and June 30, 1992, the College contributes 9% of the first $16,500 in salary and 12% thereafter. Employee contributions are deducted from their salaries and remitted on a current basis to TIAA/CREF.

Contributions made by the College and its employees in the 2012 fiscal year were $2,385,658 and $89,053, respectively. The total unpaid balance of this retirement liability at the end of the College's fiscal year was $70,603.

C. **New York State Teachers' Retirement System**

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

Contributions equal to 3% of salary are required of employees, except for those who joined the TRS before July 27, 1976, and for those who have ten or more years of credited service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The College is required to contribute at an actuarially determined rate. The required pension contributions for the current fiscal year and two preceding fiscal years were:

Year	College TRS
2012	$ 1,213,898
2011	843,146
2010	1,020,091

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

The total unpaid employer balance of the TRS retirement liabilities at the end of the College's fiscal year was $1,766,027.

D. Summary of Retirement Plan Liabilities (dollars in thousands):

Retirement Plan/ Description	Business-type Activities*
ERS	
Regular	$ 1,795
Total	1,795
TRS	
Regular	1,766
Total	1,766
TIAA-CREF	
Regular	71
Total Business-type Activities	$ 3,632

* The College (August 31, 2012)

The County has recorded the above retirement liabilities as a component of long-term liabilities on the statement of net position.

X - CONSTRUCTION COMMITMENTS

The County has a number of active construction projects at December 31, 2012. The amounts spent to date and remaining commitments (encumbrances) presented by major project groupings are as follows (dollars in thousands):

Projects	Spent-to-date	Remaining Commitments
General government buildings, equipment and improvements	$ 14,600	$ 13,166
Highways, roads, bridges and equipment	21,161	5,336
Sewers, facilities equipment and improvements	14,348	2,077
Special capital projects	9,542	2,012
Total	$ 59,651	$ 22,591

XI - RISK MANAGEMENT

A. 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 judgments and claims 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. 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.

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

B. 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, medical malpractice 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.

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

Judgments and claims are recognized as liabilities in the government-wide financial statements 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. Judgments and claims reportable as part of the County's governmental type fund activities are recognized as expenditures and liabilities in the General Fund when payment is due.

The County Attorney is responsible for analyzing the County's judgments and claims and providing an opinion regarding the County's ability to cover its liabilities in the self-insurance programs. Based on this analysis, judgments and claims of $63,518,155 were recorded as governmental activities long-term liabilities at December 31, 2012.

In addition, the County has claims in the range of $1,396,000 to $13,542,997 for which there is a reasonable possibility of a future loss. No accrual has been recorded for such possible losses as of December 31, 2012.

The amounts and classifications of the judgments and claims noted above are based upon information and opinions from the County Attorney.

The changes since December 31, 2012 in the reported governmental fund liability for risk financing activities were as follows (dollars in thousands):

Year	Beginning of Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2011	$ 209	$ 9,081	$ 2,012	$ 7,278
2012	7,278	3,687	10,449	516

Erie County Medical Center Corporation

Losses from asserted and unasserted claims identified under ECMCC's incident reporting system are accrued based on actuarial estimates that incorporate ECMCC's past experience, the nature of each claim or incident, relevant trend factors, and estimated recoveries on unsettled claims. Approximately $31,300,000 has been accrued at December 31, 2012 discounted at 2.25% and included as liabilities in the accompanying statement of net position. The County assumed ECMCC's malpractice liability for periods prior to 2004 and, under terms of a consent decree, has agreed to provide ECMCC indemnification for malpractice related exposures of up to $1,000,000 for each of 2006 and 2007. Approximately $859,000 and $510,000 of indemnification remains available for 2006 and 2007, respectively. No accrual has been recorded by the County for such possible losses. In addition, ECMCC has recorded liabilities of approximately $32,100,000 for worker's compensation related exposure, discounted at 1.25%. Effective January 1, 2012, ECMCC has a high deductible worker's compensation insurance policy. Finally, ECMCC has recorded an other miscellaneous self-insured liability of $3,000,000.

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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification 470.10, *Debt*, because legal steps have not been taken to refinance the notes on a long-term basis.

The following is a summary of changes in the County's short-term debt for the year ended December 31, 2012 (dollars in thousands):

Description	Balance 1/1/12	Issued	Redeemed	Balance 12/31/12
Bond anticipation notes (BAN)-ECFSA . . .	$ 87,405	$ 74,735	$ 87,405	$ 74,735

On October 11, 2012 The ECFSA issued a BAN totaling $74,735,000 with an interest rate of 1.00%. On the same date, the ECFSA loaned the County $75,000,000. The loan matures on June 28, 2013 and carries an interest rate of 0.63%. The loan is reported as an interfund payable of the County's General Fund.

XIII - LONG-TERM LIABILITIES

A. Bonded Indebtedness

Bonded indebtedness is reported in the government-wide financial statements. The following is a summary of bond transactions of the County for the year ended December 31, 2012 (dollars in thousands):

Purpose (1)	Issue	Maturity	Interest Rate	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Governmental activities general obligation bonds issued by County of Erie:								
Capital	1992	2012	4.25-7.65	$ 735	$ -	$ 735	$ -	$ -
Capital	1993	2013	Zero Coupon	350	-	175	175	175
Capital	1996	2015	0.00	305	-	74	231	76
Capital	1997	2012	4.50-5.50	990	-	990	-	-
Capital	1999	2018	0.00	43	-	6	37	6
Capital	2001	2031	0.00	3,477	-	153	3,324	155
Capital	2002	2031	1.362-5.082	995	-	45	950	45
Capital	2002	2024	2.521-6.181	3,355	-	210	3,145	215
Capital	2002	2017	3.00-5.00	4,425	-	4,425	-	-
Capital	2002	2022	3.00-5.00	55	-	55	-	-
Capital	2003	2032	1.031-4.901	1,025	-	35	990	40
Capital	2003	2029	2.549-6.259	11,350	-	290	11,060	630
Capital	2003	2032	0.00	347	-	16	331	16
Capital	2003	2020	4.00-5.25	9,459	-	4,611	4,848	4,848
Capital	2003	2023	2.00-4.75	1,695	-	115	1,580	120
Capital	2003	2032	0.790-4.612	960	-	35	925	35
Capital	2004	2015	2.50-5.25	8,310	-	1,935	6,375	2,035
Capital	2004	2033	1.02-4.63	885	-	30	855	35
Capital	2004	2024	3.25-5.25	18,460	-	5,540	12,920	5,835
Capital	2005	2034	1.56-4.57	2,795	-	90	2,705	95
Capital	2005	2033	2.06-4.13	2,095	-	75	2,020	75
Capital	2005	2020	4.45-5.00	44,920	-	4,075	40,845	4,280
Capital	2005	2035	3.50-5.00	10,805	-	260	10,545	270
Capital	2005	2012	5.50	4,295	-	4,295	-	-
Refunding	2005	2029	3.50-4.50	41,090	-	2,620	38,470	3,900
Capital	2006	2035	0.00	1,665	-	70	1,595	70
Capital	2006	2017	3.50-4.00	8,515	-	1,285	7,230	1,335
Capital	2006	2036	3.50-4.25	3,935	-	95	3,840	100
Capital	2007	2036	3.63-4.79	4,550	-	140	4,410	145
Capital	2010	2023	2.00-4.99	152,355	-	9,960	142,395	10,320
Capital	2010	2039	0.290-4.60	5,460	-	130	5,330	130
Refunding	2010	2020	3.865-21.455	42,055	-	125	41,930	130
Refunding	2010	2022	2.001-5.00	43,590	-	3,975	39,615	7,275
Refunding	2010	2018	0.95-3.13	105	-	15	90	15
Refunding	2011	2018	1.01-3.30	570	-	85	485	85
Capital	2011	2040	0.00	517	-	18	499	18
Capital & Refunding	2011	2041	0.28-4.95	14,475	-	410	14,065	405
Refunding	2011	2018	2.00-5.00	27,295	-	5	27,290	5
Capital	2011	2023	3.00-5.00	16,810	-	925	15,885	1,175
Capital	2012	2026	2.00-5.00	-	20,960	-	20,960	-
Capital	2012	2042	0.27-4.27	-	3,150	320	2,830	85
Totals carried forward				495,118	24,110	48,448	470,780	44,179

(Continued)

Purpose (1)	Issue	Maturity	Interest Rate	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Totals brought forward				$ 495,118	$ 24,110	$ 48,448	$ 470,780	$ 44,179
Less bonds issued by the County to ECFSA (mirror bonds):								
Capital	2010	2023	2.00-4.99	(152,355)	-	(9,960)	(142,395)	(10,320)
Refunding	2010	2020	3.865-21.455	(42,055)	-	(125)	(41,930)	(130)
Refunding	2010	2022	2.001-5.00	(43,590)	-	(3,975)	(39,615)	(7,275)
Refunding	2011	2018	2.00-5.00	(27,295)	-	(5)	(27,290)	(5)
Capital	2011	2023	3.00-5.00	(16,810)	-	(925)	(15,885)	(1,175)
Total mirror bonds				(282,105)	-	(14,990)	(267,115)	(18,905)
Net general obligation bonds issued by County of Erie				213,013	24,110	33,458	203,665	25,274
Governmental activities general obligation bonds issued by ECFSA:								
Capital	2010	2023	2.0-5.0	152,355	-	9,960	142,395	10,320
Refunding	2010	2022	2.0-5.0	42,055	-	125	41,930	130
Refunding	2010	2020	2.25-5.24	43,590	-	3,975	39,615	7,275
Refunding	2011	2018	2.00-5.00	27,295	-	5	27,290	5
Capital	2011	2023	3.00-5.00	16,810	-	925	15,885	1,175
ECMCC facility	2011	2028	4.00-5.00	86,250	-	-	86,250	3,745
Total general obligation bonds issued by ECFSA				368,355	-	14,990	353,365	22,650
Total general obligation bonds issued by County of Erie and ECFSA				581,368	24,110	48,448	557,030	47,924
Discount on zero coupon bonds (2)				(20)	14	-	(6)	
Premium on bond issuance				6,156	3,245	1,844	7,557	
Premium on bond issuance-ECFSA				37,122	-	6,278	30,844	
Total County of Erie and ECFSA Bonds payable-net				624,626	27,369	56,570	595,425	47,924
Bonds issued by ETASC: (3)								
Tobacco refunding	2005	varies	varies	267,175	-	2,195	264,980	-
Subordinate CABs	2005	varies	varies	32,870	-	-	32,870	-
Subordinate CABs	2006	varies	varies	17,695	-	-	17,695	-
Subordinate CABs	2005-06	varies	varies	25,265	5,238	-	30,503	-
Subtotal Bonds issued by ETASC				343,005	5,238	2,195	346,048	-
Discount on ETASC bonds				(9,771)	-	(64)	(9,707)	
Discount on ETASC subordinate CABs				(1,533)	-	(10)	(1,523)	
Total ETASC Bonds payable-net				331,701	5,238	2,121	334,818	-
Governmental activities bonds payable for financial statement purposes				$ 956,327	$ 32,607	$ 58,691	$ 930,243	$ 47,924

(Concluded)

(1) Capital–Capital acquisition and construction.

(2) Amount of unamortized discount on zero coupon bonds at issue date was $3,347. Of this amount, $3,327 and $14 have been amortized in the prior years and the current year, respectively.

(3) Refer to discussion within Note XIII(B) regarding outstanding ETASC bonds payable, including Capital Appreciation Bonds (CABs).

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

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

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

In connection with this bond issuance, ETASC entered into a forward purchase agreement and an effective swap of variable market rate returns with a fixed rate return that will expire by its terms on the final maturity of the asset-backed bonds on June 1, 2055. ETASC entered into this forward purchase agreement to facilitate investment of the monies in the Debt Service Reserve Fund while the 2005 ETASC bonds are outstanding.

ETASC has evaluated the forward purchase agreement using the consistent critical terms method and deemed it to be effective. As of December 31, 2012, the notional amount of the agreement totals $19,218,750, the fair value is $4,879,716, and net cash flows during the year totaled $689,339.

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

On January 5, 2006, ETASC issued $17,694,720 of Tobacco Settlement Asset-Backed CABs, Series 2006A with an interest rate of 7.65%. ETASC entered into a purchase and sale agreement with the County on January 1, 2006, in which ETASC purchased the County's sole undivided beneficial interest in and to the trust established by ETASC pursuant to the Declaration and Agreement of Trust dated September 1, 2000 between ETASC and the Wilmington Trust Company ("2000 Residential Trust"), in its capacity as trustee, including the County's right to receive residual tobacco settlement revenues payable to the County, as sole beneficiary of the 2000 Residential Trust. The net proceeds of $15,638,465 were transferred to the County's General Fund.

The payment of the Series 2005 and Series 2006 Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the participating cigarette manufacturers in the MSA. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Indenture and amounts established and held in accordance with the Indenture, and are not legal obligations of the County. ETASC has no financial assets other than the collections and reserves and amounts held in the other funds and accounts established under the Indenture.

ETASC has covenanted to apply 100% of all surplus revenues, (defined as revenues which are in excess of Indenture requirements for the funding of operating expenses and deposits in the Debt Service account maintained for the funding of interest, principal and other items) to the special mandatory par redemption ("Turbo Redemptions") of Series 2005 Bonds in order of their maturity and then to the Series 2006A Bonds to the extent that there exists excess funds. Any such surplus revenues shall be applied on each distribution date beginning on June 1, 2006.

Interest on the Series 2005A and E Bonds are payable each June 1 and December 1. The 2005 Series B, C and D and the Series 2006A are subordinate CABs and accrue interest throughout the life of the bonds but is not payable until bond maturity. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate CABs is reflected within the Subordinate CABs payable liability. Series 2005B, C, and D CABs are subject to redemption at the option of ETASC beginning in years after 2016. The Series 2006A CABs may be redeemed after May 31, 2017.

Details of ETASC's long-term debt as of December 31, 2012 are as follows:

Issue Amount	Rate	$318,834,680 Term Bond Description	Projected Final Turbo Redemption Date
$ 30,330,000	5.000%	Series 2005A Bonds Due June 1, 2031 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2031
$ 74,685,000	5.000%	Series 2005A Bonds Due June 1, 2038 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2038
$ 111,480,000	5.000%	Series 2005A Bonds Due June 1, 2045 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2045
$ 9,163,000	5.750%	Series 2005B Bonds Due June 1, 2047 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2047
$ 12,565,080	6.250%	Series 2005C Bonds Due June 1, 2050 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2050
$ 11,141,600	6.750%	Series 2005D Bonds Due June 1, 2055 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2055
$ 50,680,000	6.000%	Series 2005E Taxable Bonds Due June 1, 2028 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2028

$17,694,720
Term Bond

Issue Amount	Rate	Description	Projected Final Turbo Redemption Date
$ 17,694,720	7.650%	Series 2006A Taxable Bonds Due June 1, 2060 Semi-annual interest accrued but not payable until maturity, subordinate to the Series 2005 A-E Bonds, subject to redemption at the option of the ETASC anytime after June 1, 2016 at accreted values as follows: June 1, 2016 through May 31, 2017, 102%; June 1, 2017 through May 31, 2018, 101%, thereafter 100%	June 1, 2060

Changes in ETASC bonded indebtedness for the year ended December 31, 2012 were as follows (dollars in thousands):

	Tobacco Settlement Bonds	Subordinate CABs	Total
Bonds payable at January 1, 2012	$ 267,175	$ 75,830	$ 343,005
Principal payments during 2012	(2,195)	-	(2,195)
Additions and annual net interest accretion	-	5,238	5,238
Bonds payable at December 31, 2012	$ 264,980	$ 81,068	$ 346,048

The amount reflected in the statement of net position for ETASC's bonds payable is net of unamortized discount on the sale of bonds of $11,228,982 and loss on defeasance of $20,325,336.

The ETASC's debt service requirements for the Series 2005A and 2005E bonds as of December 31, 2012 are as follows (dollars in thousands):

Twelve months ended December 31:	Principal	Interest	Total Debt Service
2013	$ -	$ 13,734	$ 13,734
2014	-	13,734	13,734
2015	-	13,734	13,734
2016	-	13,734	13,734
2017	-	13,734	13,734
2018-2022	-	68,669	68,669
2023-2027	-	68,669	68,669
2028-2032	78,815	53,304	132,119
2033-2037	-	46,541	46,541
2038-2042	74,685	29,737	104,422
2043-2047	111,480	13,935	125,415
	$ 264,980	$ 349,525	$ 614,505

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

Long-term Debt – The following is a summary of long-term bonded debt at December 31, 2012:

Erie County—Guaranteed Senior Revenue Bonds, Series 2004 (interest of 4.1% to 5.7%)	$ 92,550,000

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

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

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

D. Other Long-Term Liabilities

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

1. Due to Retirement Systems

As further explained in Note IX, retirement liabilities of the primary government at December 31, 2012 for amounts due in 2013 and future years are reported in the government-wide financial statements as follows (dollars in thousands):

	Business-type Activities*
Retirement liability outstanding at year-end	$ 3,632
Less: Due within one year	3,395
Due in more than one year	$ 237

* The College (August 31, 2012)

The County has recorded the above retirement liabilities as long-term liabilities on the statement of net position.

2. Compensated Absences

The value recorded in the government-wide financial statements at December 31, 2012, for governmental activities is $22,692,977 classified as a long-term liability in the accompanying financial statements, which includes $13,464,178 due within one year. The following governmental funds have been used in prior years to liquidate this liability: General Fund, the Road, Sewer, Grants and Community Development Special Revenue Funds.

Compensated absences of $4,954,241 have been reported for business-type activities, classified as fringe benefits payable, on the fund financial statements, which includes $160,000 due within one year.

Compensated absences of the Library component unit totaling $1,637,945 have been reported as a long-term liability, which includes $807,430 due within one year. Compensated absences of the ECMCC component unit totaling $9,006,000 have been reported as an accrued liability.

3. Judgments and Claims

As further explained in Note XI, the County is self-insured. Liabilities are established for workers' compensation, general and malpractice claims in accordance with GASB. Estimated long-term contingent loss liabilities of governmental fund types total $63,518,155 and have been reported as long-term liabilities in the government-wide financial statements.

Also, as further explained in Notes XI and XIII (E) (4), ECMCC is self-insured and has recorded approximately $29,300,000, $24,100,000 and $3,000,000 for the long-term portions of medical malpractice, worker's compensation and other miscellaneous liability related exposures, respectively.

4. Other Post-employment Benefits ("OPEB") – Health Insurance

The County recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, and commenced with the 2007 liability.

Plan Description – The County provides continuation of medical insurance coverage to employees if they have been continuously employed by the County for the equivalent of at least five years at the time of retirement. The obligation of the County to contribute to the cost of these benefits has been established pursuant to legislative resolution and various collective bargaining agreements. The retiree and his or her beneficiaries receive this coverage for the life of the retiree. Healthcare benefits for non-union employees are similar to those of union employees. The retiree's share of premium costs in most instances range from 0% to 50% depending on the employee group, length of service and year of retirement.

Funding Policy – The County currently pays for post-employment health care benefits on a pay-as-you-go basis, primarily from the General Fund (88%). The remainder is allocated to the Road, Sewer, Grants and Community Development Special Revenue Funds. These financial statements assume that pay-as-you-go funding will continue.

Annual Other Post-employment Benefit Cost – For the fiscal year ended December 31, 2012, the County's annual OPEB cost (expense) of $67,388,744 is equal to the Annual Required Contribution (ARC), which is $72,284,023 minus certain adjustments which totaled $4,895,279. Those adjustments were: interest on the net OPEB obligation and adjustment to the ARC. Considering the annual expense as well as payments for current health insurance premiums, which totaled $27,472,178 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of $39,916,566 for the year ended December 31, 2012.

Annual OPEB Cost and Net OPEB Obligation (dollars in thousands)

	Governmental Activities	Business-type Activities *	Primary Government Total
Actuarial accrued liability (AAL)	$ 688,848	$ 112,333	$ 801,181
Unfunded actuarial accrued liability (UAAL)	688,848	112,333	801,181
Normal cost for the fiscal year	22,612	4,545	27,157
Amortization factor based on 30 years	17.40	17.40	
Annual covered payroll	195,958	51,955	247,913
UAAL as a percentage of covered payroll	351.53%	216.21%	323.17%

Level Dollar Amortization
Calculation of ARC under Projected Unit Credit Method

	Governmental Activities	Business-type Activities *	Primary Government Total
ARC normal cost with interest to end of year	$ 22,612	$ 4,545	$ 27,157
(UAAL) over 30 years with interest at end of year	38,858	6,269	45,127
Annual required contribution (ARC)	61,470	10,814	72,284
Interest on net OPEB obligation	10,400	2,015	12,415
Adjustment to ARC	(14,501)	(2,810)	(17,311)
Annual OPEB cost (expense)	57,369	10,019	67,388
Contribution for fiscal year ended December 31, 2012 . .	(23,169)	(4,302)	(27,471)
Increase in net OPEB obligation	34,200	5,717	39,917
Net OPEB obligation December 31, 2011	241,866	46,857	288,723
Net OPEB obligation December 31, 2012	$ 276,066	$ 52,574	$ 328,640
Percent of annual OPEB cost contributed:			
2012.	40.39%	42.94%	40.77%
2011.	26.54%	40.83%	28.30%
2010.	27.30%	27.75%	27.38%

* The College (August 31, 2012)

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended December 31, 2012 and the two preceding years were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	$ 67,388	40.77%	$ 328,640
12/31/2011	88,775	28.30%	288,723
12/31/2010	90,049	27.38%	225,070

Funded Status and Funding Progress – The OPEB plan was unfunded, resulting in an unfunded accrued liability (UAAL) of $648,120,471 for governmental activities and $104,553,159 for business-type activities as of the most recent actuarial valuation date of January 1, 2012.

The County's schedule of funding progress is presented below (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
1/1/2012 . . .	$ -	$ 752,674	$ 752,674	- %	$ 247,913	303.60%
1/1/2010 . . .	-	879,200	879,200	- %	279,809	314.21%
1/1/2008 . . .	-	748,175	748,175	- %	256,543	291.64%
1/1/2006 . . .	-	736,192	736,192	- %	243,332	302.55%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Included coverages are "experience-rated" and annual premiums for experience-rated coverages were used as a proxy for claims costs with age adjustments for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized over 30 years on a level dollar open basis.

In the January 1, 2012 actuarial valuation, the liabilities were computed using the projected unit credit method. The actuarial assumptions utilized an inflation rate of 3.25% and a 4.30% investment rate of return. The latter rate is based on the projected long-term earning rate of the assets expected to be available to pay benefits. Because the County does not currently segregate funding for these benefits, the rate selected is the expected return on the County's assets. The valuation assumes healthcare cost trends as follows: pre-65 medical, 9.00%; post-65 medical, 5.25% and prescription, 6.5%. Healthcare trends are reduced by decrements to reach a rate of 5.00% in 2022.

Medical Reimbursements – The County's Medicare Part D prescription drug subsidy, which reduces the cost of retiree healthcare premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liability.

E. Summary of Changes in Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended December 31, 2012 (dollars in thousands):

1. Governmental Activities

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Bonds payable for financial statement purposes	$ 956,327	$ 32,607 (1)	$ 58,691	$ 930,243	$ 47,924
Compensated absences	22,595	18,089	17,991	22,693	13,464
Judgments and claims	60,834	16,496	13,812	63,518	11,836
OPEB liability	241,866	57,369	23,169	276,066	-
Governmental activities long-term liabilities	$ 1,281,622	$ 124,561	$ 113,663	$ 1,292,520	$ 73,224

(1) Includes $14 representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is $6.

The General Fund or applicable special revenue funds are the governmental funds that generally have been used in prior years to liquidate compensated absences, judgments and claims and other post-employment benefit liabilities.

2. Business-Type Activities*

	Balance 9/1/11	Additions	Reductions	Balance 8/31/12	Due Within One Year
Retirement liabilities	$ 3,118	$ 7,360	$ 6,834	$ 3,644 (1)	$ 3,405 (1)
Compensated absences and fringe benefits	4,477	582	105	4,954	160
OPEB liability	46,857	10,019	4,302	52,574	-
Business-type activities long-term liabilities	$ 54,452	$ 17,961	$ 11,241	$ 61,172	$ 3,565

* The College (August 31, 2012)

(1) Includes $12 of Retirement Incentive Wages, of which $10 is due within one year.

3. Library Component Unit

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Compensated absences	$ 1,607	$ 890	$ 859	$ 1,638	$ 807
OPEB liability	15,101	3,276	844	17,533	-
Library Component Unit long-term liabilities	$ 16,708	$ 4,166	$ 1,703	$ 19,171	$ 807

4. ECMCC Component Unit

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Bonds payable for financial statement purposes	$ 94,900	$ -	$ 2,350	92,550	$ 2,465
Long-term loan (1)	96,639	-	1,898	94,741	4,471
Judgments and claims (2).	47,701	21,200	12,501	56,400	-
OPEB liability	88,566	18,118	6,857	99,827	-
ECMCC Component Unit long-term liabilities	$ 327,806	$ 39,318	$ 23,606	$ 343,518	$ 6,936

(1) Refer to discussion within Note XV(B) regarding long-term loan due to primary government.

(2) Refer to discussions within Notes XI(B) and XIII(D)(3) and regarding judgments and claims of ECMCC.

Additional judgments and claims liabilities for worker's compensation and medical malpractice have been recorded by ECMCC as accrued liabilities in the amounts of $8,000,000 and $2,000,000, respectively.

F. Maturity Schedules (dollars in thousands)

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

Year	Total	Bonds	Retirement	Compensated Absences	Judgments and Claims	OPEB
2013	$ 76,789	$ 47,924	$ 3,405	$ 13,624	$ 11,836	$ -
2014	50,304	50,065	239	-	-	-
2015	51,143	51,143	-	-	-	-
2016	50,177	50,177	-	-	-	-
2017	51,749	51,749	-	-	-	-
2018-2022 . . .	188,660	188,660	-	-	-	-
2023-2027 . . .	82,535	82,535	-	-	-	-
2028-2032 . . .	101,064	101,064	-	-	-	-
2033-2037 . . .	9,019	9,019	-	-	-	-
2038-2042 . . .	78,194	78,194	-	-	-	-
2043-2047 . . .	120,643	120,643	-	-	-	-
2048-2052 . . .	12,565	12,565	-	-	-	-
2053-2057 . . .	11,142	11,142	-	-	-	-
2058-2061 . . .	17,695	17,695	-	-	-	-
Various (1) . . .	424,848	30,503	-	14,023	51,682	328,640
	1,326,527	903,078	$ 3,644	$ 27,647	$ 63,518	$ 328,640
	(6)	(6)	Remaining unamortized discount on zero coupon bonds			
	(11,230)	(11,230)	Discount on ETASC bonds			
	7,557	7,557	Remaining unamortized premium of bond issuance			
	30,844	30,844	Remaining unamortized premium of bond issuance - ECFSA			
	$ 1,353,692	$ 930,243	Long-term liabilities for financial statement purposes			

(1) Payment of Subordinate CABs, compensated absences, judgments and claims, and OPEB liability are dependent upon many factors; therefore, timing of future payments is not readily determinable.

2. Annual Interest Payments Due on Serial Bonds

Year	Primary Government	ECMCC Component Unit
2013	$ 38,726	$ 5,167
2014	36,474	5,046
2015	34,371	4,918
2016	32,182	4,769
2017	29,940	4,611
2018-2022	118,467	20,375
2023-2027	85,386	14,890
2028-2032	58,095	7,493
2033-2037	48,313	412
2038-2042	30,063	-
2043-2047	13,935	-
Totals . . .	$ 525,952	$ 67,681

3. Principal and Interest Payments Due on County Mirror Bonds to ECFSA

Year	Principal	Interest
2013	$ 18,905	$ 12,022
2014	23,890	11,108
2015	31,115	9,971
2016	32,420	8,557
2017	33,290	7,101
2018-2022	109,500	16,472
2023-2027	17,995	494
Totals . . .	$ 267,115	$ 65,725

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

Year	Total	Compensated Absences	OPEB
2013	$ 807	$ 807	$ -
Various . . . . . . (1)	18,364	831	17,533
Totals . . .	$ 19,171	$ 1,638	$ 17,533

(1) Payment of compensated absences and OPEB liability is dependent on many factors; therefore, timing of future payments is not readily determinable.

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

Year	Total	Serial Bonds	Long-term Loan	Judgments and Claims	OPEB
2013	$ 6,936	$ 2,465	$ 4,471	$ -	$ -
2014	7,226	2,585	4,641	-	-
2015	7,527	2,710	4,817	-	-
2016	7,861	2,860	5,001	-	-
2017	8,211	3,020	5,191	-	-
2018-2022	46,848	17,775	29,073	-	-
2023-2027	58,303	23,260	35,043	-	-
2028-2032	37,159	30,655	6,504	-	-
2033-2035	7,220	7,220	-	-	-
Various (1). . . .	156,227	-	-	56,400	99,827
Totals . . .	$ 343,518	$ 92,550	$ 94,741	$ 56,400	$ 99,827

(1) Payment of judgments and claims and OPEB liability is dependent on many factors; therefore, timing of future payments is not readily determinable.

G. Permanent Financing Requirements

Under New York State statutes, permanent bonding of general County improvements must take place within five to seven 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 three-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.

H. Constitutional Debt Limit

The County constitutional debt limit at December 31, 2012 is computed as follows (dollars in thousands):

Five-year average full valuation of taxable real estate (2008-2012)	$ 45,384,862
Debt limit @ 7%	$ 3,176,940
Net indebtedness (after statutory exclusions)	485,170 *
Net debt contracting margin	$ 2,691,770
Percentage of debt contracting Power exhausted	15.27%

*Net indebtedness includes general obligation bonds of $563,329,651 (excludes ETASC bonds of $346,047,438 and includes ECMCC bond guaranty of $92,550,000) less sewer bonds for self-supporting sewer districts of $78,159,695.

I. Operating Leases

Operating lease obligations are primarily for rental of space. Lease expenditures/expenses for the year were approximately $5,687,000 for the primary government and $2,000,000 for the ECMCC component unit. The future minimum rental payments required for non-cancelable operating leases are (dollars in thousands):

Fiscal Year	Primary Government	ECMCC Component Unit
2013	$ 3,730	$ 731
2014	2,895	484
2015	2,550	365
2016	2,173	104
2017	482	5
Totals . . .	$ 11,830	$ 1,689

XIV – NET POSITION AND FUND BALANCE

A. Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. 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 Position* – 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 Position* – This category represents net position of the County not restricted for any project or other purpose.

B. Fund Balance

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the County at December 31, 2012 includes:

Prepaid Items – $12,681,190 representing amounts prepaid to vendors and the New York State and Local Employees' Retirement System that are applicable to future accounting periods. The County must limit nonspendable fund balance for prepaid items to the amount of fund balance otherwise available and unassigned.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance of the County at December 31, 2012 includes:

Handicapped Parking – $128,510 representing monies restricted for education, advocacy and increased public awareness of handicapped parking laws.

Law Enforcement – $67,255 representing remaining funds received from the sale of surplus helicopter parts to be utilized exclusively to support and maintain the Sheriff's Office Aviation Division.

E-911 System Costs – $1,176,163 representing funds to be utilized solely on the E-911 system.

Debt Service – $25,210,461 representing funds to be used toward the future repayment of bonded debt service.

Capital Projects – $84,595,187 representing funds that have been reserved to fund capital projects and the purchase of capital assets. This amount includes commitments (encumbrances) of $22,591,071 for capital projects currently in process.

The County Legislature authorizes assigned amounts of fund balance. Assigned funds represent amounts intended to be used for a specific purpose. In the fund financial statements, assignments by the County at December 31, 2012 include:

Subsequent Year's Expenditures – Represents available fund balance $16,778,230 appropriated to meet expenditure requirements in the 2013 year.

Judgments and Claims – Represents amounts to fund future settlements of various claims and litigation in the amount of $1,964,116.

Other Purposes – Includes amounts assigned to cover the County's cost of a building to be constructed at one of the Erie Community College's campuses ($7,400,000); road repairs ($2,535,047), encumbrances ($5,391,910) and positive residual balances ($15,727,922) in Special Revenue Funds; and General Fund encumbrances ($3,522,638) and amounts to fund the future local share of various grant programs ($377,667).

Accounting prescription set by the Erie County Comptroller provides for a sunset provision of one fiscal year for all fund balance assignments. Legislature approval is required to establish and subsequently appropriate fund balance assignments.

The County considers encumbrances to be significant for amounts that are encumbered in excess of $1,000,000 for a particular purpose. As of December 31, 2012, significant encumbrances are as follows (dollars in thousands):

Purpose	General Fund	Other Governmental Funds
Social Services Programs	$ 1,898	$ -
Sewer District Operations	-	5,366
Bethlehem Steel Site Improvements	-	4,189
Buffalo Zoo Arctic Edge Exhibit	-	3,000
Harris Hill/Wehrle Intersection Construction	-	1,950
Lead Hazard Control	-	1,076
Total	$ 1,898	$ 15,581

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, it is the County's policy that the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

XV - INTERFUND BALANCES AND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund receivables and payables of the County at December 31, 2012, and the College at August 31, 2012, consisted of the following (dollars in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	ECFSA	$ 50,506
	Nonmajor Governmental Funds	45,733
	College	2,298
		98,537
ECFSA	General	75,000
Nonmajor Governmental Funds	ECFSA	515
	Nonmajor Governmental Funds	21,249
	General Fund	972
	College	2
		22,738
Nonmajor Proprietary Fund	College	393
	General Fund	173
		566
College	General Fund	121
		121
Total receivables		196,962
Less: timing differences		(922)
Total payables		$ 196,040

Interfund receivables exceed interfund payables by $921,735. This difference represents interfund receivables in the amounts of $120,539 and $801,196 recorded by the County and the College respectively that are not reflected as interfund payables in the corresponding balance sheets because of the difference between the County and the College fiscal year end.

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

B. Due To/From Component Unit and Primary Government

Amounts due between the Component Units and the Primary Government at December 31, 2012, consisted of the following (dollars in thousands):

Receivable Entity	Payable Entity	Amount
Primary Government-General Fund	ECMCC Component Unit	$ 96,650
Primary Government-Nonmajor Proprietary Fund	ECMCC Component Unit	$ 1,510
ECMCC Component Unit	Primary Government-General Fund	$ 1,832
Library Component Unit	Primary Government-ECFSA General Fund . . .	$ 510

During 2011, the ECFSA issued serial bonds in the amount of $86,250,000 to assist ECMCC in the construction of a new residential health care facility. Loan agreements were executed whereby the ECFSA loaned the proceeds and net premium of $10,614,413 to the County, who in turn loaned the monies to ECMCC. Although the amortization schedules on the bonds and the loan are approximately the same in total, the principal and interest components vary. On a monthly basis, ECMCC pays the County directly, while the ECFSA withholds sales tax revenue that otherwise would be transferred to the County. The ECFSA retains these monies until the semi-annual debt service on the bonds are due. Principal and interest payments on long-term obligations between the ECFSA and the County are reported as transfers in and transfers out in the fund financial statements.

Principal payments received from ECMCC during 2012 totaling $1,898,000 are recorded within miscellaneous revenues in the County's Debt Service Fund and eliminated in the government-wide statements. The remaining amount due from ECMCC in the amount of $94,741,000 is reported on the government-wide financial statements only. This balance is shown as a reconciling item on the Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position.

The remaining principal and interest payments on ECMCC's long-term loan payable to the County are as follows (dollars in thousands):

Year	Principal	Interest	Total
2013	$ 4,471	$ 3,468	$ 7,939
2014	4,641	3,298	7,939
2015	4,817	3,121	7,938
2016	5,001	2,938	7,939
2017	5,191	2,748	7,939
2018-2022	29,073	10,620	39,693
2023-2027	35,043	4,650	39,693
2028	6,504	112	6,616
Totals . . .	$ 94,741	$ 30,955	$ 125,696

C. Interfund Transfers

Interfund transfers for the County for the year ended December 31, 2012, and the College for the year ended August 31, 2012, consisted of the following (dollars in thousands):

Transfers Out	Transfers In	Amount	Purpose - provide financial resources:
General Fund	Nonmajor Governmental Funds	$ 4,121	For the local share of grant programs
	Nonmajor Governmental Funds	61,262	For general debt service
	Nonmajor Governmental Funds	1,259	To support various capital projects
	Nonmajor Governmental Funds	13,104	For highway improvements
	Nonmajor Governmental Funds	2,145	To support E-911 operations
	College	15,629	To support College operations
	ECFSA	479	For short-term debt
		97,999	
ECFSA	General Fund	397,732	For general operations from sales tax receipts
	General Fund	32	For general operations
	Nonmajor Governmental Funds	776	For grant programs
		398,540	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	7,704	To support various capital projects
	Nonmajor Governmental Funds	5,655	For sewer debt service
	Nonmajor Governmental Funds	1,082	For general debt service
	Nonmajor Governmental Funds	33,290	For ECFSA debt service
	Nonmajor Governmental Funds	158	For ETASC debt service
	College	1,800	For movable equipment
		49,689	
Total Transfers		$ 546,228	

XVI - CONTINGENCIES

A. 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, 2012, if any, would be reflected in the operating statement in the year that they are calculated.

B. Supplemental 1% Sales Tax

Through legislation approved by the County and the State of New York, first effective in March of 1985, the County extended an additional 1% sales and compensating use tax. An added requirement of this legislation commencing in 2007, is that the County is required to share $12,500,000 of this tax with other local municipalities. This tax generated approximately $146,319,454 (gross) for the year ended December 31, 2012. The enabling legislation allowing this additional tax expires November 30, 2013. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

C. Supplemental 0.25% Sales Tax

Through legislation approved by the County and the State of New York, the County initiated an additional 0.25% sales and compensating use tax effective July 1, 2005. This tax generated approximately $36,474,445 for the year ended December 31, 2012. The enabling legislation allowing this additional tax expires November 30, 2013. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

D. Supplemental 0.50% Sales Tax

The County Legislature approved a home rule message requesting approval of the New York State Legislature to raise the sales tax 0.50% to 8.75%. The New York State Legislature approved the Sales Tax Request in January 2006 and the County Legislature enacted the tax increase effective January 15, 2006. This tax generated approximately $72,948,889 for the year ended December 31, 2012. The enabling legislation allowing this additional tax expires November 30, 2013.

E. Federal and State Aid

The County receives federal aid, state aid, or both for a portion of its mandated social services program expenditures (reported in the Economic Assistance and Opportunity category in the financial statements), such as Medicaid, Family Assistance and Safety Net. The County appropriates only the local share of state administered Medicaid expenditures. Conversely, the County appropriates total expenditures for Family Assistance and Safety Net programs, and budgets state and/or federal aid as revenue. Federal and state aid represents approximately 42% of 2013 County appropriations for social services programs.

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

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

F. <u>Other Contingent Liabilities</u>

1. <u>Financial Assistance Audits</u>

As discussed above, the County receives significant financial assistance from numerous federal and state governmental agencies and third-party payors. The disbursement of moneys received under these programs generally requires compliance with terms and conditions specified in the related agreements and are subject to audit by the funding agencies or payors. Any disallowed expenditures resulting from such audits could become a liability of the governmental or proprietary funds. At December 31, 2012, ECMCC, a component unit of the County, has recorded $27,651,000 as an accrued liability for probable third-party payor settlements. The amount of any other expenses that may be disallowed cannot be determined at this time, although ECMCC expects such amounts to be immaterial.

2. <u>Supplemental Medicaid Payments</u>

During 2011, the Federal Centers for Medicare and Medicaid Services (“CMS”) changed interpretation of their own regulations related to the treatment of supplemental Medicaid payments. CMS has indicated they now interpret the application of federal matching rates for supplemental payments on a “date of service” rather than a “date of payment” mechanism (all other Medicaid payments are based on a date of payment methodology). This change in interpretation could result in possible disallowance of approximately $5.3 million of federal funds relating to an Upper Payment Limit payment.

3. <u>Pollution Remediation</u>

In connection with the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, the County has identified two pollution remediation sites that trigger the obligating event criteria. The County is aware that the New York State Department of Environmental Conservation has classified these sites as Class 2 meaning that remediation action is required due to a significant threat posed to the public health or environment. Although a loss is probable, it is not possible at this time to reasonably estimate the amount of any obligation for remediation that would be material to the County's financial statements because the extent of environmental impact, allocation among the potentially responsible parties, remediation alternatives (which could involve no or minimal efforts), and concurrence of the regulatory authorities have not yet advanced to the stage where a reasonable estimate of any loss that would be material to the enterprise can be made.

XVII – JOINT VENTURE

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

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

Corporation total undistributed net revenue decreased by $820,804 for the year ended December 31, 2012. The Corporation reported net revenue available for distribution to participating municipalities of $2,030,387. In addition, cumulative net revenue retained for capital acquisitions was $24,597,659 at December 31, 2012. 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 Comptroller at 8315 Park Road, Batavia, New York, 14020.

XVIII – RESTATEMENTS AND CHANGES TO NET POSITION

Tobacco settlement payments to be received by the County during the year ending December 31, 2013 are based on tobacco sales made during the year ended December 31, 2012. While they are not considered receivable under the modified basis of accounting, they are considered receivable within the governmental activities during the current year. Previously, ETASC recognized tobacco settlement revenues within the governmental activities in the period in which the payment was received. Net position at December 31, 2011 has been restated to report $15,397,233 of tobacco settlement revenues as receivable within the governmental activities. As discussed in Note 1, during the year ended December 31, 2012, the County early implemented GASB Statement No. 65. As a result of this implementation, existing bond issuance costs are expensed. Net position at December 31, 2011 has been restated to remove unamortized bond issuance costs of $3,711,975.

The effect of these restatements is as follows (dollars in thousands):

	Net Position
Net position, December 31, 2011 - as previously reported	$ (23,307)
Change in recognition of TSR Revenues	15,397
Recognition of unamortized bond issuance costs	(3,712)
Net position, December 31, 2011 - as restated	$ (11,622)

XIX - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 25, 2013, which is the date the financial statements are available for issuance, and have determined with the exception of the items noted below, there are no subsequent events that require disclosure under generally accepted accounting principles.

The ECFSA issued bonds in the amount of $25,635,000 on April 4, 2013, with interest rates of 2.726% to 5.000% and a final maturity of March 15, 2024. On the same date, the County issued mirror bonds in the amount of $25,635,000 to the ECFSA.

On April 4, 2013, the ECFSA issued bonds in the amount of $31,135,000 to advance refund $31,975,000 of outstanding 2003B, 2004A, 2004C and 2005A public improvement bonds of the County maturing in the years 2023, 2015, 2024 and 2020, respectively. The interest rates on the refunding bonds are 2.00% to 5.00% and have a final maturity of January 15, 2024. On the same date, the County issued mirror bonds in the amount of $31,135,000 to the ECFSA.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

The schedule of funding progress presents the results of OPEB valuations as of January 1, 2012, 2010, 2008, and 2006 and provides trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Schedule of Funding Progress (Unaudited)

Other Post-Employment Benefits (OPEB) – Health Insurance

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (1) ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Covered Payroll
1/1/2012	$ -	$ 752,674	$ 752,674	- %	$ 247,913	303.60%
1/1/2010	-	879,200	879,200	- %	279,809	314.21%
1/1/2008	-	748,175	748,175	- %	256,543	291.64%
1/1/2006	-	736,192	736,192	- %	243,332	302.55%

Note:
(1) Based on the Projected Unit Credit Actuarial Cost Method

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title (1)	Federal CFDA Number (2)	Federal Expenditures (3)
U.S. DEPARTMENT OF AGRICULTURE		
Passed through NYS Education Department: *Child Nutrition Cluster*		
School Breakfast Program	10.553	$ 82,596
National School Lunch Program	10.555	126,306
Total Child Nutrition Cluster		208,902
Passed through NYS Department of Social Services: *Food Stamp Cluster*		
State Administrative Matching Grants for Food Stamp Program	10.561	9,524,086
TOTAL U.S. DEPARTMENT OF AGRICULTURE		9,732,988
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Programs:		
Community Development Block Grant-Entitlement Grant	14.218	3,571,362
Emergency Shelter Grants Program	14.231	36,956
Supportive Housing Program	14.235	2,413,016
Shelter Plus Care	14.238	2,394,005
HOME Investment Partnerships Program	14.239	855,290
Economic Development Initiative	14.251	47,619
Lead Outreach Grants	14.904	834,793
Homelessness Prevention and Rapid Re-Housing Program	ARRA-14.257	73,326
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		10,226,367
U.S. DEPARTMENT OF JUSTICE		
Direct Programs:		
Services for Trafficking Victims	16.320	198,167
Crime Laboratory Improvement	16.564	724,097
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	459,796
Passed through NYS Division of Criminal Justice Services:		
Juvenile Account Incentive Block Grant	16.523	19,980
Violence Against Women Formula Grants	16.588	68,272
Edward Byrne Memorial Justice Assistance Grant	16.738	165,556
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	141,409
Recovery Act-Edward Byrne Memorial Justice Assistance Grant-States	ARRA-16.803	7,170
Passed through the City of Buffalo:		
Local Law Enforcement Block Grants Program	16.592	47,832
Edward Byrne Memorial Justice Assistance Grant	16.738	28,203
Recovery Act-Edward Byrne Memorial Justice Assistance Grant-Local	ARRA-16.804	325
Passed through NYS Crime Victims Board:		
Crime Victim Assistance	16.575	366,483
Passed through NYS Department of Health:		
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	58,066
TOTAL U.S. DEPARTMENT OF JUSTICE		2,285,356

(continued)

Federal Grantor/Pass-Through Grantor/Program Title (1)	Federal CFDA Number (2)	Federal Expenditures (3)
U.S. DEPARTMENT OF LABOR		
Passed through Senior Service America, Inc.:		
Senior Community Service Employment Program	17.235	914,238
Passed through NYS Office for the Aging:		
Senior Community Service Employment Program	17.235	309,337
Passed through the Buffalo and Erie County Workforce Investment Board:		
Work Incentives Grants	17.266	174,740
TOTAL U.S. DEPARTMENT OF LABOR		1,398,315
U.S. DEPARTMENT OF TRANSPORTATION		
Direct Program:		
New Freedom Program	20.521	49,505
Passed through NYS Department of Transportation:		
Highway Planning and Construction	20.205	12,224,956
State and Community Highway Safety	20.600	8,202
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		12,282,663
U.S. ENVIRONMENTAL PROTECTION AGENCY		
Direct Program:		
Great Lakes Program	66.469	20,659
Passed through Erie County Soil & Water Conservation District:		
Water Quality Management Plan	66.454	8,104
Passed through NYS Office of Parks, Recreation & Historic Preservation:		
Great Lakes Program	66.469	27,013
Passed through NYS Department of Health:		
State Indoor Radon Grants	66.032	38,074
Great Lakes Program	66.469	21,386
Beach Monitoring and Notification Program Implementation Grants	66.472	12,122
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		127,358
U.S. DEPARTMENT OF ENERGY		
Direct Program:		
Energy Efficiency and Conservation Block Grant	81.128	2,131,058
Passed through NYS Energy Research and Development Authority:		
State Energy Program	81.041	121,500
TOTAL U.S. DEPARTMENT OF ENERGY		2,252,558
U.S. DEPARTMENT OF EDUCATION		
Passed through NYS Department of Health:		
Special Education-Grants for Infants and Families with Disabilities	84.181	602,685
TOTAL U.S. DEPARTMENT OF EDUCATION		602,685
U.S. ELECTION ASSISTANCE COMMISSION		
Passed through NYS Board of Elections:		
Help America Vote Act Requirements Payments	90.401	7,725,532
TOTAL U.S. ELECTION ASSISTANCE COMMISSION		7,725,532

(continued)

Federal Grantor/Pass-Through Grantor/Program Title (1)	Federal CFDA Number (2)	Federal Expenditures (3)
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Direct Program:		
Maternal & Child Health Services Block Grant to the States	93.994	76,840
Passed through Health Research Incorporated:		
Public Health Emergency Preparedness	93.069	689,184
Passed through NYS Office for the Aging:		
Aging Cluster:		
Special Programs for the Aging, Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	1,177,784
Special Programs for the Aging, Title III, Part C-Nutrition Services	93.045	1,960,085
Nutrition Services Incentive Program	93.053	762,859
Total Aging Cluster		3,900,728
Special Program for the Aging, Title VII, Chapter 2 Long-term Care Ombudsman Services for Older Individuals	93.042	221,244
Special Program for the Aging, Title III, Part D-Disease Prevention and Health Promotion Services	93.043	78,305
Special Programs for the Aging-Title III, Part E National Family Caregiver Support	93.052	199,894
Medicare Enrollment Assistance Program	93.071	45,094
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	67,911
Passed through NYS Department of Health:		
Immunization Grants	93.268	294,514
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	206,266
Preventative Health Services-Sexually Transmitted Diseases Control	93.977	101,422
Preventative Health and Health Services Block Grant	93.991	3,286
Maternal & Child Health Services Block Grant to the States	93.994	626,069
Passed through NYS Department of Social Services:		
Temporary Assistance for Needy Families	93.558	78,115,152
Child Support Enforcement	93.563	3,275,902
Refugee and Entrant Assistance-State Administered Programs	93.566	357,056
Low-income Home Energy Assistance (LIHEAP)	93.568	43,149,474
Child Care and Development Block Grant	93.575	18,839,839
Child Welfare Service-State Grants	93.645	746,522
Foster Care, Title IV-E	93.658	19,221,721
Social Services Block Grant	93.667	16,591,444
Family Violence Prevention and Services Grant	93.671	35,602
Medical Assistance Program	93.778	17,462,186
Passed through NYS Office of Temporary and Disability Assistance:		
Recovery-Child Support Enforcement	ARRA-93.563	841,120

(continued)

Federal Grantor/Pass-Through Grantor/Program Title (1)	Federal CFDA Number (2)	Federal Expenditures (3)
		(concluded)
Passed through NYS Department of Mental Health:		
Projects for Assistance in Transition from Homelessness	93.150	91,350
Block Grants for Community Mental Health Services	93.958	692,893
Passed through NYS Office of Alcoholism and Substance Abuse:		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5,309,022
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		211,240,040
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Program:		
Retired and Senior Volunteer Program	94.002	83,931
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		83,931
SOCIAL SECURITY ADMINISTRATION		
Direct Program:		
Supplementary Security Income	96.006	85,000
TOTAL SOCIAL SECURITY ADMINISTRATION		85,000
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through NYS Division of Homeland Security and Emergency Services:		
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	76,218
Hazard Mitigation Grant	97.039	41,816
Emergency Management Performance Grants	97.042	286,098
Emergency Operations Centers	97.052	3,207
Homeland Security Grant Program	97.067	7,151,296
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		7,558,635
TOTAL FEDERAL FINANCIAL ASSISTANCE (4)		$ 265,601,428

See accompanying notes to the schedule of expenditures of federal awards.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of County of Erie, New York (the "County") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The following notes were identified on the schedule of expenditures of federal awards:

(1) Includes all federal award programs of the County of Erie, New York. The federal expenditures of the Erie Community College and Erie County Medical Center Corporation have not been included.

(2) Source: Catalog of Federal Domestic Assistance.

(3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.

(4) A reconciliation to the financial statements is available.

2. AMOUNTS PROVIDED TO SUBRECIPIENTS

Certain program funds are passed through the County to subrecipient organizations. The County identifies, to the extent practical, the total amount provided to subrecipients from each federal program; however, the Schedule of Expenditures of Federal Awards does not contain separate schedules disclosing how the subrecipients outside of the County's control utilized the funds. The County requires subrecipients receiving funding to submit separate audit reports disclosing the use of the program funds.

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Drescher & Malecki LLP
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable County Executive
Honorable County Comptroller
Honorable Members of County Legislature
County of Erie, New York:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Erie, New York (the "County"), as of and for the year ended December 31, 2012 (with the Erie Community College for the year ended August 31, 2012), and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2013. Our report includes a reference to other auditors who audited the financial statements of Erie Community College Foundation, Inc., Erie County Fiscal Stability Authority, Erie County Medical Center Corporation, and the Buffalo and Erie County Industrial Land Development Corporation and Subsidiary, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Erie Community College Foundation, Inc. and the Auxiliary Services Corporation of Erie Community College, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged by governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

County's Response to Findings

The County's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

[illegible] & [illegible] LLP

June 25, 2013

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable County Executive
Honorable County Comptroller
Honorable Members of County Legislature
County of Erie, New York:

Report on Compliance for Each Major Federal Program

We have audited the County of Erie, New York's, (the "County") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Erie Community College (the "College") and the Erie County Medical Center Corporation (the "Corporation"), which received $30,089,224 and $1,499,621, respectively, in federal awards which are not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2012. Our audit, described below, did not include the operations of the College and the Corporation because other auditors were engaged to perform such audits in accordance with OMB Circular A-133, as applicable.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Drescher & Malecki LLP

June 25, 2013

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2012

Part I. Summary of auditors' results

Financial Statements

Type of auditors' report issued: Unmodified*

* which report refers to other auditors

Internal control over financial reporting:

1. Material weakness(es) identified? ____ Yes ✓ No
2. Significant deficiency(ies) identified? ____ Yes ✓ None reported
3. Noncompliance material to financial statements noted? ____ Yes ✓ No

Federal Awards:

Internal control over major programs:

4. Material weakness(es) identified? ____ Yes ✓ No
5. Significant deficiency(ies) identified? ____ Yes ✓ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

6. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? ✓ Yes ____ No
7. The County's major programs were:

Name of Federal Program	CFDA Number
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561
Community Development Block Grant-Entitlement Grant	14.218
Recovery Act - Homelessness Prevention and Rapid Re-Housing Program	ARRA-14.257
Energy Efficiency and Conservation Block Grant	81.128
Child Support Enforcement	93.563 & ARRA-93.563
Low Income Home Energy Assistance (HEAP)	93.568
Medical Assistance Program	93.778
Homeland Security Grant Program	97.067

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 3,000,000
9. Auditee qualified as low-risk auditee? ✓ Yes ____ No

Part II. Financial statement findings section

None noted.

Part III. Federal award findings and questioned costs section

2012-1: CFDA No. 14.218, Community Development Block Grant-Entitlement Grant

Condition: During our testing of the reporting compliance requirement, it was noted that the County has not reported their subawards in the Federal Funding Accountability and Transparency Act Subaward Reporting System ("FSRS"), as required by the Federal Funding Accountability and Transparency Act.

Criteria: Effective March 1, 2011, any newly awarded subcontract of $25,000 or more must be reported in FSRS if the value of the Federal prime contract award under which that subcontract is awarded was $25,000 or more.

Cause: The County was not aware of this requirement.

Effect: The County is not in compliance with the requirements of the Federal Funding Accountability and Transparency Act.

Recommendation: We recommend the County familiarize themselves with the requirements of this Act and ensure compliance with the necessary reporting.

Management's Response: The Erie County Department of Environment and Planning is registered on the FFATA database and will proceed to submit monthly reports on the system, as required by the regulation.

Schedule of Prior Year Audit Findings

For the Year Ended December 31, 2012 (Follow Up on December 31, 2011 Findings)

No findings reported for the year ended December 31, 2011.

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