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County of Erie

MARK C. POLONCARZ
COMPTROLLER

October 5, 2011

The Erie County Legislature
92 Franklin Street
Buffalo, New York 14202

Honorable Christopher C. Collins
Erie County Executive
95 Franklin Street
Buffalo, New York 14202

Dear Honorable Members and County Executive Collins:

Enclosed is a copy of Erie County's Federal Financial Assistance Audit Report for the year ended December 31, 2010. This report is required pursuant to the Federal Single Audit Act of 1984.

Copies of this report have been filed with the Federal Audit Clearinghouse, as well as pertinent pass through organizations.

If you have any questions pertaining to this report, please call Paul Stachnik of this Office at Ext. 6286.

Very truly yours,

Lorne H. Steinhart
Deputy Erie County Comptroller

LHS/nr
Enclosure
c: Gregory G. Gach, Director of Budget and Management
Erie County Audit Committee Members

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County of Erie, New York

Basic Financial Statements, Required Supplementary Information, and Federal Financial Assistance Schedule as of and for the Year Ended December 31, 2010, and Independent Auditors' Reports

COUNTY OF ERIE, NEW YORK

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2010 (with the Erie Community College for the year ended August 31, 2010), which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Erie Community College, which represent 4.0% and 6.8%, respectively, of the assets and revenues of the government-wide financial statements. We did not audit the financial statements of the Erie Community College Foundation, Inc. and Auxiliary Services Corporation of Erie Community College, Inc., which are shown as aggregate discretely presented component units. We did not audit the financial statements of the Erie County Fiscal Stability Authority, which represent 28.0% and 25.4%, respectively, of the assets and revenues of the governmental activities. We did not audit the financial statements of Erie County Medical Center Corporation (ECMCC), a discretely presented component unit. Additionally, we did not audit the financial statements of ECMC Lifeline Foundation, Inc. or Research for Health in Erie County, Inc., which are shown within the ECMCC discretely presented component unit. We did not audit the financial statements of the Buffalo and Erie County Industrial Land Development Corporation and Subsidiary, a discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it related to amounts included for those component units, Erie Community College, and Erie County Fiscal Stability Authority, is based on the reports of 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 of material misstatement. The financial statements of the Erie Community College Foundation, Inc., the Auxiliary Services Corporation of Erie Community College, Inc., the ECMC Lifeline Foundation, Inc., Research for Health in Erie County, Inc., and the Buffalo and Erie County Industrial Land Development Corporation and Subsidiary were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, on our consideration of the County's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress as listed on pages 3 to 11 and page 80 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 is presented for purposes of additional analysis as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2010

(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, 2010, and incorporates financial information from the year ended December 31, 2009 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 assets exceeded liabilities at the close of the 2010 fiscal year by $14,524 *(net assets)*. This consists of $6,231 restricted for specific purposes *(restricted net assets)*, $388,609 invested in capital assets, net of related debt, and a deficit in unrestricted net assets of $380,316 at December 31, 2010.

- The primary government's total net assets decreased by $12,760. Governmental activities decreased the County's net assets by $9,016. Business type activities decreased the County's net assets by $3,744.

- As of December 31, 2010, the County's governmental funds reported combined fund balances of $273,834, an increase of $135,719 in comparison to the prior year. Approximately 72.8% of the total combined governmental funds fund balance, $199,241, is available to meet the County's current and future needs *(unreserved fund balance)*.

- At the end of the fiscal year, unreserved fund balance for the General Fund was $113,460 or 90.5% of the total General Fund fund balance of $125,313. Total unreserved designated General Fund fund balance was $46,556 at December 31, 2010.

- The total bonded debt of the primary government increased by $129,176 or 18.4% during the 2010 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 are two statements designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

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

The *Statement of Activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). 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 2010 fiscal year.

The government-wide financial statements include not only the County (i.e., *the primary government*) but also the legally separate Buffalo and Erie County Public Library (the "Library"), Erie County Medical Center Corporation (the "ECMCC") and other component units. Financial information for these *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 are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All funds of the County are divided into three categories: *governmental funds, proprietary funds,* and *fiduciary funds.*

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

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

The County maintains fifteen (15) 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.

Other 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 assets may serve, over time, as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $14,524 at the close of the most recent fiscal year.

Summary of Net Assets as of December 31, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 566,830	$ 516,547	$ 45,737	$ 41,628	$ 612,567	$ 558,175
Capital assets	815,031	790,368	14,421	12,628	829,452	802,996
Total assets	1,381,861	1,306,915	60,158	54,256	1,442,019	1,361,171
Long-term liabilities	1,097,988	925,552	47,081	35,477	1,145,069	961,029
Other liabilities	265,140	353,614	17,286	19,244	282,426	372,858
Total liabilities	1,363,128	1,279,166	64,367	54,721	1,427,495	1,333,887
Net assets:						
Invested in capital assets, net of related debt	374,188	373,664	14,421	12,628	388,609	386,292
Restricted	6,231	16,148	-	-	6,231	16,148
Unrestricted (deficit)	(361,686)	(362,063)	(18,630)	(13,093)	(380,316)	(375,156)
Total net assets (deficit)	**$ 18,733**	**$ 27,749**	**$ (4,209)**	**$ (465)**	**$ 14,524**	**$ 27,284**

A significant portion of the County's net assets at December 31, 2010 ($388,609) reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding and any unspent proceeds from bond issues. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets ($6,231) represents resources that are subject to external restrictions on how they may be used.

The remaining and largest component of the County's net assets, a deficit of $380,316, represents *unrestricted net assets* which reflect all liabilities that are not related to the County's capital assets and which are not expected to be repaid from restricted resources. Long-term liabilities are typically funded annually in the funds with revenues of that year. The combined total of (1) Erie Tobacco Asset Securitization Corporation ("ETASC", a blended component unit of the County) tobacco settlement asset-backed bonds ($286,318), issued to be paid back with future tobacco proceeds which will be received annually over the next fifty (50) years, and (2) the long-term liability associated with other post-employment benefits ($225,070), 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 assets for the County as a whole and in one category for its business-type activities. Governmental and business-type activities have unrestricted net asset deficits of $361,686 and $18,630 respectively at December 31, 2010.

The County's net assets decreased by $12,760 during the 2010 fiscal year, as further explained in the next section.

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

Summary of Changes in Net Assets for the Year Ended December 31, 2010 and 2009

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 74,808	$ 82,748	$ 59,949	$ 58,297	$ 134,757	$ 141,045
Operating grants and contributions	456,029	468,793	7,412	6,790	463,441	475,583
Capital grants and contributions	25,718	12,282	-	-	25,718	12,282
General revenues:						
Property taxes	257,749	251,224	-	-	257,749	251,224
Sales and use taxes	661,933	646,893	-	-	661,933	646,893
Transfer taxes	7,246	8,553	-	-	7,246	8,553
Non-operating revenues:						
Federal, state and local appropriations	-	-	72,463	63,255	72,463	63,255
Unrestricted interest earnings	1,524	1,592	146	298	1,670	1,890
Miscellaneous and other	14,622	8,628	-	-	14,622	8,628
Total revenues	**1,499,629**	**1,480,713**	**139,970**	**128,640**	**1,639,599**	**1,609,353**
Expenses:						
General government	423,161	420,026	-	-	423,161	420,026
Public safety	141,543	122,888	-	-	141,543	122,888
Health	82,855	89,927	-	-	82,855	89,927
Transportation	72,615	62,673	-	-	72,615	62,673
Economic assistance and opportunity	579,927	567,035	-	-	579,927	567,035
Culture and recreation	24,567	23,754	-	-	24,567	23,754
Education	75,529	70,716	-	-	75,529	70,716
Home and community service	53,186	48,628	-	-	53,186	48,628
Interest and fiscal charges	37,833	39,511	-	-	37,833	39,511
College	-	-	132,556	123,988	132,556	123,988
Purchase and resale of utilities	-	-	28,587	27,490	28,587	27,490
Total expenses	**1,491,216**	**1,445,158**	**161,143**	**151,478**	**1,652,359**	**1,596,636**
Excess (deficiency) before transfers	8,413	35,555	(21,173)	(22,838)	(12,760)	12,717
Transfers	(17,429)	(17,221)	17,429	17,221	-	-
Change in net assets	(9,016)	18,334	(3,744)	(5,617)	(12,760)	12,717
Net assets (deficit) - beginning	27,749	9,415	(465)	5,152	27,284	14,567
Net assets (deficit) - ending	**$ 18,733**	**$ 27,749**	**$ (4,209)**	**$ (465)**	**$ 14,524**	**$ 27,284**

Governmental activities

Governmental activities decreased the County's net assets by $9,016. Revenues and expenses increased by $18,916 (1.3%) and $46,058 (3.2%), respectively, and net transfers out increased $208 (1.2%) from 2009 to 2010. Key elements of this increase are as follows:

- The $15,040 (2.3%) increase in the sales and use taxes category was primarily the result of taxable sales growth due in part to Canadian consumers taking advantage of the stronger Canadian dollar. Rising fuel prices commencing in the fall of 2010 also added to this growth.
- Revenue from property taxes increased by $6,525 (2.6%). Increases to the total tax levy ($9,108) mainly for assessment growth, accounted for the increase.
- Transfer tax revenues decreased $1,307 (15.3%) compared to 2009 as a result of reduced real property sales. Federal homebuyer tax credits expired in April 2010 which contributed to this decline.
- Miscellaneous and other revenues grew by $5,994 (69.5%) primarily due to reimbursement of demolition costs ($1,113) for the future construction of new facilities and an excess operating credit ($4,704) both received from ECMCC.
- Capital grants and contributions increased $13,436 during the year as a result of increased Federal and State aid for road and bridge projects ($9,221) and increased State aid for other building improvements and land development ($4,619).
- Operating grants and contributions deceased $12,764 (2.7%) during the year. Decreases in State aid for social services programs ($11,559), mental health programs ($4,755) and ECFSA efficiency grants ($3,744), coupled with a decrease in ETASC tobacco revenues ($3,497), were offset by increased program funding from the federal government including Federal Medicaid Assistance Percentage ($3,792) and various social services programs ($2,240) and increases in State aid for the special needs preschool program ($4,888).
- Public safety expenses increased by $18,655 or 15.2% primarily as a result of increases in salaries ($2,129), overtime ($4,035), retirement charges due to a one-time full payment of charges previously amortized and a contribution rate increase mandated by the State ($6,521), other fringe benefits ($2,384) and contractual services ($1,431).
- Economic assistance and opportunity expense increased by $12,892 (2.3%) chiefly due to increases in salaries and fringe benefits ($9,898) and capital asset acquisitions below established capitalization thresholds ($3,560).
- Transportation expenses increased $9,942 (15.9%) mainly as a result of increases in expenditures for road and bridge maintenance projects and flood damage repair and cleanup ($8,576) and depreciation ($658).

Business-type activities

Business-type activities decreased the County's net assets by $3,744 in the 2010 fiscal year compared to a decrease of $5,617 in 2009. The College generated decreases in net assets of $3,962 and $5,561 for the years ended August 31, 2010 and 2009, respectively. The operating loss at August 31, 2010 was greater than the operating loss at August 31, 2009 by $7,671 as operating revenues generated increased $903 and operating expenses increased $8,574. Revenues generated during the fiscal year ended August 31, 2010 for student tuition and fees increased as a result of an increased enrollment. An increase in Pell scholarships awarded to students, and collectively bargained salary and wage increases, make up much of the expense increase. The County sponsorship share of support to the College for the College's fiscal year ended August 31, 2010 was $17,429 and is reported as a 2010 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, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At December 31, 2010, the County's governmental funds reported combined fund balances of $273,834 which is an increase of $135,719 in comparison with the prior year. Approximately 72.8% of the combined fund balances ($199,241) constitutes *unreserved fund balance,* which is available to meet the County's current and future operational and capital needs. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period ($34,741); (2) to pay debt service ($28,288); (3) to reflect prepaid items and loans that are long-term in nature and thus do not represent available spendable resources ($10,209); and (4) for a variety of other restricted purposes ($1,355). 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, 2010, unreserved fund balance of the General Fund was $113,460 while total fund balance was $125,313. As a measure of the General Fund's liquidity, it is useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 9.3% of total expenditures (excluding other financing uses), while total fund balance represents 10.2% of that same amount.

  Fund balance in the County's General Fund increased by $23,475 during the 2010 fiscal year compared to 2009 when the General Fund experienced an increase of $43,647.

- **ECFSA General Fund** – Short-term debt, specifically bond anticipation notes ("BANs") decreased by $122,665. This represents reductions in BANs that matured in 2010 ($102,675) that were re-financed by the issuance of general obligation bonds, reported in the ECFSA Debt Service Fund, and BANs needed to meet the County's short-term cash flow needs during 2010 ($19,990). Interest and fiscal charges increased by $2,437.

- **Road Special Revenue Fund** – The 2010 General Fund subsidy to this fund decreased by $3,241 from the 2009 amount, when in that year, additional transfers were made to alleviate a 2008 deficit fund balance.

- **Emergency Response Special Revenue Fund** – The ending 2010 fund balance of $1,414 was comprised entirely of the receipt of final reimbursements for damage related to a major snowstorm that occurred in October, 2006.

- **Debt Service Fund** – The Debt Service Fund has a total fund balance of $8,324 which is reserved solely for the purpose of payment of future debt service. The net decrease in fund balance during the current year of $4,212 was due primarily to the appropriation of prior year ending fund balance in the amount of $4,998.

- **ECFSA Debt Service Fund** – This fund was established during 2010 as a result of the ECFSA issuing long-term general obligation bonds on behalf of the County. At year-end, the ECFSA held County cash in the amount of $9,420 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 2010 fiscal year, the total fund balances amounted to $92,476 of which $26,381 was encumbered for contracts underway, $669 was designated for future construction projects at ECMCC, and $65,426 was undesignated and unreserved.

  All capital project funds reported positive fund balances at December 31, 2010. Proceeds from the issuance of general obligation bonds on May 18, 2010 in the amount of $157,995 transferred in from ECFSA remediated prior year deficit fund balances in the General Government Buildings, Equipment and Improvements Fund ($1,816), Highways, Roads, Bridges and Equipment Capital Projects Fund ($21,115) and Special Capital Projects Fund ($6,218).

  During 2010, the County's capital outlay increased in the General Government Buildings, Equipment and Improvements Fund ($23,355), Highways, Roads, Bridges and Equipment Capital Projects Fund ($8,138) and Sewers, Facilities, Equipment and Improvements Fund ($2,773), and decreased in the Special Capital Projects Fund ($487) and ECMCC Capital Projects Fund ($220).

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 net deficit of $21,127 at August 31, 2010.

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 Fund Net Assets - Proprietary Funds
For the Year ended December 31, 2010 and 2009

	Major Fund College August 31,		Nonmajor Fund Utilities Aggregation		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Operating revenues	$ 38,556	$ 37,653	$ 28,805	$ 27,434	$ 67,361	$ 65,087
Operating expenses	132,539	123,965	28,587	27,490	161,126	151,455
Operating loss	(93,983)	(86,312)	218	(56)	(93,765)	(86,368)
Non-operating revenues, net	72,592	63,530	-	-	72,592	63,530
Net (loss) income before contributions and transfers	(21,391)	(22,782)	218	(56)	(21,173)	(22,838)
Transfers	17,429	17,221	-	-	17,429	17,221
Change in net assets	$ (3,962)	$ (5,561)	$ 218	$ (56)	$ (3,744)	$ (5,617)

The net loss before contributions and transfers of enterprise funds of $21,173 is comprised of a net loss of $21,391 for the College and net income of $218 for the Utilities Aggregation Fund.

The College reported a total net assets deficit of $6,706 at August 31, 2010. The College's net assets have decreased significantly in each of the past three 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 2010 fiscal year there was a $358,136 decrease in total budgeted revenues between the original and final budget. The main component of the net decrease is the reclassification of $370,630 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 $370,754, primarily for the sales and use taxes reclassification referred to in the previous paragraph.

Budgeted appropriations and other financing uses increased by $33,910. Budgeted expenditures increased in general government support ($19,860), primarily for risk retention ($6,421) and sales tax sharing with local governments ($5,737). The increase in transfers out ($8,139) occurred mainly due to transfers for debt service ($5,395); public safety ($8,079) primarily for jail management overtime ($4,536) and culture and recreation ($4,136) primarily for the benefit of the library ($3,000). These increases were partially offset by budgeted expenditure decreases in economic assistance and opportunity ($6,866), primarily due to decreases in child care programs ($7,144), foster care programs ($4,810), social services full-time salaries ($3,795) net of an increase for mandated disproportionate share program payments for the benefit of ECMCC ($7,792).

For the year, actual revenues exceeded budget by $9,371. This was mainly due to a positive budgetary variance in miscellaneous revenue for $9,329 mostly as a result of cancellation of prior year liabilities for social services programs ($5,587) and receipt of a first time excess operating support payment from ECMCC ($4,704). Sales and use taxes experienced a positive variance of $8,251. A negative budgetary variance in intergovernmental revenue amounted to $10,170 mainly due to reduced reimbursable expenditures for social services ($5,315) and mental health ($2,786) programs.

Actual expenditures were less than budget by $34,616 primarily due to savings in various categories as follows: general government support ($14,169), principally for risk retention expenditures ($5,315) and fringe benefits ($2,036); economic assistance and opportunity ($8,951), mainly for social services programs and health ($6,247) chiefly for mental health programs.

The total favorable budget to actual variance for the year amounted to $45,627.

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, 2010, amounted to $829,452 (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 3.3%.

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 construction in progress of $34,837. Depreciation on transportation network assets exceeded additions by $9,215.

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

Summary of Capital Assets at December 31, 2010 and 2009
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land	$ 30,415	$ 30,353	$ -	$ -	$ 30,415	$ 30,353
Buildings and Improvements	252,631	252,455	8,232	6,851	260,863	259,306
Improvements other than Buildings	15,234	15,483	47	50	15,281	15,533
Sewer and Transportation Networks	398,878	405,824	-	-	398,878	405,824
Machinery and Equipment	37,594	40,491	3,635	3,504	41,229	43,995
Library Collections	-	-	1,256	1,292	1,256	1,292
Construction in Progress	80,279	45,762	1,251	931	81,530	46,693
Total	**$ 815,031**	**$ 790,368**	**$ 14,421**	**$ 12,628**	**$ 829,452**	**$ 802,996**

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

Debt Administration

At December 31, 2010, the primary government had total bonded debt outstanding of $832,786 as compared to $703,610 in the prior year. During the year, payments and other reductions of bonded debt amounted to $146,535. Additions, accretions and other adjustments amounted to $275,711. 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, 2010 and 2009

	Governmental Activities	
	2010	**2009**
Erie County bonds	$ 517,298	$ 400,024
Less: ECFSA mirror bonds	(246,005)	-
Net Erie County bonds	**271,293**	**400,024**
ECFSA bonds	246,015	-
ETASC bonds	319,545	322,420
Unamortized bond discounts	(11,422)	(11,533)
Unamortized bond premiums	34,745	16,950
Unamortized deferred amounts on refundings	(27,390)	(24,251)
Total bonded debt	**832,786**	**703,610**
Long-term bond anticipation notes	501	3,232
Total Primary Government long-term debt	**$ 833,287**	**$ 706,842**

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 $2,962,433 which is only 18.4% exhausted by the County's outstanding general obligation debt of $545,873 (which includes a $97,150 bond guaranty to ECMCC).

The County's current bond ratings, as assigned by rating agencies, are as follows: Moody's: A2 (stable outlook); Fitch: A (stable outlook); and Standard & Poor's: BBB+ (stable outlook). Moody's and Fitch's ratings reflect recalibrations of their municipal ratings to their global rating scales in April 2010. Standard & Poor's rating has been in effect since July 2008 and was affirmed in July 2010.

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

SUBSEQUENT EVENTS

In February 2011, the County issued $650 of general obligation serial bonds to refund outstanding bonds.

The County issued $535 of general obligation bonds on May 5, 2011 in part to refinance long-term bond anticipation notes outstanding at December 31, 2010.

In July 2010, the ETCC Board of Directors initiated the dissolution of ETCC, which is scheduled to be completed by July 31, 2011.

See Note XVIII for more information regarding these subsequent events.

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.

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 Assets

December 31, 2010

(dollars in thousands)

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	$ 170,352	$ 36,149	$ 206,501
Investments	20,206	-	20,206
Restricted cash and cash equivalents	-	-	-
Receivables (net of allowances)	355,932	9,660	365,592
Due from primary government	-	-	-
Due from component unit	2,036	1,490	3,526
Internal balances	2,678	(1,563)	1,115
Inventories	-	-	-
Prepaid items	9,142	1	9,143
Other assets	6,484	-	6,484
Capital assets:			
Land, rare books and construction in progress	110,694	1,251	111,945
Other capital assets, net of depreciation	704,337	13,170	717,507
Total assets	**1,381,861**	**60,158**	**1,442,019**
LIABILITIES:			
Accounts payable	66,268	3,226	69,494
Accrued liabilities	72,176	5,944	78,120
Due to component unit	2,258	-	2,258
Due to primary government	-	-	-
Unearned revenue	54,367	8,116	62,483
Short-term debt	70,071	-	70,071
Long-term liabilities:			
Due within one year	75,413	2,158	77,571
Due in more than one year	1,022,575	44,923	1,067,498
Total liabilities	**1,363,128**	**64,367**	**1,427,495**
NET ASSETS (DEFICIT):			
Invested in capital assets, net of related debt	374,188	14,421	388,609
Restricted for:			
Capital projects	3,277	-	3,277
Debt service	1,723	-	1,723
Public safety	1,122	-	1,122
Other purposes	109	-	109
Unrestricted (deficit)	(361,686)	(18,630)	(380,316)
Total net assets (deficit)	**$ 18,733**	**$ (4,209)**	**$ 14,524**

See accompanying notes to the financial statements.

COMPONENT UNITS		
Library	ECMCC	Other
$ 9,824	$ 16,542	$ 2,242
-	73,743	1,664
-	135,185	-
1,840	89,441	204
411	1,847	-
-	-	-
-	-	-
-	-	44
664	4,972	3
-	3,082	1,443
11,094	13,184	-
6,823	82,547	511
30,656	**420,543**	**6,111**
531	25,113	139
670	51,726	1,475
-	-	-
-	3,526	-
689	18,598	-
-	-	-
903	2,250	-
12,008	205,879	-
14,801	**307,092**	**1,614**
17,917	14,855	511
-	1,010	-
-	10,294	-
-	-	-
-	12,062	2,021
(2,062)	75,230	1,965
$ 15,855	**$ 113,451**	**$ 4,497**

Statement of Activities

For the year ended December 31, 2010

(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	$ 423,161	$ 26,794	$ 22,803	$ 4,377
Public safety	141,543	5,578	6,949	-
Health	82,855	2,470	62,198	-
Transportation	72,615	-	7,518	21,172
Economic assistance and opportunity	579,927	29,008	296,114	-
Culture and recreation	24,567	1,552	1,073	-
Education	75,529	95	41,275	169
Home and community service	53,186	9,311	13,652	-
Interest and fiscal charges	37,833	-	4,447	-
Total governmental activities	**1,491,216**	**74,808**	**456,029**	**25,718**
Business-type activities:				
College (August 31, 2010)	132,556	31,144	7,412	-
Utilities aggregation	28,587	28,805	-	-
Total business-type activities	**161,143**	**59,949**	**7,412**	**-**
Total primary government	**$ 1,652,359**	**$ 134,757**	**$ 463,441**	**$ 25,718**
Component units:				
Library	$ 30,395	$ 1,075	$ 2,734	$ -
ECMCC	439,938	363,107	1,277	502
Other component units	4,733	3,203	1,930	-
Total component units	**$ 475,066**	**$ 367,385**	**$ 5,941**	**$ 502**

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 assets

Net assets (deficit) - beginning

Net assets (deficit) - ending

See accompanying notes to the financial statements.

NET (EXPENSE) REVENUE and CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS		
Governmental Activities	Business-type Activities	Total	Library	ECMCC	Other
$ (369,187)	$ -	$ (369,187)	$ -	$ -	$ -
(129,016)	-	(129,016)	-	-	-
(18,187)	-	(18,187)	-	-	-
(43,925)	-	(43,925)	-	-	-
(254,805)	-	(254,805)	-	-	-
(21,942)	-	(21,942)	-	-	-
(33,990)	-	(33,990)	-	-	-
(30,223)	-	(30,223)	-	-	-
(33,386)	-	(33,386)	-	-	-
(934,661)	**-**	**(934,661)**	**-**	**-**	**-**
-	(94,000)	(94,000)	-	-	-
-	218	218	-	-	-
-	**(93,782)**	**(93,782)**	**-**	**-**	**-**
(934,661)	**(93,782)**	**(1,028,443)**	**-**	**-**	**-**
			(26,586)	-	-
			-	(75,052)	-
			-	-	400
			(26,586)	**(75,052)**	**400**
257,749	-	257,749	-	-	-
-	-	-	22,172	-	-
661,933	-	661,933	-	-	-
7,246	-	7,246	-	-	-
-	34,071	34,071	-	-	-
-	38,392	38,392	-	-	-
-	-	-	19	7,286	-
1,524	146	1,670	-	-	51
14,162	-	14,162	3,968	71,826	-
460	-	460	-	-	-
943,074	**72,609**	**1,015,683**	**26,159**	**79,112**	**51**
(17,429)	17,429	-	-	-	-
925,645	**90,038**	**1,015,683**	**26,159**	**79,112**	**51**
(9,016)	**(3,744)**	**(12,760)**	**(427)**	**4,060**	**451**
27,749	**(465)**	**27,284**	**16,282**	**109,391**	**4,046**
$ 18,733	**$ (4,209)**	**$ 14,524**	**$ 15,855**	**$ 113,451**	**$ 4,497**

Balance Sheet

Governmental Funds

December 31, 2010

(dollars in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	$ 22,013	$ 841	$ 147,498	$ 170,352
Investments	-	-	20,206	20,206
Receivables (net of allowances)				
Real property taxes, interest, penalties and liens	66,746	-	1,352	68,098
Other	6,227	-	31,003	37,230
Due from other funds	80,313	45,000	16,656	141,969
Due from component unit	916	-	1,120	2,036
Due from other governments	170,351	47,969	30,882	249,202
Prepaid items	6,356	-	2,786	9,142
Loan receivable	1,402	-	-	1,402
Total assets	$ 354,324	$ 93,810	$ 251,503	$ 699,637
LIABILITIES:				
Accounts payable	$ 26,741	$ 8	$ 14,016	$ 40,765
Accrued liabilities	40,050	28	6,747	46,825
Due to other funds	45,200	47,659	46,432	139,291
Due to component unit	837	411	-	1,248
Due to other governments	22,684	-	908	23,592
Retained percentages payable	9	-	1,902	1,911
Unearned revenue	25,765	-	28,602	54,367
Deferred revenue	47,725	-	8	47,733
Short-term debt	20,000	44,815	5,256	70,071
Total liabilities	229,011	92,921	103,871	425,803
FUND BALANCES:				
Reserved for:				
Encumbrances	3,862	-	30,879	34,741
Debt service	-	-	28,288	28,288
Loan receivable	1,402	-	-	1,402
Prepaid items	6,356	-	2,451	8,807
E-911 system costs	-	-	1,122	1,122
Handicapped parking	109	-	-	109
Law enforcement	124	-	-	124
Unreserved, reported in:				
General fund				
Designated	46,556	-	-	46,556
Undesignated	66,904	-	-	66,904
Special revenue funds				
Designated	-	-	6,476	6,476
Undesignated	-	889	12,321	13,210
Capital projects fund				
Designated	-	-	669	669
Undesignated	-	-	65,426	65,426
Total fund balances	125,313	889	147,632	273,834
Total liabilities and fund balances	$ 354,324	$ 93,810	$ 251,503	$ 699,637

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet

Governmental Funds to the Statement of Net Assets

December 31, 2010

(dollars in thousands)

		Governmental Activities
Total fund balances - governmental funds	$	273,834
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		815,031
Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds		47,733
ECFSA interest receivable is recognized when earned in the government-wide financial statements, but in the fund financial income is accrued only if it will be received within sixty days of year-end.		2,670
ECFSA premium on BAN issuance is not due and payable in the current period and therefore is not reported in the funds		(224)
Costs associated with the issuance of bonds are capitalized in the statement of net assets and are expensed in the governmental funds in the year the bonds are issued.		5,376
Due to a component unit was deemed to be not due and payable in the current period and therefore not reported in the funds.		(1,010)
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		(26,689)
Compensated absences		(22,311)
Judgments and claims		(57,728)
Other postemployment benefits (OPEB)		(184,662)
Unamortized bond premiums		(34,745)
Unamortized bond discounts		11,422
Unamortized deferred amounts on refundings		27,390
Long-term bond anticipation notes		(501)
Bonds payable		(836,853)
Total net assets - governmental activities	$	18,733

See accompanying notes to the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the year ended December 31, 2010

(dollars in thousands)

	General	ECFSA General	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Real property taxes and tax items	$ 219,650	$ -	$ 33,862	$ **253,512**
Sales and use taxes	287,104	371,226	3,603	**661,933**
Transfer taxes	-	-	7,246	**7,246**
Intergovernmental	383,689	2,224	92,571	**478,484**
Interfund revenues	248	-	122	**370**
Departmental	63,349	-	11,365	**74,714**
Interest	1,490	34	1,521	**3,045**
Miscellaneous	10,696	-	2,488	**13,184**
Total revenues	**966,226**	**373,484**	**152,778**	**1,492,488**
EXPENDITURES:				
Current:				
General government support	353,033	438	8,222	**361,693**
Public safety	124,217	-	10,171	**134,388**
Health	71,185	-	10,905	**82,090**
Transportation	21,065	-	22,844	**43,909**
Economic assistance and opportunity	558,136	-	18,488	**576,624**
Culture and recreation	20,889	573	-	**21,462**
Education	73,799	-	90	**73,889**
Home and community service	2,225	-	42,099	**44,324**
Capital outlay	-	-	93,066	**93,066**
Debt service:				
Principal retirement	-	-	47,936	**47,936**
Interest and fiscal charges	-	2,831	35,549	**38,380**
Total expenditures	**1,224,549**	**3,842**	**289,370**	**1,517,761**
(Deficiency) excess of revenues over expenditures	**(258,323)**	**369,642**	**(136,592)**	**(25,273)**
OTHER FINANCING SOURCES (USES):				
Issuance of general obligation debt	-	-	249,598	**249,598**
Premium on BAN issuance	-	374	-	**374**
Premium on bond issuance	-	-	27,301	**27,301**
Issuance of refunding bonds	-	-	120	**120**
Payments to refunded bond escrow	-	-	(99,432)	**(99,432)**
Sale of property	449	-	11	**460**
Transfers in	370,754	1,595	363,784	**736,133**
Transfers out	(89,405)	(372,271)	(291,886)	**(753,562)**
Total other financing sources (uses)	**281,798**	**(370,302)**	**249,496**	**160,992**
Net change in fund balances	23,475	(660)	112,904	**135,719**
Fund balances at beginning of year	101,838	1,549	34,728	**138,115**
Fund balances at end of year	**$ 125,313**	**$ 889**	**$ 147,632**	**$ 273,834**

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, 2010

(dollars in thousands)

		Governmental Activities
Net change in fund balances - total governmental funds		$ 135,719
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 $191	$ 75,390	
Depreciation	(50,727)	
Net adjustment		24,663
Revenues in the statement of activities that do not provide current financial resources are reported as deferred revenue in the funds.		
Real property taxes	4,237	
Deferred revenue-miscellaneous	(35)	
Net adjustment		4,202
Revenues of the ECFSA in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		1,831
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term debt and does not affect the statement of activities. Similarly, repayment of bond principal is an expenditure in the governmental funds and thus contributes to the change in fund balance. In the statement of net assets, however, payment of debt reduces the long-term debt liability and does not affect the statement of activities.		
Principal retirement	47,936	
Bonds issued	(252,329)	
Proceeds of refunding bonds	(120)	
Long-term bond anticipation notes	2,731	
Payments to refunded bond escrow	99,432	
Premium on bond issuance	(27,301)	
Amortization of fiscal charges	3,206	
Net adjustment		(126,445)
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Due to component unit	38	
Interest on bonds	(4,732)	
Compensated absences	1,343	
Retirement	9,570	
Judgments and claims (Long term change only)	(2,708)	
Amortization of bond issuance costs	1,321	
ECFSA BAN premium	378	
Other postemployment benefits (OPEB)	(54,196)	
Net adjustment		(48,986)
Change in net assets of governmental activities		**$ (9,016)**

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, 2010
(dollars in thousands)

	Original Budget	Final Budget	Budgetary Actual	Variance with Final Budget-Positive (Negative)
REVENUES:				
Real property taxes and tax items	$ 218,743	$ 219,885	$ 219,650	$ (235)
Sales and use taxes	644,050	278,853	287,104	8,251
Intergovernmental	388,285	393,859	383,689	(10,170)
Interfund revenue	275	275	248	(27)
Departmental	61,046	61,406	63,349	1,943
Interest	1,243	1,210	1,490	280
Miscellaneous	1,349	1,367	10,696	9,329
Total revenues	**1,314,991**	**956,855**	**966,226**	**9,371**
EXPENDITURES:				
Current:				
General government support	346,660	366,520	352,351	14,169
Public safety	118,140	126,219	124,070	2,149
Health	74,867	77,030	70,783	6,247
Transportation	20,471	21,065	21,065	-
Economic assistance and opportunity	574,433	567,567	558,616	8,951
Culture and recreation	18,667	22,803	20,783	2,020
Education	75,366	74,639	73,799	840
Home and community service	2,335	2,462	2,222	240
Debt service:				
Interest and fiscal charges	1,595	-	-	-
Total expenditures	**1,232,534**	**1,258,305**	**1,223,689**	**34,616**
Excess (deficiency) of revenues over expenditures	**82,457**	**(301,450)**	**(257,463)**	**43,987**
OTHER FINANCING SOURCES (USES):				
Sale of property	152	152	449	297
Transfers in	-	370,754	370,754	-
Transfers out	(82,609)	(90,748)	(89,405)	1,343
Total other financing sources (uses)	**(82,457)**	**280,158**	**281,798**	**1,640**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**$ -**	**$ (21,292)**	**$ 24,335**	**$ 45,627**

See accompanying notes to the financial statements.

Statement of Net Assets

Proprietary Funds

December 31, 2010

(dollars in thousands)

	Business - Type Activities Enterprise Funds		
	Major Fund	Non-Major Fund	
	College August 31, 2010	Utilities Aggregation Fund	Total
ASSETS:			
Current Assets:			
Cash	$ 34,978	$ 1,171	$ 36,149
Receivables (net of allowances)	7,381	932	8,313
Due from other funds	558	435	993
Due from component unit	-	1,490	1,490
Due from other governments	-	1,347	1,347
Prepaid items	-	1	1
Total current assets	42,917	5,376	48,293
Noncurrent Assets:			
Capital assets, net of depreciation:			
Construction in progress	1,251	-	1,251
Other capital assets, net of depreciation	13,170	-	13,170
Total noncurrent assets	14,421	-	14,421
Total assets	57,338	5,376	62,714
LIABILITIES:			
Current Liabilities:			
Accounts payable	1,422	1,804	3,226
Accrued liabilities	4,869	1,075	5,944
Due to other funds	2,556	-	2,556
Fringe benefits payable - current	2,158	-	2,158
Deferred revenue	8,116	-	8,116
Total current liabilities	19,121	2,879	22,000
Noncurrent Liabilities:			
Fringe benefits payable	4,514	-	4,514
Net OPEB obligation	40,409	-	40,409
Total noncurrent liabilities	44,923	-	44,923
Total liabilities	64,044	2,879	66,923
NET ASSETS (DEFICIT):			
Invested in capital assets	14,421	-	14,421
Unrestricted (deficit), reported in:			
Community College	(21,127)	-	(21,127)
Nonmajor Fund		2,497	2,497
Total net assets (deficit)	$ (6,706)	$ 2,497	$ (4,209)

See accompanying notes to the financial statements.

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the year ended December 31, 2010

(dollars in thousands)

	Business - Type Activities Enterprise Funds		
	Major Fund	Non-Major Fund	
	College August 31, 2010	Utilities Aggregation Fund	Total
OPERATING REVENUES:			
Student tuition and fees	$ 30,231	$ -	$ 30,231
Intergovernmental revenues and charges	2,963	-	2,963
State and local contracts	4,449	-	4,449
Interfund revenues		9,036	9,036
Other operating revenue	913	19,769	20,682
Total operating revenue	38,556	28,805	67,361
OPERATING EXPENSES:			
Employee wages	60,471	47	60,518
Employee benefits	33,756	17	33,773
Scholarships	18,070	-	18,070
Supplies	16,301	-	16,301
Utilities and telephone	2,374	28,523	30,897
Depreciation	1,567	-	1,567
Total operating expenses	132,539	28,587	161,126
Operating (loss) income	(93,983)	218	(93,765)
NONOPERATING REVENUES (EXPENSES):			
Unrestricted state and local appropriations	34,071	-	34,071
Federal and state student financial aid	38,392	-	38,392
Income from investments	146	-	146
Loss on disposal of plant assets	(17)	-	(17)
(Loss) gain before transfers	(21,391)	218	(21,173)
Transfers in	17,429	-	17,429
Change in net assets	(3,962)	218	(3,744)
Total net assets (deficit) - beginning	(2,744)	2,279	(465)
Total net assets (deficit) - ending	$ (6,706)	$ 2,497	$ (4,209)

See accompanying notes to the financial statements.

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2010
(dollars in thousands)

	Business - Type Activities Enterprise Funds		
	Major Fund	Non-Major Fund	
	College August 31, 2010	Utilities Aggregation Fund	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from students and utility customers	$ 31,421	$ 20,228	**$ 51,649**
Payments to employees for services	(82,347)	(63)	**(82,410)**
Payments to suppliers for goods and services	(18,685)	(28,443)	**(47,128)**
Payments for scholarships	(18,069)	-	**(18,069)**
Federal, state and local grants	6,135	-	**6,135**
Internal activity - payments from other funds		8,920	**8,920**
Other operating revenues	2,103	-	**2,103**
Net cash (used in) provided by operating activities	**(79,442)**	**642**	**(78,800)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
County contribution	17,429	-	**17,429**
State appropriations	33,084	-	**33,084**
Municipal chargebacks	1,023	-	**1,023**
Federal and state student financial aid grants	34,927	-	**34,927**
Net cash provided by non-capital financing activities	**86,463**	**-**	**86,463**
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of capital assets	(3,376)	-	**(3,376)**
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:			
Interest received	146	-	**146**
Net increase in cash	**3,791**	**642**	**4,433**
Cash, beginning of year	31,187	529	**31,716**
Cash, end of year	**$ 34,978**	**$ 1,171**	**$ 36,149**

(Continued)

See accompanying notes to the financial statements.

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2010

(dollars in thousands)

	Business - Type Activities Enterprise Funds: Major Fund	Business - Type Activities Enterprise Funds: Non-Major Fund	
	College August 31, 2010	Utilities Aggregation Fund	Total Funds
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:			
Operating loss	$ (93,983)	$ 218	**$ (93,765)**
Adjustments to reconcile operating (loss) income to net cash used by operating activities:			
Depreciation expense	1,567	-	**1,567**
Increase (decrease) in assets:			
Receivables, net	(907)	(225)	**(1,132)**
Due from other funds	(73)	92	**19**
Due from component unit	-	72	**72**
Due from other governments	-	520	**520**
Prepaid items	-	(1)	**(1)**
Increase (decrease) in liabilities:			
Accounts and other payables	87	(945)	**(858)**
Due to other funds	(96)	-	**(96)**
Accrued expenses	(21)	911	**890**
Deferred revenue	934	-	**934**
Other long-term liabilities	13,050	-	**13,050**
Net cash (used in) provided by operating activities	**$ (79,442)**	**$ 642**	**$ (78,800)**

(Concluded)

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets

Fiduciary Fund

December 31, 2010

(dollars in thousands)

		Agency Fund
ASSETS:		
Cash and cash equivalents	$	65,132
Receivables:		
Other receivables		698
Bonds and securities held in custody		19
Total assets	**$**	**65,849**
LIABILITIES:		
Held in custody for others	$	65,849
Total liabilities	**$**	**65,849**

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2010

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

The County provides mandated social service programs such as Medicaid, Temporary Assistance for Needy Families and Safety Net. The County also provides services and facilities in the areas of culture, recreation, police, libraries, youth, health, senior services, roads, and sanitary sewerage. These general governmental programs and services are financed by various taxes, state and federal aid, and departmental revenue (which are primarily comprised of service fees and various types of program-related charges). Additionally, the County operates 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._ - 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._ - 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 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 non-profit corporation, is to promote and cultivate educational and social relations through the operation of bookstores, on-campus dining services, vending facilities, childcare, and student centers for the convenience of the students, faculty and staff of the College. The ECC Auxiliary Corporation is funded through sales of merchandise and food, Federal and State grants, and other fees. Separate financial statements can be obtained from the Auxiliary Services Corporation of Erie Community College, Inc., Executive Director, 6205 Main Street, Williamsville, NY 14221.

The ECC Foundation is a New York State nonprofit corporation established to support the College. Its purpose is to raise, receive, and administer all private gifts and program services for the College, its programs and its students. Separate financial statements can be obtained from Erie Community College Foundation, Inc., Executive Director, 4196 Abbott Road, Orchard Park, NY 14127.

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 Statement No. 39 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 2010, the ECFSA issued serial bonds and a bond anticipation note that were used to purchase mirror bonds and a revenue anticipation that were issued by the County.

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. Although legally separate and independent of Erie County, ETASC is considered an affiliated organization under GASB Statement No. 39 and reported as a component unit of the County for financial reporting purposes and, accordingly, is included in the County's financial statements. Separate financial statements for ETASC can be obtained from the Erie Tobacco Asset Securitization Corporation, Treasurer, 95 Franklin Street, Room 1600, Buffalo, New York, 14202.

Erie Tax Certificate Corporation ("ETCC") is a special purpose local development corporation organized under the Not-for-Profit Corporation Law of the State of New York and is an instrumentality of, but separate and apart from the County. The ETCC was created for the sole purpose of purchasing certain tax liens owned by the County and collecting the proceeds that may be received upon redemption of the tax liens or the sale of real property against which a tax lien exists. Although legally separate and independent of Erie County, ETCC is considered an affiliated organization under GASB Statement No. 39 and reported as a component unit of the County for County financial reporting purposes. Separate financial statements for ETCC can be obtained from the Erie Tax Certificate Corporation, President, 95 Franklin Street, Room 100, 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.

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

Modified Accrual Basis – Under this basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period (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 claims and judgments, are recorded only when payment is due and expenditures for inventory-type items and for prepayments (except retirement) are recognized at the time of the disbursements.

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

The County reports the following major governmental funds:

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

ECFSA General Fund – used to account for all of the operations of the 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:

Erie Community College – resources received and used for community college purposes are accounted for through the College. The College is not a legally separate entity from the County. A fiscal year ending August 31 is mandated by New York State law for the College. 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 assets. This equipment is recorded at cost or estimated historical cost. Donated assets are stated at estimated fair value as of the date received.

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

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

Pursuant to the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. 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.

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

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

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

D. Deposits and Investments

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

E. 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.

F. 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.

G. **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, 2010, amounted to $11,619,168. This amount has been recorded as an allowance against the property taxes receivable account.

H. **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 expenditure in the government-wide financial statements. Governmental funds recognize the expense 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.

I. **Insurance**

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

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

J. **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.

K. **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.

L. **Restrictions**

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

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

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The amount reported as restricted for other purposes for Governmental Activities, includes $109,278 that is restricted by New York State Law to payments related to enforcement of Handicapped Parking Laws. In addition, on the government-wide statement of net assets, ECMCC has reported $1,010,000 as net assets restricted for capital projects based upon restrictions imposed on certain receivables from the County by contract or legislative action.

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

M. **Reserves and Designations**

In the fund financial statements, reserves represent that portion of fund balance that has been legally segregated for a specific use or which cannot be appropriated for expenditure by the County at December 31, 2010, and include:

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

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

Reserved for Loan Receivable – representing a loan to the Zoological Society of Buffalo for the redevelopment of the main animal building and a working capital advance to the ETCC.

Reserved for Prepaid Items – representing amounts prepaid to vendors and the New York State and Local Employees' Retirement System that are applicable to future accounting periods. The County limits reservations for prepaid items to the amount of fund balance otherwise available and unreserved.

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

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

Reserved for Law Enforcement – representing funds received from the sale of surplus helicopter parts to be utilized exclusively to support and maintain the Sheriff's Office Aviation Division.

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

Designations at December 31, 2010 were as follows:

Designated for Subsequent Year's Expenditures – representing available fund balances being appropriated to meet future year's expenditure requirements. In the General Fund and Sewer Special Revenue Funds, \$46,555,889 and \$6,476,339 have been designated respectively. Within the Tobacco Proceeds and ECMCC Capital Projects Funds, which are recorded within other governmental funds, designated fund balance represents tobacco proceeds to be expended on future ECMCC capital projects; this balance is \$668,745 at December 31, 2010.

N. <u>Adoption of New Accounting Pronouncements</u>

During the year ended December 31, 2010 the County adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which had no effect on the County's financial position or result of operations.

The County also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"). This pronouncement, applicable only to ETASC, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. As discussed in Note XII (B), ETASC's forward purchase swap agreement was deemed to be an effective hedge at December 31, 2010, requiring changes in the fair value of the hedging derivative instrument to be recognized as deferred inflows/outflows in the statement of net assets. As a result of the implementation of this pronouncement, ETASC recorded an asset with an offsetting liability of \$1,108,170, which are presented within other assets and accrued liabilities, respectively, in the accompanying statement of net assets.

O. **Future Impacts of Accounting Pronouncements**

The County has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59, *Financial Instruments Omnibus*, which are effective for the year ending December 31, 2011; GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are effective for the year ending December 31, 2012; and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, which is effective for the year ending December 31, 2013. The County is therefore unable to disclose the impact that adopting GASB Statements No. 54, 57, 59, 60, 61 and 62 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. Annual appropriated budgets are adopted and employed for control of the General Fund; the Road, Sewer, Downtown Mall, E-911, and Emergency Response Special Revenue Funds; the Utilities Aggregation Enterprise Fund; and the Debt Service Fund, minimally detailed to the department, account and selected line item level. The Emergency Response Special Revenue Fund was established to account for revenues received from the Federal Emergency Management Agency and expenditures associated with the on-going clean up of major damage from a storm that occurred in October 2006. 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. A reconciliation to convert GAAP basis data to the budgetary basis is provided below.

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

5. The County Executive is authorized to make budget transfers 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.

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 or line items within a department. During the year, numerous supplementary appropriations were necessary.

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

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.

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	$ 23,475
Less:	
Encumbrances at December 31, 2010	3,862
Plus:	
Encumbrances at January 1, 2010	4,722
Excess of revenues and other financing sources over expenditures and other financing uses - basis of budgeting	$ 24,335

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 2010 expenditures through the budget process.

Commitments related directly to the Grants and the Community Development Special Revenue Funds in the amount of $9,815,774 and $1,843,060, respectively, at December 31, 2010, 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 Fund Balances

The Community College Proprietary Fund reported a total net assets deficit of $6,706,447 that represents primarily 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 and ETCC do not have formal investment policies.

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, 2010 (August 31, 2010 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 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, 2010, the fair value of money market accounts was $219,920,779 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 or ETASC's name. Investments for the Primary Government at year-end are shown below (dollars in thousands):

	Fair Value
Municipal bonds	$ 200
Institutional liquidity funds	427
Corporate commercial paper	19,579
Total Investments	$ 20,206

The County's investment in municipal bonds at December 31, 2010 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, 2010 consisted of $19,578,942 of Intesa Funding LLC obligations that matured and were rated A-1 by Standard and Poor's ("S&P"). Rating information for the ETASC's $427,129 investment in Blackrock Liquidity Funds was not available.

ECMCC Component Unit

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.

Deposits and petty cash - The ECMCC deposits cash into a number of bank accounts. As of December 31, 2010 the carrying amount of ECMCC's deposits was $16,542,000.

Cash Equivalents - All highly liquid investments with an original maturity date of three months or less are considered to be cash equivalents.

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 fixed income investments had an S&P credit quality rating of A-1+ as of December 31, 2010 (dollars in thousands).

	Fair Value
Money market mutual funds, bank accounts and deposits	$ 27,110
Marketable equity securities	37,152
U.S. Government and Agency Obligations	16,221
Corporate bonds	69,587
Pooled investment fund	46,059
Foundation Component Unit	1,713
RHEC Component Unit	1,086
Physician Endowment Component Unit	10,000
Total investments and restricted cash and cash equivalents	$ 208,928

	Fair Value
Investments	$ 73,743
Restricted cash and cash equivalents	135,185
	$ 208,928

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, 2010 are as follows (dollars in thousands):

	Cost	Fair Value
Fixed income	$ 395	$ 395
Fixed income - exempt	144	144
International equities	553	453
Domestic stocks	758	672
	$ 1,850	$ 1,664
Net unrealized loss		$ (186)

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, 2010 is computed as follows (dollars in thousands):

Five-year average full valuation of taxable real estate (2006-2010)	$ 42,320,466
Tax limit @ 1.5%	$ 634,807
Statutory additions	46,404
Total taxing power	681,211
Total levy	(243,283)
Tax margin	$ 437,928

VI - REVENUE ACCRUALS

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, 2010 include sales and use taxes in excess of $46,218,545; state and federal assistance for social services of $103,642,462; and other state and federal aid (including grants) approximating $91,701,131.

VII - RECEIVABLES

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

Receivables - Governmental Funds	General Fund	ECFSA	Other Governmental Funds	Total
Real property taxes, interest, penalties and liens	$ 78,365	$ -	$ 10,687	$ 89,052
Sales and use tax	-	46,219	-	46,219
Federal and state assistance for social services programs	103,642	-	-	103,642
Other federal and state aid	61,123	1,750	28,828	91,701
Loan	1,402	-	-	1,402
Other	11,813	-	33,057	44,870
Gross receivables	256,345	47,969	72,572	376,886
Less: allowances for uncollectibles	11,619	-	9,335	20,954
Total receivables	$ 244,726	$ 47,969	$ 63,237	$ 355,932

The only Governmental Fund receivables not expected to be collected within one year are $300 in loan receivables from the Zoological Society of Buffalo, that are discussed in Note I (M).

Receivables - Proprietary Funds	College 8/31/10	Utilities Aggregation Fund	Total
Accounts receivable	$ 4,800	$ 932	$ 5,732
Other	6,457	1,347	7,804
Gross receivables	11,257	2,279	13,536
Less: allowances for uncollectibles	3,876	-	3,876
Total receivables	$ 7,381	$ 2,279	$ 9,660

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

VIII - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010 was as follows (dollars in thousands):

A. Primary Government

1. Governmental Activities

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated:				
Land	$ 30,353	$ 62	$ -	$ 30,415
Construction in progress	45,762	54,545	(20,028)	80,279
Total capital assets, not being depreciated	76,115	54,607	(20,028)	110,694
Capital assets, being depreciated:				
Buildings and improvements	506,734	15,665	-	522,399
Transportation network	461,500	10,719	-	472,219
Sewer network	255,227	6,351	-	261,578
Improvements other than buildings	25,926	1,061	-	26,987
Machinery and equipment	110,067	7,206	(2,424)	114,849
Total capital assets, being depreciated	1,359,454	41,002	(2,424)	1,398,032
Less accumulated depreciation for:				
Buildings and improvements	(254,279)	(15,489)	-	(269,768)
Transportation network	(233,922)	(19,934)	-	(253,856)
Sewer network	(76,981)	(4,082)	-	(81,063)
Improvements other than buildings	(10,443)	(1,310)	-	(11,753)
Machinery and equipment	(69,576)	(9,912)	2,233	(77,255)
Total accumulated depreciation	(645,201)	(50,727)	2,233	(693,695)
Total capital assets, being depreciated, net	714,253	(9,725)	(191)	704,337
Governmental activities capital assets, net	$ 790,368	$ 44,882	$ (20,219)	$ 815,031

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

Governmental activities:	
General government	$ 14,680
Public safety	7,047
Health	432
Transportation	20,800
Economic assistance and opportunity	138
Culture and recreation	1,250
Education	1,632
Home and community service	4,748
Total governmental activities depreciation expense	$ 50,727

2. Business-Type Activities*

	Balance 9/1/09	Increases	Decreases	Balance 8/31/10
Capital assets, not being depreciated:				
Construction in progress	$ 931	$ 2,113	$ (1,793)	$ 1,251
Capital assets, being depreciated:				
Building improvements	7,373	1,793	-	9,166
Land improvements	64	-	-	64
Equipment	21,727	1,042	(207)	22,562
Library collections	2,588	221	(260)	2,549
Total capital assets, being depreciated	31,752	3,056	(467)	34,341
Less accumulated depreciation for:				
Building improvements	(522)	(412)	-	(934)
Land improvements	(14)	(3)	-	(17)
Equipment	(18,223)	(908)	204	(18,927)
Library collections	(1,296)	(244)	247	(1,293)
Total accumulated depreciation	(20,055)	(1,567)	451	(21,171)
Total capital assets, being depreciated, net	11,697	1,489	(16)	13,170
College capital assets, net	$ 12,628	$ 3,602	$ (1,809)	$ 14,421

* The College (August 31, 2010)

Depreciation expense for the College was $1,566,891 for the year ended August 31, 2010.

B. Component Units

1. Library

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated:				
Rare book collection	$ 11,036	$ 58	$ -	$ 11,094
Capital assets, being depreciated:				
Machinery, equipment and library materials	60,271	3,589	(3,395)	60,465
Less accumulated depreciation for:				
Machinery, equipment and library materials	(53,550)	(3,188)	3,096	(53,642)
Total capital assets, being depreciated, net	6,721	401	(299)	6,823
Library component unit capital assets, net	$ 17,757	$ 459	$ (299)	$ 17,917

Depreciation expense for the Library was $3,187,596 for the year ended December 31, 2010.

2. ECMCC

	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
Capital assets, not being depreciated:				
Construction in progress	$ 1,216	$ 11,968	$ -	$ 13,184
Capital assets, being depreciated:				
Land improvements	2,888	-	(1,890)	998
Building	221,228	10,128	(5,118)	226,238
Fixed equipment	3,516	5	(1,412)	2,109
Major moveable equipment	147,949	10,283	(58,679)	99,553
Total capital assets - being depreciated	375,581	20,416	(67,099)	328,898
Less accumulated depreciation	(298,790)	(14,010)	66,449	(246,351)
Total capital assets, being depreciated,net	76,791	6,406	(650)	82,547
Total ECMCC component unit capital assets	$ 78,007	$ 18,374	$ (650)	$ 95,731

Depreciation expense for ECMCC was $14,010,000 for the year ended December 31, 2010.

IX – 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	$ 26,741	$ 8	$ 14,016	$ 40,765
Other governments	22,684	-	908	23,592
Health and social service programs and agencies	28,044	-	1,228	29,272
Retained percentages	9	-	1,902	1,911
Salaries & fringes	9,527	-	1,370	10,897
Other	2,479	28	4,149	6,656
Total payables	$ 89,484	$ 36	$ 23,573	$ 113,093

Proprietary Funds	College 8/31/10	Utility Aggregation Fund	Total
Accounts payable	$ 1,422	$ 1,804	$ 3,226
Health and social service programs and agencies	-	-	-
Fringes benefits payable	6,672	-	6,672
Other	4,869	1,075	5,944
Total payables	$ 12,963	$ 2,879	$ 15,842

X – RETIREMENT PLANS

Background

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

A. New York State and Local Employees' Retirement System

This is a cost-sharing multiple-employer retirement system. The ERS provides retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

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

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

	Contribution Amount		
Year	Primary Government-ERS	Library Component Unit - ERS	ECMCC Component Unit - ERS
2010	$ 27,705,762	$ 1,345,141	$ 16,000,000
2009	20,340,675	999,436	10,100,000
2008	25,385,491	1,346,621	10,300,000

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 2010 fiscal year were $2,462,766 and $202,113, respectively. The total unpaid balance of this retirement liability at the end of the College's fiscal year was $92,317.

C. New York State Teachers' Retirement System

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

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

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

Year	College TRS
2010	$ 1,020,091
2009	1,118,358
2008	1,264,363

Employer contributions made to the TRS were equal to 100% of the contributions required for each year. The 2010 and 2009 amounts are the employer portion only, shown to reflect the change in focus of the disclosure to that of the College's contributions. The 2008 amount included both the employer and employee contributions.

The total unpaid employer balance of the TRS retirement liabilities at the end of the College's fiscal year was $1,036,818.

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

Retirement Plan/ Description	Business-type Activities*
ERS	
Regular	$ 1,079
Total	1,079
TRS	
Regular	1,037
Total	1,037
TIAA-CREF	
Regular	92
Total Primary Government	$ 2,208

* The College (August 31, 2010)

The County has recorded the above retirement liabilities as a component of long-term liabilities on the statement of net assets. In addition, retirement liabilities have been recorded as accrued liabilities by the ECMCC Component Unit in the amount of $16,000,000.

XI – CONSTRUCTION COMMITMENTS

The County has a number of active construction projects at December 31, 2010. 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	$ 18,286	$ 11,365
Highways, roads, bridges and equipment	27,911	8,763
Sewers, facilities equipment and improvements	17,608	4,988
Special capital projects	820	780
ECMC capital projects	5,608	485 *
Total	$ 70,233	$ 26,381

* The County has additional future capital commitments related to the ECMCC Sale Agreement, as amended, totaling approximately $3,651,000 at December 31, 2010. Of this amount, $1,010,000 is reflected in the government-wide financial statements only as a due to component unit.

XII - LONG-TERM LIABILITIES

A. Bonded Indebtedness

Bonded indebtedness is reported in the government-wide financial statements. The following is a summary of bond transactions of the County for the year ended December 31, 2010 (dollars in thousands):

Purpose*	Issue	Maturity	Interest Rate	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due One Year
Capital	1992	2012	4.25-7.65	$ 2,205	$ -	$ 735	$ 1,470	$ 735
Capital	1993	2013	3.30-5.25	245	-	245	-	-
Capital	1993	2013	Zero Coupon	1,037	-	366	671	321
Capital	1996	2015	0.00-0.00	450	-	72	378	73
Capital	1997	2017	3.75-5.35	300	-	35	265	35
Capital	1997	2012	4.50-5.50	2,970	-	990	1,980	990
Capital	1998	2017	3.70-5.15	305	-	35	270	35
Capital	1998	2013	4.25-5.00	3,240	-	3,240	-	-
Capital	1999	2018	3.48-5.42	130	-	130	-	-
Capital	1999	2018	0.00-0.00	55	-	6	49	6
Capital	1999	2019	5.125-6.00	1,595	-	1,595	-	-
Capital	2000	2018	3.80-5.92	125	-	10	115	10
Capital	2000	2012	5.25-6.00	3,723	-	3,723	-	-
Capital	2000	2020	5.25-5.70	390	-	390	-	-
Capital	2001	2031	2.619-5.314	1,665	-	55	1,610	55
Capital	2001	2031	0.00-0.00	3,775	-	148	3,627	150
Capital	2001	2020	2.30-5.00	18,000	-	16,180	1,820	1,820
Capital	2001	2021	2.30-5.00	570	-	520	50	50
Capital	2002	2031	1.362-5.082	1,085	-	45	1,040	45
Capital	2002	2024	2.521-6.181	3,755	-	195	3,560	205
Capital	2002	2031	1.333-5.323	830	-	30	800	30
Capital	2002	2017	3.00-5.00	38,410	-	29,730	8,680	4,255
Capital	2002	2022	3.00-5.00	920	-	810	110	55
Capital	2003	2032	1.031-4.901	1,095	-	35	1,060	35
Capital	2003	2029	2.549-6.259	12,500	-	570	11,930	580
Capital	2003	2032	0.00-0.00	379	-	16	363	16
Capital	2003	2020	4.00-5.25	60,010	-	46,144	13,866	4,407
Capital	2003	2023	2.00-4.75	1,910	-	105	1,805	110
Capital	2003	2032	0.790-4.612	1,030	-	35	995	35
Capital	2004	2015	2.50-5.25	11,915	-	1,765	10,150	1,840
Capital	2004	2033	1.02-4.63	945	-	30	915	30
Subtotals carried forward				175,564	-	107,985	67,579	15,923

(Continued)

*Capital = Capital acquisition and construction

Purpose*	Issue	Maturity	Interest Rate	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Subtotals brought forward				$ 175,564	$ -	$ 107,985	$ 67,579	$ 15,923
Capital	2004	2024	3.25-5.25	56,330	-	5,025	51,305	5,270
Capital	2005	2034	1.56-4.57	2,975	-	90	2,885	90
Capital	2005	2033	2.06-4.13	2,235	-	70	2,165	70
Capital	2005	2020	4.45-5.00	52,500	-	3,700	48,800	3,880
Capital	2005	2035	3.50-5.00	11,295	-	240	11,055	250
Capital	2005	2012	5.50	12,230	-	3,860	8,370	4,075
Refunding	2005	2029	3.50-4.50	47,995	-	3,585	44,410	3,320
Tobacco refunding	2005	varies***	varies***	304,725	-	2,875	301,850	-
Tobacco settlement	2006	varies***	varies***	17,695	-	-	17,695	-
Capital	2006	2035	0.00-0.00	1,805	-	70	1,735	70
Capital	2006	2017	3.50-4.00	10,950	-	1,195	9,755	1,240
Capital	2006	2036	3.50-4.25	4,115	-	90	4,025	90
ECMCC settlement	2006	2011	4.93-4.99	17,215	-	8,400	8,815	8,815
Capital	2007	2036	3.63-4.79	4,815	-	130	4,685	135
Capital	2010	2023	2.00-4.99	-	157,995	-	157,995	5,640
Capital	2010	2039	0.290-4.60	-	5,794	205	5,589	129
Refunding	2010	2020	3.865-21.455	-	42,175	10	42,165	110
Refunding	2010	2022	2.001-5.00	-	46,365	520	45,845	2,255
Refunding	2010	2018	0.95-3.13	-	120	-	120	15
				722,444	252,449	138,050	836,843	51,377
Less bonds issued by the County to ECFSA (mirror bonds):								
	2010	2023	2.00-4.99	-	(157,995)	-	(157,995)	(5,640)
	2010	2020	3.865-21.455	-	(42,175)	(10)	(42,165)	(110)
	2010	2022	2.001-5.00	-	(46,365)	(520)	(45,845)	(2,255)
Total mirror bonds				-	(246,535)	(530)	(246,005)	(8,005)
Net governmental activities general obligation bonds issued by County of Erie and ETASC				722,444	5,914	137,520	590,838	43,372
Governmental activities general obligation bonds issued by ECFSA:								
	2010	2023	2.0-5.0	-	157,995	-	157,995	5,640
	2010	2022	2.0-5.0	-	46,365	520	45,845	2,255
	2010	2020	2.25-5.24	-	42,175	-	42,175	120
Total bonds issued by ECFSA				-	246,535	520	246,015	8,015
Total governmental activities general obligation bonds				722,444	252,449	138,040	836,853	$ 51,387
Discount on zero coupon bonds				(91) **	44	-	(47) **	
Discount on ETASC bonds				(11,442)	-	(67)	(11,375)	
Premium on bond issuance				16,950	-	7,066	9,884	
Premium on bond issuance-ECFSA				-	27,301	2,440	24,861	
Deferred amount on refunding				(1,636)	(4,083)	(181)	(5,538)	
Deferred amount on refunding-ETASC				(22,615)	-	(763)	(21,852)	
Bonds payable for financial statement purposes				$ 703,610	$ 275,711	$ 146,535	$ 832,786	

(Concluded)

*Capital = Capital acquisition and construction

**** Amount of unamortized discount on zero coupon bonds at issue date was $3,347. Of this amount, $3,256 and $44 have been amortized in the prior years and the current year, respectively.**
*****Refer to discussion within Note XII(B) regarding outstanding ETASC bonds payable.**

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 ("TSR") to which the County would otherwise be entitled under the Master Settlement Agreement ("MSA") and Consent Decree and Final Judgment (the "Decree").

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

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.

As discussed in Note I (N), ETASC has evaluated the forward purchase agreement using the consistent critical terms method and deemed it to be effective. As of December 31, 2010, the notional amount of the agreement totals $19,218,750, the fair value is $1,108,170, and net cash flows during the year totaled $678,430.

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

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

On January 5, 2006, ETASC issued $17,694,720 of tobacco settlement asset-backed bonds, 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 was 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. 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 dates, beginning June 1, 2006.

Interest on the Series 2005A and E Bonds are payable each June 1 and December 1. Interest on the Series B, C, and D bonds as well as the Series 2006 Bonds accrue throughout the life of the bonds but are payable at redemption. Series 2005B, C, and D Bonds are zero-coupon bonds and are subject to redemption at the option of ETASC beginning in years after 2016. The Series 2006A bonds may be redeemed after May 31, 2017.

Details of ETASC's long-term debt 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, 2018
$ 74,685,000	5.000%	Series 2005A Bonds Due June 1, 2038 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2022
$ 111,480,000	5.000%	Series 2005A Bonds Due June 1, 2045 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2027
$ 9,163,000	5.750%	Series 2005B Bonds Due June 1, 2047 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2027
$ 12,565,080	6.250%	Series 2005C Bonds Due June 1, 2050 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2029
$ 11,141,600	6.750%	Series 2005D Bonds Due June 1, 2055 Semi-annual interest accrued but not payable until maturity, subject to redemption at the option of ETASC anytime after June 1, 2015 at accreted values as follows: June 1, 2015 through May 31, 2016, 102%; June 1, 2016 through May 31, 2017, 101%; June 1, 2017 and thereafter, 100%	June 1, 2032
$ 69,470,000	6.000%	Series 2005E Taxable Bonds Due June 1, 2028 Semi-annual interest only payments through maturity, may be redeemed at the option of the ETASC at anytime in whole or in part after June 1, 2015	June 1, 2016

$17,694,720
Term Bond

Issue Amount	Rate	Description	Projected Final Turbo Redemption Date
$ 17,694,720	7.650%	Series 2006A 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, 2037

Changes in bonds payable for the year ended December 31, 2010 was as follows (dollars in thousands):

Bonds payable at January 1, 2010	$ 322,420
Principal payments during 2010	(2,875)
Bonds payable at December 31, 2010	$ 319,545

The amount reflected in the statement of net assets for ETASC's bonds payable is net of unamortized discount on the sale of bonds of $11,374,631 and loss on defeasance of $21,851,736.

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

Twelve months ended December 31:	Principal	Interest
2011	$ -	$ 13,974
2012	-	13,974
2013	-	13,974
2014	-	13,974
2015	-	13,974
2016-2020	-	69,869
2021-2025	-	69,869
2026-2030	52,485	61,997
2031-2035	30,330	47,300
2036-2040	74,685	37,206
2041-2045	111,480	25,083
2046-2050	21,728	56,812
2051-2055	11,142	37,227
2056-2060	17,695	67,912
	$ 319,545	$ 543,145

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, 2010:

Erie County—Guaranteed Senior Revenue Bonds, Series 2004 (interest of 4.1% to 5.7%)	$ 97,150,000

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 X, retirement liabilities of the primary government at December 31, 2010 for amounts due in 2010 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	$ 2,208
Less: Due within one year	2,013
Due in more than one year	$ 195

* The College (August 31, 2010)

The County and its component units have recorded the above retirement liabilities as long-term liabilities on the statement of net assets. In addition, retirement liabilities have been recorded as accrued liabilities as follows: ECMCC Component Unit of $16,000,000.

2. Compensated Absences

The value recorded in the government-wide financial statements at December 31, 2010, for governmental activities is $22,311,058 classified as a long-term liability in the accompanying financial statements, which includes $12,969,136 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 $4,426,133 have been reported for business-type activities, classified as fringe benefits payable, on the fund financial statements, which includes $130,000 due within one year.

Compensated absences of the Library component unit totaling $1,695,760 have been reported as a long-term liability, which includes $903,094 due within one year. Compensated absences of the ECMCC component unit totaling $9,000,000 have been reported as an accrued liability.

3. Judgments and Claims

As further explained in Note XV, the County is self-insured. Liabilities are established for workers' compensation, general and malpractice claims in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Estimated long-term contingent loss liabilities of governmental fund types total $57,728,125 and have been reported as long-term liabilities in the government-wide financial statements.

Also, as further explained in Notes XII (E) (4) and XV, ECMCC is self-insured and has recorded approximately $17,600,000 and $18,400,000 for the long-term portions of medical malpractice and worker's compensation related exposures, respectively.

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

In applying the requirements of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (adopted during the year ended December 31, 2007), 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 (90%). 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, 2010, the County's annual OPEB cost (expense) of $90,048,375 is equal to the Annual Required Contribution (ARC), which is $92,755,657 minus certain adjustments which totaled $2,707,282. 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 $24,653,400 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of $65,394,975 for the year ended December 31, 2010.

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

	Governmental Activities	Business-type Activities *	Primary Government Total
Actuarial accrued liability (AAL)	$ 805,062	$ 129,166 (1)	$ 934,228
Unfunded actuarial accrued liability (UAAL)	805,062	129,166 (1)	934,228
Normal cost at beginning of year	31,390	6,094	37,484
Amortization factor based on 30 years	17.40	17.40	
Annual covered payroll	226,383	53,426	279,809
UAAL as a percentage of covered payroll	355.62%	241.77%	333.88%

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	$ 31,390	$ 6,094	$ 37,484
(UAAL) over 30 years with interest at end of year	45,371	9,901	55,272
Annual required contribution (ARC)	76,761	15,995	92,756
Interest on net OPEB obligation	5,610	1,256	6,866
Adjustment to ARC	(7,822)	(1,751)	(9,573)
Annual OPEB cost (expense)	74,549	15,500	90,049
Contribution for fiscal year ended December 31, 2010	(20,353)	(4,301)	(24,654)
Increase in net OPEB obligation	54,196	11,199	65,395
Net OPEB obligation December 31, 2009	130,466	29,209	159,675
Net OPEB obligation December 31, 2010	$ 184,662	$ 40,408	$ 225,070
Percent of annual OPEB cost contributed	27.30%	27.75%	27.38%

* The College (August 31, 2010)

(1) The College reported AAL and UAAL of $173,689 at August 31, 2010. Subsequent to the issuance of the College's financial statements, the AAL and UAAL were adjusted to $129,166 by the actuary as reflected herein.

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, 2010 and the two proceeding years were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2010	$ 90,049	27.38%	$ 225,070
12/31/2009	77,366	27.84%	159,675
12/31/2008	65,085	31.58%	103,848

Funded Status and Funding Progress – The OPEB plan was unfunded, resulting in an unfunded accrued liability (UAAL) of $756,743,082 for governmental activities and $122,456,935 for business-type activities as of the most recent actuarial valuation date of January 1, 2010.

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
1/1/2010 . . .	$ -	$ 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, 2010 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 non-Medicare Advantage ("MA") medical, 8.50%; post 65 MA, 30%; and prescription, 8.5%. Healthcare trends are reduced by decrements to reach a rate of 5.00% in 2018.

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.

5. Bond Anticipation Notes

During the year ended December 31, 2010, the County issued bond anticipation notes in the amount of $4,766,947. The County refinanced $500,650 of the total amount outstanding of $5,756,182 on a long-term basis on May 5, 2011. Accordingly, that portion of the obligation will not require the use of available financial resources and has been reclassified as long-term.

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, 2010 (dollars in thousands):

1. Governmental Activities

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Bonds payable for financial statement purposes	$ 703,610	$ 275,711 (1)	$ 146,535	$ 832,786	$ 51,387
Due to New York State and Local Employees' Retirement System	9,570	42	9,612	-	-
Compensated absences	23,654	17,776	19,119	22,311	12,969
Judgments and claims	55,020	16,227	13,519	57,728	11,057
OPEB liability	130,466	82,371	28,175	184,662	-
Bond anticipation notes	3,232	501	3,232	501	- (2)
Governmental activities long-term liabilities	$ 925,552	$ 392,628	$ 220,192	$ 1,097,988	$ 75,413

(1) Includes $44 representing portion of zero coupon bonds discount amortized in current year; remaining unamortized discount is $47.

(2) Detailed amoritization schedules for the portion of BANs classified as long-term are not readily available.

2. Business-Type Activities*

	Balance 9/1/09	Additions	Reductions	Balance 8/31/10	Due Within One Year
Retirement liabilities	$ 2,067	$ 5,256	$ 5,076	$ 2,247 (1)	$ 2,028 (1)
Compensated absences and fringe benefits	4,201	396	171	4,426	130
OPEB liability	29,209	15,500	4,301	40,408	-
Business-type activities Long-term liabilities	$ 35,477	$ 21,152	$ 9,548	$ 47,081	$ 2,158

* The College (August 31, 2010)

(1) Includes $39 of Retirement Incentive Wages, of which $15 is due within one year.

3. Library Component Unit

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Due to New York State and Local Employees' Retirement System	$ 518	$ 2	$ 520	$ -	$ -
Compensated absences	1,768	1,022	1,094	1,696	903
OPEB Liabilities	7,568	4,797	1,150	11,215	-
Library Component Unit Long-term liabilities	$ 9,854	$ 5,821	$ 2,764	$ 12,911	$ 903

4. ECMCC Component Unit

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Bonds payable for financial statement purposes	$ 99,305	$ -	$ 2,155	$ 97,150	$ 2,250
Judgments and claims	27,150	24,350	15,500	36,000	-
OPEB liability	58,890	21,036	4,947	74,979	-
ECMCC Component Unit Long-term liabilities	$ 185,345	$ 45,386	$ 22,602	$ 208,129	$ 2,250

Additional judgments and claims liabilities for worker's compensation and medical malpractice have been recorded by ECMCC as accrued liabilities in the amounts of $5,500,000 and $1,000,000, respectively.

F. Maturity Schedules (dollars in thousands)

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

Year	Total	Serial Bonds	Retirement	Compensated Absences	Judgments and Claims	OPEB
2011	$ 77,571	$ 51,387	$ 2,028	$ 13,099	$ 11,057	$ -
2012	47,394	47,175	219	-	-	-
2013	42,582	42,582	-	-	-	-
2014	43,262	43,262	-	-	-	-
2015	44,155	44,155	-	-	-	-
2016-2020 . . .	192,051	192,051	-	-	-	-
2021-2025 . . .	72,593	72,593	-	-	-	-
2026-2030 . . .	66,080	66,080	-	-	-	-
2031-2035 . . .	39,223	39,223	-	-	-	-
2036-2040 . . .	76,300	76,300	-	-	-	-
2041-2045 . . .	111,480	111,480	-	-	-	-
2046-2050 . . .	21,728	21,728	-	-	-	-
2051-2055 . . .	11,142	11,142	-	-	-	-
2056-2060 . . .	17,695	17,695	-	-	-	-
Various . . . . . . (1)	285,379	-	-	13,638	46,671	225,070
	1,148,635	836,853	$ 2,247	$ 26,737	$ 57,728	$ 225,070
	(47)	(47)	Remaining unamortized discount on zero coupon bonds			
	(11,375)	(11,375)	Discount on ETASC bonds			
	9,884	9,884	Remaining unamortized premium of bond issuance			
	24,861	24,861	Remaining unamortized premium of bond issuance - ECFSA			
	(5,538)	(5,538)	Remaining unamortized deferred amount on refunding			
	(21,852)	(21,852)	Deferred amount on refunding ETASC			
	501 (2)	-	Bond anticipation notes ("BANS")			
	$ 1,145,069	$ 832,786	Long-term liabilities for financial statement purposes			

(1) Payment of compensated absences, judgments and claims, and OPEB liability are dependent upon many factors; therefore, timing of future payments is not readily determinable.
(2) Detail amoritization schedules for the portion of BANs classified as long-term are not readily available.

2. Annual Interest Payments Due on Serial Bonds

Year	Primary Gov't *	Component Unit ECMCC
2011	$ 37,233	$ 5,382
2012	34,896	5,279
2013	32,677	5,167
2014	30,739	5,046
2015	28,843	4,918
2016-2020	115,168	22,180
2021-2025	82,046	17,278
2026-2030	65,906	10,710
2031-2035	48,776	2,381
2036-2040	37,355	-
2041-2045	25,083	-
2046-2050	56,812	-
2051-2055	37,227	-
2056-2060	67,912	-
Totals . . .	$ 700,673	$ 78,341

*Excludes long-term BAN interest

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

Year	Principal	Interest
2011	$ 8,005	$ 10,875
2012	14,060	10,556
2013	17,725	10,007
2014	22,670	9,129
2015	23,525	8,186
2016-2020	113,510	24,759
2021-2025	46,510	3,528
Totals . . .	$ 246,005	$ 77,040

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

Year	Total	Compensated Absences	OPEB
2011	$ 903	$ 903	$ -
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016-2017	-	-	-
Various . . . . . . (1)	12,008	793	11,215
Totals . . .	$ 12,911	$ 1,696	$ 11,215

(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	Judgments and Claims	OPEB
2011	$ 2,250	$ 2,250	$ -	$ -
2012	2,350	2,350	-	-
2013	2,465	2,465	-	-
2014	2,585	2,585	-	-
2015	2,710	2,710	-	-
2016-2020	15,970	15,970	-	-
2021-2025	20,875	20,875	-	-
2026-2030	27,435	27,435	-	-
2031-2033	20,510	20,510	-	-
Various*	110,979	-	36,000	74,979
Totals . . .	$ 208,129	$ 97,150	$ 36,000	$ 74,979

*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 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, 2010 is computed as follows (dollars in thousands):

Five-year average full valuation of taxable real estate (2006-2010)	$ 42,320,466
Debt limit @ 7%	$ 2,962,433
Net indebtedness (after statutory exclusions)	545,873 *
Net debt contracting margin	$ 2,416,560
Percentage of debt contracting Power exhausted	18.43%

*Net indebtedness includes general obligation bonds of $614,447,692 (excludes ETASC bonds of $319,545,000 and includes ECMCC bond guaranty of $97,150,000) less sewer bonds for self-supporting sewer districts of $68,575,398.

I. Operating Leases

Operating lease obligations are primarily for rental of space. Lease expenditures/expenses for the year were approximately $6,358,000 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
2011	$ 3,908	$ 941
2012	2,228	504
2013	1,343	346
2014	663	100
2015	320	-
Totals . . .	$ 8,462	$ 1,891

J. Defeasance

In June 2010, the County issued $88,540,000 in General Obligation Bonds to advance refund $89,985,000 of outstanding bonds. The net proceeds of $98,502,593 plus additional funds of $809,000 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets. At December 31, 2010, $85,955,000 of the defeased debt was still outstanding.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4,083,329. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The County completed the advance refunding to reduce its total debt service payments over the next 12 years by $6,354,925 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $5,474,958.

XIII - SHORT-TERM DEBT

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

The following is a summary of changes in the County's short-term debt for the year ended December 31, 2010 (dollars in thousands):

Description	Balance 1/1/10	Issued	Redeemed	Balance 12/31/10
Bond anticipation notes-ECFSA	$ 102,675	$ -	$ 102,675	$ -
Bond anticipation notes-Sewer	1,941	4,767	1,452	5,256
Revenue anticipation notes	-	20,000	-	20,000
Bond anticipation notes-ECFSA	64,805	44,815	64,805	44,815
Total	$ 169,421	$ 69,582	$ 168,932	$ 70,071

On August 12, 2010 The ECFSA issued a BAN totaling $44,815,000 with an interest rate of 1.25%. On the same date, the ECFSA paid the County $45,000,000 for the County's Revenue Anticipation Notes ("RAN"). The RAN matures on June 30, 2011 with an interest rate of 0.88%. The RAN is reported as an interfund payable of the County's general fund.

The County issued a RAN in the amount of $20,000,000 on December 14, 2010 with an interest rate of 0.79% that matured on April 14, 2011.

The RAN were issued in anticipation of the receipt of moneys that will become due during the current fiscal year from state and federal governments.

As discussed in Note XII (D) (5), the County issued non-interest bearing bond anticipation notes in the amount of $4,766,947 during the year ended December 31, 2010 that were purchased by the New York State Environmental Facilities Corporation. Of the balance of $5,756,182 at December 31, 2010, $500,650 was refinanced on a long-term basis on May 5, 2011, and therefore has been classified as long-term. The remaining balance totaling $5,255,532 has been deemed short-term since they will be repaid with available financial resources. The proceeds will be used to finance Sewer District capital projects.

XIV - INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund receivables and payables of the County at December 31, 2010, and the Community College at August 31, 2010, consisted of the following (dollars in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	ECFSA	$ 46,343
	Nonmajor Governmental Funds	31,093
	College	2,877
		80,313
ECFSA	General	45,000
Nonmajor Governmental Funds	ECFSA	1,317
	Nonmajor Governmental Funds	15,339
		16,656
Nonmajor Proprietary Fund	College	435
College	General Fund	558
Total receivables		142,962
Less: timing differences		(1,115)
Total payables		$ 141,847

Interfund receivables exceed interfund payables by $1,114,548. This difference represents interfund receivables in the amounts of $756,481 and $358,067 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, 2010, consisted of the following (dollars in thousands):

Receivable Entity	Payable Entity	Amount
Primary Government-General Fund	ECMCC Component Unit	$ 916
Primary Government-Nonmajor Proprietary Fund	ECMCC Component Unit	$ 1,490
Nonmajor Governmental Funds	ECMCC Component Unit	$ 1,120
ECMCC Component Unit	Primary Government-General Fund	$ 837
Library Component Unit	Primary Government - ECFSA General Fund	$ 411

An amount of $1,010,000 due from the primary government to ECMCC for future capital projects is long–term in nature and reported on the government-wide financial statements only. This balance is shown as a reconciling item on the Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets.

C. Interfund Transfers

Interfund transfers for the County for the year ended December 31, 2010, and the Community College for the year ended August 31, 2010, consisted of the following (dollars in thousands):

Transfers Out	Transfers In	Amount	Purpose - provide financial resources:
General Fund	Nonmajor Governmental Funds	$ 3,691	For the local share of grant programs
	Nonmajor Governmental Funds	55,201	For general debt service
	Nonmajor Governmental Funds	260	To support various capital projects
	Nonmajor Governmental Funds	11,978	For highway improvements
	College	15,629	To support College operations
	ECFSA	1,595	For short-term debt
	ETCC	1,051	To support ETCC operations
		89,405	
ECFSA	General Fund	370,630	For general operations from sales tax receipts
	General Fund	124	For general operations
	Nonmajor Governmental Funds	98,684	For general debt service
	Nonmajor Governmental Funds	1,333	For grant programs
	Nonmajor Governmental Funds	173,808	To support various capital projects
		644,579	
Nonmajor Governmental Funds	Nonmajor Governmental Funds	7,512	To support various capital projects
	Nonmajor Governmental Funds	4,644	For sewer debt service
	Nonmajor Governmental Funds	810	For general debt service
	ECFSA	4,610	For ECFSA debt service
	Nonmajor Governmental Funds	202	For ETASC debt service
	College	1,800	For movable equipment
		19,578	
Total Transfers		$ 753,562	

XV - CONTINGENCIES

A. Self-Insurance Programs

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; injuries to employees; and natural disasters. The County assumes the liability for risks relating to property damage, personal injury liability, 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 10 by the County and are reported in full within governmental activities in the government-wide financial statements and in the General Fund when payment is due. They are only recognized as a College liability when invoiced from the County.

Claims and judgments are recognized 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. Claims and judgments reportable as part of the County's governmental type fund activities are recognized as expenditures and liabilities in the General Fund when payment is due.

The County Attorney is responsible for analyzing the County's claims and judgments and providing an opinion regarding the County's ability to cover its liabilities in the self-insurance programs. Based on this analysis, claims and judgments of $57,728,125 were recorded as Governmental Activities long-term liabilities at December 31, 2010.

In addition, the County has claims in the range of $1,470,000 to $7,025,000 for which there is a reasonable possibility of a future loss. No accrual has been recorded for such possible losses as of December 31, 2010. The County is a defendant in various other lawsuits. Although the outcome of these suits is not presently determinable, in the opinion of the County Attorney, the resolution of these matters will not have a material adverse effect on the County's financial condition or results of operations.

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

The changes since December 31, 2008 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
2009	$ 602	$ 1,017	$ 602	$ 1,017
2010	1,017	209	1,017	209

Erie County Medical Center Corporation
Losses from asserted and unasserted claims identified under ECMCC's incident reporting system are accrued based on estimates that incorporate ECMCC's past experience, the nature of each claim or incident, relevant trend factors, and estimated recoveries on unsettled claims. Approximately $18,600,000 has been accrued at December 31, 2010 discounted at 3.25% and included as liabilities in the accompanying statement of net assets. 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. There are claims in the range of $185,000 to $1,000,000 for which there is a reasonable possibility of a future loss related to this consent decree. No accrual has been recorded by the County for such possible losses. Additionally, ECMCC purchased excess insurance for medical malpractice starting November 19, 2008. The policy provides $20,000,000 of coverage in excess of $5,000,000 of individual claims or $7,000,000 in aggregate claims. In addition, ECMCC has recorded liabilities of approximately $23,900,000 for worker's compensation related exposure, discounted at 2.5%.

B. Sales Tax Audits

The State of New York periodically audits its distribution of sales tax revenues to counties throughout the State. Subsequent revisions to the revenues recorded as of December 31, 2010, if any, would be reflected in the operating statement in the year that they are calculated.

C. Supplemental 1% Sales Tax

Through legislation approved by the County and the State of New York, 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 $136,815,644 (gross) for the year ended December 31, 2010. The enabling legislation allowing this additional tax expires November 30, 2011. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

D. Supplemental 0.25% Sales Tax

Through legislation approved by the County and the State of New York, the County initiated an additional 0.25% sales and compensating use tax effective July 1, 2005. This tax generated approximately $33,992,093 for the year ended December 31, 2010. The enabling legislation allowing this additional tax expires November 30, 2011. Legislative approval by both New York State and the County is required for the continuation of this revenue source.

E. 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 ½% to 8.75%. The New York State Legislature approved the Sales Tax Request in January 2006 and the County Legislature enacted the tax increase effective January 15, 2006. This tax generated approximately $67,984,185 for the year ended December 31, 2010. The enabling legislation allowing this additional tax was extended during the year and expires November 30, 2011.

F. 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 45% of 2011 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.

G. Other Contingent Liabilities

1. Financial Assistance Audits

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, 2010, ECMCC, a component unit of the County, has recorded $23,077,000 as an accrued liability for probable third-party payor settlements. The amount of any other expenditures that may be disallowed cannot be determined at this time, although ECMCC expects such amounts to be immaterial.

2. Pollution Remediation

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.

XVI – FUND BALANCE DESIGNATIONS

Designations are not required segregations, but are segregated for a specific purpose by the County at December 31, 2010 and were as follows (dollars in thousands):

	General	Other Governmental Funds	Total Governmental Funds
Designated for:			
Subsequent year's expenditures	$ 46,556	$ 7,145	$ 53,701
Total fund balance designations	$ 46,556	$ 7,145	$ 53,701

XVII – JOINT VENTURE

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

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

Corporation total undistributed net revenue decreased by $1,742,193 for the year ended December 31, 2010. The Corporation reported a net revenue available for distribution to participating municipalities of $1,600,470. In addition, cumulative net revenue retained for capital acquisitions was $23,210,596 at December 31, 2010. 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 - SUBSEQUENT EVENTS

Bond Sales

The County issued $650,000 of general obligation serial bonds dates February 11, 2011 that were purchased by the New York State Environmental Facilities Corporation ("EFC"). The proceeds were used to refund $650,000 in bonds outstanding with EFC and will reduce the County's future interest obligation.

As discussed further in Notes XII (D) (5) and XIII, on May 5, 2011 the County issued $535,170 of general obligation serial bonds, in part to refinance bond anticipation notes outstanding at December 31, 2010 in the amount of $500,650 on a long-term basis.

Dissolution of ETCC

In July 2010 the ETCC Board of Directors adopted a series of resolutions that in part facilitate (1) the termination of the third-party servicing agreement effective September 1, 2010 and (2) ETCC's servicing of its own tax liens from September 1, 2010 until ETCC is completely dissolved on or before July 31, 2011. As part of the dissolution, all remaining assets of ETCC will be transferred to the County.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION

The schedule of funding progress presents the results of OPEB valuations as of January 1, 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
1/1/2010	$ -	$ 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%

Notes:

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

COUNTY OF ERIE, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
U.S. DEPARTMENT OF AGRICULTURE:		
Passed through NYS Education Department — Child Nutrition Cluster:		
School Breakfast Program	10.553	$ 86,780
National School Lunch Program	10.555	81,558
Total Child Nutrition Cluster		168,338
Passed through NYS Department of Social Services — Food Stamp Cluster:		
State Administrative Matching Grants for Food Stamp Program	10.561	10,199,585
State Administrative Matching Grants for Food Stamp Program	ARRA-10.561	574,109
Total Food Stamp Cluster		10,773,694
Total U.S. Department of Agriculture		10,942,032
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) — Direct Programs:		
Community Development Block Grants/Entitlement Grants	14.218	3,561,538
Emergency Shelter Grants Program	14.231	89,964
Supportive Housing Program	14.235	3,558,257
Shelter Plus Care	14.238	3,313,739
HOME Investment Partnerships Program	14.239	890,196
Economic Development Initiative	14.251	693,178
Lead Outreach Grants	14.904	1,169,583
Community Development Block Grant ARRA Entitlement Grants (CDBG-R)	ARRA-14.253	300,000
Homelessness Prevention and Rapid Re-Housing Program	ARRA-14.257	834,732
Passed through NYS Department of Health —		
Lead Outreach Grants	14.904	680,624
Total U.S. Department of HUD		15,091,811

(Continued)

COUNTY OF ERIE, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
U.S. DEPARTMENT OF JUSTICE:		
Direct Programs:		
Crime Laboratory Improvement — Combined Offender DNA Index System Backlog Reduction	16.564	312,975
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	488,099
Services for Trafficking Victims	16.320	143,675
Passed through NYS Division of Criminal Justice Services:		
Juvenile Justice and Delinquency Prevention — Allocation to States	16.540	226,029
Violence Against Women Formula Grants	16.588	231,749
Edward Byrne Memorial Justice Assistance Grant	16.738	180,587
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	107,814
Recovery Act — Edward Byrne Memorial Justice Assistance Grant — States	ARRA-16.803	166,283
Passed through the City of Buffalo:		
Local Law Enforcement Block Grants Program	16.592	31,988
Edward Byrne Memorial Justice Assistance Grant	16.738	12,915
Recovery Act — Edward Byrne Memorial Justice Assistance Grant — Local	ARRA-16.804	153,234
Passed through NYS Crime Victims Board:		
Crime Victim Assistance	16.575	59,409
Total U.S. Department of Justice		2,114,757
U.S. DEPARTMENT OF LABOR:		
Passed through Senior Service America, Inc.:		
Senior Community Service Employment Program	17.235	1,560,492
Senior Community Service Employment Program	ARRA-17.235	36,765
Passed through New York State Office for the Aging:		
Senior Community Service Employment Program	17.235	577,535
Senior Community Service Employment Program	ARRA-17.235	72,957
Passed through the Buffalo and Erie County Workforce Investment Board — Work Incentives Grants	17.266	199,980
Total U.S. Department of Labor		2,447,729

(Continued)

COUNTY OF ERIE, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
U.S. DEPARTMENT OF TRANSPORTATION —		
Passed through NYS Department of Transportation:		
Highway Planning and Construction	20.205	12,350,339
Highway Planning and Construction	ARRA-20.205	6,056,601
Total U.S. Department of Transportation		18,406,940
U.S. NATIONAL ENDOWMENT FOR THE HUMANITIES —		
Direct Program —		
Digital Humanities Start Up Grants	45.169	17,009
Total U.S. National Endowment For the Humanities		17,009
U.S. ENVIRONMENTAL PROTECTION AGENCY:		
Passed through NYS Department of Health:		
State Indoor Radon Grants	66.032	25,632
Beach Monitoring and Notification Program Implementation Grants	66.472	15,468
Surveys, Studies, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	245,078
Direct Programs:		
Clean School Bus USA	66.036	229,848
Pest Management Surveys	66.716	39,811
Total U.S. Environmental Protection Agency		555,837
U.S. DEPARTMENT OF ENERGY		
Direct Program —		
Energy Efficiency and Conservation Block Grant	ARRA-81.128	90,522
Total U.S. Department of Energy		90,522

(Continued)

COUNTY OF ERIE, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
U.S. DEPARTMENT OF EDUCATION —		
Passed through NYS Department of Health —		
Special Education — Grants for Infants and Families with Disabilities	84.181	609,079
Special Education — Grants for Infants and Families with Disabilities	ARRA-84.393	15,333
Passed through NYS Education Department —		
State Fiscal Stabilization Fund — Government Service	ARRA-84.397	1,830,802
Total U.S. Department of Education		2,455,214
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:		
Direct Programs:		
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	1,683,808
Passed through NYS Office for Aging:		
Aging Cluster:		
Special Programs for the Aging, Title III, Part B — Grants for Supportive Services, and Senior Centers	93.044	1,449,239
Special Programs for the Aging, Title III, Part C — Nutrition Services	93.045	2,126,908
Nutrition Services Incentive Program	93.053	736,942
Total Aging Cluster		4,313,089
Special Program for the Aging, Title VII, Chapter 2 Long-term Care Ombudsman Services for Older Individuals	93.042	22,288
Special Programs for the Aging, Title III, Part D — Disease Prevention, and Health Promotion Services	93.043	2,847
Special Programs for the Aging — Title IV & Title II Discretionary Projects	93.048	19,000
Special Programs for the Aging, Title III, Part E — National Family Caregiver Support	93.052	562,937
Aging - Congregate Nutrition Services for States	ARRA-93.707	13,566
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	93.779	82,894
Passed through NYS Department of Health:		
Family Planning Services	93.217	46,400
Immunization Cluster:		
Immunization Grants	93.268	349,577
Immunization Program	ARRA-93.712	83,043
Total Immunization Cluster		432,620

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
Passed through NYS Department of Health:		
Centers for Disease Control and Prevention — Investigations and Technical Assistance	93.283	1,578,796
Preventative Health Services-Sexually Transmitted Diseases Control	93.977	103,447
Preventive Health and Health Services Block	93.991	315,879
Maternal and Child Health Services Block Grant to the States	93.994	679,655
Passed through NYS Board of Elections:		
Voting Access for Individuals with Disabilities Grant to States	93.617	74,125
Passed through NYS Department of Social Services:		
Temporary Assistance for Needy Families	93.558	66,254,111
Child Support Enforcement	93.563	3,603,565
Child Support Enforcement	ARRA-93.563	1,259,812
Refugee and Entrant Assistance — State Administered Programs	93.566	454,405
Low-Income Home Energy Assistance (LIHEAP)	93.568	56,176,386
Child Care and Development Block Grant Cluster:		
Child Care and Development Block Grant	93.575	14,083,142
Child Care and Development Block Grant Recovery	ARRA-93.713	1,695,787
Total Child Care and Development Block Grant Cluster		15,778,929
Child Welfare Service — State Grants	93.645	1,536,346
Foster Care, Title IV-E	93.658	19,203,582
Foster Care, Title IV-E	ARRA-93.658	1,280,540
Social Services Block Grant	93.667	9,023,988
Family Violence Prevention and Services Grants	93.671	41,192
Emergency Contingency Fund for TANF State Program	ARRA-93.714	7,010
Medical Assistance Program	93.778	18,669,318
Passed through the 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	568,952
Passed through NYS Office of Alcoholism and Substance Abuse — Block Grants for Prevention and Treatment of Substance Abuse	93.959	3,225,422
Total U.S. Department of Health & Human Services		207,106,259
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE — Direct Program — Retired and Senior Volunteer Program	94.002	68,661
Total Corporation for National and Community Service		68,661

(Continued)

COUNTY OF ERIE, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Federal Grantor/Pass-Through Grantor/ Program Title (1)	Federal CFDA Number (2)	Expenditures (3)
SOCIAL SECURITY ADMINISTRATION —		
Direct Program — Supplemental Security Income	96.006	87,200
Total Social Security Administration		87,200
U.S. DEPARTMENT OF HOMELAND SECURITY:		
Passed through NYS Division of Homeland Security and Emergency Services:		
Disaster Grants — Public Assist. (Presidentially Declared Disasters) — DR-1857	97.036	1,996,500
Emergency Management Performance Grants	97.042	280,684
Emergency Operations Centers	97.052	31,788
Homeland Security Grant Program:		
Contract C834260	97.067	9,361
Contract C834270	97.067	99,970
Contract C834272	97.067	863
Contract C834273	97.067	419,470
Contract C834280	97.067	495,575
Contract C834281	97.067	93,074
Contract C834282	97.067	350,215
Contract C834289	97.067	250,864
Contract C834290	97.067	3,022
Contract C834292	97.067	6,490
Contract C845283	97.067	458,995
Contract C845285	97.067	68,202
Contract C845291	97.067	120,000
Total Homeland Security Grant Program		2,376,101
State Homeland Security Program — Contract C834263	97.073	1,997
Total U.S. Department of Homeland Security		4,687,070
TOTAL FEDERAL FINANCIAL ASSISTANCE (4)		$ 264,071,041

See notes to schedule of expenditures of federal awards. (Concluded)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010

1. Includes all federal award programs of the County of Erie, New York. The federal award programs of Erie Community College and Erie County Medical Center Corporation are not included, since those entities' federal award programs were audited by other auditors and are reported on separately by those auditors.

2. Source: Catalog of Federal Domestic Assistance (CFDA) — as revised for 2010.

3. Prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units and includes all federal program expenditures. Presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

4. A reconciliation to the basic financial statements is available.

5. Certain program funds are passed through the County to subrecipient organizations. The Schedules 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 program funds.

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

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

We have audited 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, 2010 (with the Erie Community College for the year ended August 31, 2010), which collectively comprise the County's basic financial statements and have issued our report thereon dated June 30, 2011. Our report includes a reference to 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. Other auditors audited the financial statements of Erie Community College, Erie Community College Foundation, Inc., Auxiliary Services Corporation of Erie Community College, Inc., Erie County Fiscal Stability Authority, Erie County Medical Center Corporation, ECMC Lifeline Foundation, Inc., Research for Health in Erie County, Inc., 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., Auxiliary Services Corporation of Erie Community College, Inc., ECMC Lifeline Foundation, Inc., and Research for Health in Erie County, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2010-1, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County in a separate letter dated June 30, 2011.

The County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, others within the entity, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Deloitte & Touche LLP

June 30, 2011

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the County of Erie, New York (the "County") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of Erie Community College (the "College") and the Erie County Medical Center Corporation (the "Corporation"), which received $32,913,954 and $2,042,682, respectively, in federal awards which are not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2010. Our audit, described below, did not include the operations of the College or the Corporation because the College and the Corporation engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the 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, 2010.

Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the entity, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 30, 2011

COUNTY OF ERIE, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

PART I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

1. Material weakness(es) identified?	____ Yes	X No
2. Significant deficiency(ies) identified not considered to be material weaknesses?	X Yes	____ N/A
3. Noncompliance material to financial statements noted?	____ Yes	X No

FEDERAL AWARDS:

Internal control over major programs:

4. Material weakness(es) identified?	____ Yes	X No
5. Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes	X N/A

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

6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	____ Yes	X No

7. The County's major programs were:

Name of Federal Program	CFDA Number
Supportive Housing Program	14.235
Shelter Plus Care	14.238
Child Care and Development Fund Cluster	93.575, ARRA-93.713
Medical Assistance Cluster	93.778
Low Income Home Energy Assistance	93.568
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Recovery Act — Edward Byrne Memorial Justice Assistance Grant — States	ARRA-16.803
Homelessness Prevention and Rapid Re-Housing Program	ARRA-14.257
Senior Community Service Employment Program	17.235, ARRA-17.235
Highway Planning and Construction Cluster	20.205, ARRA-20.205
State Fiscal Stabilization Fund — Government Services	ARRA-84.397
Child Support Enforcement	93.563, ARRA-93.563
Aging Cluster	93.044, 93.045, 93.053, ARRA-93.707

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 3,000,000

9. Auditee qualified as low-risk auditee? ______ Yes __X__ No

PART II. FINANCIAL STATEMENT FINDINGS SECTION

Matters are noted as being reportable as follows:

2010-1: OVERALL RISK ASSESSMENT

Condition — The County currently has not performed an enterprise-wide risk assessment of risks facing the County, including fraud risks.

Criteria — The enterprise risk management framework of the Committee of Sponsoring Organizations of the Treadway Commission includes five interrelated components of internal control, one of which is risk assessment. A formal risk assessment is the cornerstone to an effective internal control program and provides the framework by which internal controls can be designed, implemented, and evaluated for effectiveness. As part of a risk assessment process, the consideration of the risk of fraud is essential to evaluating whether or not the appropriate controls are in place.

Cause — We understand that management along with professional advisers have reviewed insurance-related risks facing the County. We also understand that the County initiated a request for proposal to engage an outside firm to assist with a formally documented enterprise-wide risk assessment process but has not secured funds within the budget to move forward with such a project.

Effect — The potential for reporting fraud in the financial statements exists.

Recommendation — The County's risk assessment process should include formal documentation of the risks related to fraud at the entity level. Implementing this formal process will further assist management in determining whether or not they have designed the appropriate controls related to the areas of the County that are most susceptible to risk, including fraud. This risk assessment process will also provide an objective view of the County's level of controls compared to the level of risk and may provide opportunities for the County to develop a more efficient and effective control structure. It is important that this process specifically address the risks related to fraud in the financial statements to allow the County to assess whether controls are in place to effectively mitigate risks related to fraud.

Auditee Response — We agree with this comment. The County Comptroller's Office conducted a request for proposals in 2008 to perform an entity-wide risk assessment. The Comptroller's Office repeatedly requested funds to complete the assessment, but funding has not yet been made available by County management.

PART III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No instances were noted as being reportable.

COUNTY OF ERIE, NEW YORK

SUMMARY SCHEDULE OF PRIOR-YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

2009-1: OVERALL RISK ASSESSMENT

Condition — The County currently has not performed an enterprise-wide risk assessment of risks facing the County, including fraud risks.

Status — The County Comptroller's Office conducted a request for proposals in 2008 to perform an entity-wide risk assessment. The Comptroller's Office repeatedly requested funds to complete the assessment, but funding has not yet been made available by County management. The finding is still applicable in 2010 and has been included in the financial statement findings section as item 2010-1.

* * * * * *