
John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

MANAGEMENT COMMENT LETTER

To the Chairperson and
Members of the Legislature
County of Schuyler
Watkins Glen, New York

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Schuyler (the County) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiencies to be material weaknesses:

CURRENT YEAR FINDINGS

MATERIAL WEAKNESSES

It was noted during the current year audit that control accounts for revenues, expenditures and encumbrances in the General Fund did not agree with the related subsidiary accounts. The imbalance between revenues and expenditures occurred as a result of control accounts not being completely closed to fund balance at December 31, 2011. The encumbrance control account balances did not agree with the subsidiary detail information totals, because prior year entries were recorded as journal entries, rather than increasing or decreasing specific purchase order amounts. We also noted amounts posted directly to reserve accounts. Amounts which affect reserves need to be posted to the relevant revenue and expenditure accounts, rather than being posted directly to reserves. An adjusting entry moving the amounts to/from reserves and from/to unappropriated fund balance should then be made. The above findings result in: incorrect beginning fund balance amounts, incorrect revenue and expenditure totals and erroneous encumbrances carried forward to the subsequent years' budget. Combined, these items lead to inaccurate financial projections and budget to actual reports.

CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdllm.com

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

During our current year audit, we noted grant revenue of \$(111,312) and grant expenditures of \$3,093,805 added to the original budget. \$23,681 was added to revenues and \$1,411,934 to expenditures for grants which should have been closed in the prior year or before. The remaining additions were amounts carried forward and added by KVS based on unreceived/unspent amounts from prior years. The Treasurer did not review amounts automatically posted by KVS. In at least one case, these amounts were grossly overstated and in several instances the amounts were negative. In addition, \$8,750 in budget adjustments approved by the Board were not posted in KVS. The overall result was deflated budgeted revenue of \$72,812 and inflated budgeted expenditures of \$3,238,447, which could have produced a significant overexpenditure of the budget. Fortunately, after adjustments for the amounts noted, actual expenditures were \$1,232,117 under the modified budget.

During our current year audit, the allocation of the County's share of NYS Employees' Retirement System contributions had not been allocated to County Road and Road Machinery Funds. In addition, the County Road and Road Machinery share of social security, workers' compensation, disability insurance and medical insurance costs had also not been allocated for the 4th quarter of 2012. This resulted in an adjustment which increased employee benefits expenditures of County Road and Road Machinery Funds in the amount of \$184,518 and \$38,570, respectively.

As noted in the past, cash amounts in KVS were not reconciled to the bank statements reconciliation, resulting in significant differences between actual cash balances and the general ledger for all but the Capital Projects' Fund during the current year audit. It was also noted during the current year audit, the General Fund checking and welfare checking accounts were not reconciled timely during the year, and, at the end of April 2013, were still not reconciled. It was noted County personnel were unable to balance these accounts and, at December 31, 2012, had insignificant unreconcilable differences of \$(3,380) and \$16,407, respectively.

We noted revenues incorrectly posted to receivable accounts, posted to expenditure accounts, or not posted at all, and balance sheet accounts not reconciled at year-end. In addition, significant expenditures were not recorded in the general ledger, as noted in the next paragraph. This resulted in significant reductions to liabilities and increases to expenditures, revenues and assets, as well as requiring extensive audit time to reconcile these accounts. This passive approach in applying accounting principles has created glaring discrepancies between actual amounts and those expected.

The following are the significant adjusting entries needed for the year ended December 31, 2012:

General Fund:

- Transfer to County Road Fund recorded twice - Increase cash and decrease interfund transfer expenditure - \$690,000
- Adjust transfers to County Road and Road Machinery Funds to budgeted - Decrease due to other fund and interfund transfer expenditure - \$235,000
- Record transfers to Capital Projects Fund and additional transfers necessary - Decrease cash \$(88,621), decrease due to other funds \$(57,000), increase due to other funds \$58,888 and increase interfund transfer expenditures \$204,509
- Record payments to school districts for unpaid taxes - Decrease cash \$(1,227,769), decrease due to school districts \$(1,491,400), decrease taxes receivable \$(254,887) and increase interest and penalty revenue \$8,744
- Adjust sales tax receivable and due to other governments - Decrease due from state and federal \$(698,934), increase due to other governments \$11,815, decrease sales tax revenue \$(699,031) and increase distribution of sales tax expenditure account \$11,718
- Record sales tax paid to other governments - Decrease cash and increase sales tax distribution expenditures account \$489,891
- Adjust due from state and federal receivable account - Increase due from state and federal \$767,255, increase deferred revenue \$121,313, increase revenues \$645,942

- Adjust deferred tax revenue account - Increase deferred tax revenue liability and decrease real property taxes \$200,000
- Record reserved fund balance activity - Decrease reserved fund balance \$(72,342), decrease unassigned, appropriated for subsequent year's budget \$(335,305) and increase unassigned fund balance \$653,945
- Adjust encumbered fund balance to actual - Increase reserved for encumbrances and decrease unassigned fund balance \$346,989
- Record accrued payroll - Increase accrued liabilities \$367,701, increase general governmental support expenditures \$108,076, increase public safety expenditures \$100,454, increase public health expenditures \$55,643, increase economic assistance and opportunity expenditures \$97,850 and increase culture and recreation expenditures \$5,678

County Road Fund:

- Adjust beginning fund balance to agree with prior year actual - Increase unassigned fund balance and due from other funds \$55,370
- Record 4th quarter employee benefits paid - Increase due to other funds and employee benefits expense \$184,518
- Adjust interfund transfer revenue to budgeted - Decrease due from other funds and interfund transfer revenue \$(409,854)
- Adjust revenue and receivables and record amount due from General Fund due to incorrect posting - Increase due from other funds \$120,715, decrease accounts receivable \$(421,198), increase due from state and federal receivable \$319,752, increase state aid revenue \$34,241 and decrease federal aid revenue \$(14,972)
- Adjust accounts payable for incorrect posting of payment - Increase accounts payable and increase transportation expenditures \$90,839
- Record accrued payroll - Increase accrued liabilities and transportation expenditures \$32,678

Road Machinery Fund:

- Record 4th quarter employee benefits paid - Increase due to other funds and employee benefits expenditure \$38,570
- Adjust interfund transfer revenue to agree with budget - Increase due from other funds and interfund transfer revenue \$174,258
- Record encumbrances - Increase reserve for encumbrances and decrease unassigned fund balance \$87,365

Special Grant Fund:

- Adjust fund balance to prior year actual - Increase unassigned fund balance and decrease federal aid revenue \$294,829
- Correct cash for posting errors - Decrease cash \$(12,243), increase federal aid revenue \$4,069 and decrease state aid revenue \$(16,312)

Capital Projects Fund:

- Record transfers posted incorrectly - Increase due from other funds \$7,500, decrease due to other funds \$(145,621) and increase interfund transfer revenue \$153,121
- Record additional transfers for use of reserves - Increase due from other funds and interfund transfer revenue \$51,388

In summary, the lack of corrective action implementation to enhance financial accountability has resulted in the recurring findings listed herein. Our current and prior years' findings, along with current status, are explored in further detail below.

CURRENT AND PRIOR YEARS' FINDINGS

MATERIAL WEAKNESSES

It was noted during the prior year audit that control accounts for revenues, expenditures and encumbrances in the General Fund did not agree with the related subsidiary accounts. The imbalance between revenues and expenditures occurred as a result of control accounts not being completely closed to fund balance at December 31, 2010. Encumbrance control account balances did not agree with the subsidiary detail information totals because prior year entries were recorded as journal entries, rather than increasing or decreasing specific purchase order amounts. We also noted amounts posted directly to reserve accounts. Amounts which affect reserves need to be posted to the relevant revenue and expenditure accounts, rather than being posted directly to reserves. An adjusting entry moving the amounts to/from reserves and from/to unappropriated fund balance should then be made. The above findings result in: incorrect beginning fund balance amounts, incorrect revenue and expenditure totals and erroneous encumbrances carried forward to the subsequent years' budget. Combined, these items lead to inaccurate financial projections and budget to actual reports.

During our prior year audit, we noted grant revenue of \$1,346,560 and grant expenditures of \$1,685,489 added to the original budget. \$498,962 was added to revenues and \$601,653 to expenditures for grants which should have been closed in the prior year or before. The remaining additions were amounts carried forward and added by KVS based on unreceived/unspent amounts from prior years. The former Treasurer did not review amounts automatically posted by KVS. In at least one case, these amounts were grossly overstated and in several instances the amounts were negative. In addition, \$290,500 in budget adjustments approved by the Board were not posted in KVS. The overall result was inflated budgeted revenue of \$921,639 and inflated budgeted expenditures of \$1,213,150, which could have produced a significant overexpenditure of the budget. Fortunately, after adjustments for the amounts noted, actual expenditures were \$(1,485,639) under the modified budget.

During our prior year audit, allocations of the County's share of social security taxes and NYS Employees' Retirement System contributions had not been allocated to County Road and Road Machinery Funds. The County Road and Road Machinery share of medical insurance costs had also not been allocated. This resulted in increases to employee benefits expenditures of County Road and Road Machinery Funds of \$228,660 and \$46,304, respectively.

During our prior year audit, we noted the former Treasurer did not track and adjust reserve accounts. Several reserves are outdated and have not changed over many years. Others have been accumulating balances because the respective departments are not aware of the balance of said reserves, and, as such, are not using them. This lack of tracking has resulted in the use of unreserved, unappropriated fund balance when reserves could have been used.

As noted in the past, cash amounts in KVS were not reconciled to the bank statements reconciliation, resulting in significant differences between actual cash balances and the general ledger for all but the Special Grant Fund during the current year audit. In addition, revenues were not correctly posted to receivable accounts and balance sheet accounts were not reconciled at year-end. This resulted in significant reductions to liabilities and increases to expenditures, revenues and assets, as well as requiring extensive audit time to reconcile these accounts.

General Ledger Oversight

Finding:

It was noted during our prior year audits that Due To/Due From and Interfund Revenue and Expenditure accounts did not balance between funds. As such, individual funds are not appropriately reporting sources and usage of revenues and expenditures. This complicates matters at budget time. In addition, encumbrances did not agree with the manual open purchase order listing, affecting budget to actual variances. It was also noted one-time entries were either not made, not made on a timely basis or recorded incorrectly during the year. In addition, general ledger balance sheet accounts were not being reviewed or reconciled on a periodic basis, resulting in large negative balances in receivable and payable accounts during the year. This required significant adjusting entries during the audit. Cash balances did not agree with offline records and bank reconciliations, resulting in an increased risk for misappropriated assets not detected timely. In addition, it was noted trial balances did not balance and control accounts did not agree with subsidiary accounts.

These omissions produce material errors in reports created from the financial accounting system, both for actual and budget numbers. This includes reports sent to the State, County Administrator, County departments and the Legislature, and requires significant time at year end to correct. In addition, significant time was required at year end to correct these accounts.

Recommendation:

We recommend all asset and liability accounts be reviewed and reconciled monthly. We also recommend trial balances and control/subsidiary accounts be reviewed monthly. Any discrepancies should be corrected immediately to ensure accurate and timely financial reporting. Providing training to all Treasurer's Office personnel on municipal accounting, internal controls and use of the County's financial general ledger accounting software is also recommended. In addition, we recommend accounting software be cleared of all purchase orders and all control accounts related to encumbrances be brought to zero at or near year end. When these accounts have been cleared, purchase orders to be carried over into the next year can then be entered into the system.

Current Status:

We again had difficulty reconciling interfund activity and had to adjust encumbrances to a listing of open purchase orders maintained by the Purchasing Agent. While the County's computerized general ledger has the ability to track open purchase orders, it has not balanced with the general ledger for many years. Verbal recommendations made by us to investigate and correct the problem have gone unheeded. We recommend the purchase order module be purged of all purchase orders on December 31, 2012 and all open purchase orders on the manual listing be re-entered as of that date. This will correct several issues and should eliminate the need to maintain two sets of records. We also noted monthly reconciliations of balance sheet accounts are still not being performed. Several bank accounts had not been reconciled to the general ledger. Several of the smaller bank accounts were reconciled to the general ledger, however, necessary adjustments to the general ledger were not completed. In addition, the General Fund, Capital Projects' Fund and Self-Insurance Fund trial balances did not balance.

Bank Statement Reconciliations

Finding:

It was noted during the prior years' audits that County bank accounts are not being reconciled to the general ledger system on a monthly basis, resulting in significant differences between the general ledger balances and reconciled cash balances, and a significant time investment at year end to reconcile the two. Also, cash transactions recorded in check books were not consistently posted to the general ledger and vice-versa.

Recommendation:

We recommend all bank accounts be reconciled monthly to the general ledger and any discrepancies resolved immediately. Reconciling bank statements to the financial accounting system will increase County controls over safeguarding of assets. We also recommend creating a daily routine to record electronic fund transfers in and out. Bank statements and the New York State online payment system should be reviewed for daily deposits or withdrawals from County bank accounts. These transactions should be recorded in the general ledger when they occur. A revenue clearing should be created for deposits and withdrawals for which additional information is needed. The clearing account should be reviewed at least weekly for necessary follow-up and should equal \$-0- at year-end. This will help to ensure all activity is included in the general ledger and improve the bank reconciliation process.

Current Status:

As mentioned above, not all bank statements had been reconciled timely during the year and staff were unable to reconcile two accounts to the general ledger. Several large expenditures had not been posted in the general ledger, among other errors and omissions. In addition, the general ledger was not adjusted for necessary corrections to agree with the bank statements for County Road, Road Machinery, Self-Insurance and Special Grant Funds.

Budgets

Finding:

During our prior years' audits, we noted the County's budget, as entered into the financial accounting system, did not balance. This was due to budgeted grant funds remaining from prior year end being recorded as expenditures and not balanced with an entry to the revenue budget, or vice-versa. Many of these grants were closed during the prior year end and funds remained due to incorrect coding of expenditures or revenues. In addition, because encumbrances per the general ledger did not agree with the manual ledger, purchase orders rolled over into the budget were incorrect. We also noted several grants added to the budget multiple times.

Recommendation:

It is recommended all departments be urged to properly code grant expenditures and periodically review their respective grant budgets per Treasurer's reports to ensure grant expenditures are being reported properly. In addition, grant funds remaining at year end should be reviewed with Department heads before being added to the current year budget to ensure they are legitimate budget items. Revenue status and expenditure status reports should periodically be checked to ensure they balance. Also, budget balances should be checked before expenditures are made to ensure budgets are not over-expended, per GML. In addition, purchase orders being rolled over should be checked against the manual open purchase order listing before being added to the budget.

Current Status:

During our current year audit, we noted budgets, as entered into the financial accounting system, did not balance due to prior year encumbrances not being in agreement with the manual open purchase order listing at December 31, 2011. Additionally, grant revenues were not equal to grant expenditures added to the budget. We noted several grants added to the budget in amounts at least double the grant amounts during the current year audit.

Preparation of Financial Statements

Finding:

The preparation and assembly of the Schuyler County's financial statements, Schedule of Federal Expenditures of Federal Awards (SEFA) and related footnotes were delegated to the audit firm. While it is common for the auditor to prepare the financial statements for many small organizations, the role of the auditor continues to be expressing an opinion on those financial statements. Statement on Auditing Standards #115 requires us to assess whether the organizations we audit are able to prepare financial statements, SEFA and footnotes in accordance with generally accepted accounting principles. Based on the comments in this letter, it is our opinion that management has not demonstrated the knowledge or ability to prepare such financial statements, SEFA and footnotes in accordance with generally accepted accounting principles. The County administration and the legislative oversight finance committee have taken on the responsibility to review and edit the draft financial statements, disclosures and SEFA.

Recommendation:

We recommend the County consider providing training in municipal accounting and internal controls for all Treasurer Office personnel or consider hiring an accounting consultant to prepare the County's financial statements.

Current Status:

No change noted.

Audit Adjustments

Finding:

During our prior year audits we made numerous audit adjustments. Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Audit adjustments that, either individually or in the aggregate, may have a significant effect on the County's financial reporting process were reviewed, approved and posted by management.

The net effect of our proposed adjustments for the current year which have an effect considered material to the financial statements taken as a whole follow:

- Fund Balance of the General Fund: decreased by \$(127,067)
- Fund Balance of the County Road Fund: decreased by \$(643,346)
- Fund Balance of the Road Machinery Fund: increased by \$127,751
- Fund Balance of the Capital Projects Fund: increased by \$204,578
- Fund Balance of the Self-insurance Fund: decreased by \$(348)
- Fund Balance of the Special Grant Fund: increased by \$285,571

Management's lack of accounting ability and knowledge has led to numerous posting errors throughout the fiscal year. These errors have resulted in material financial statement misstatements in reports received by the County Administrator prior to our audit adjustments.

Recommendation:

We recommend a monthly review and reconciliation of general ledger balances be performed and reviewed by a responsible official. Differences should be investigated and adjustments made on a timely basis to ensure accurate and timely financial reporting. In addition, we recommend a knowledgeable accountant be hired to perform these monthly accounting functions and a Balance Sheet be provided the County Administrator and Legislature in addition to any financial information they are currently receiving.

Current Status:

No change noted.

OTHER MATTERS

In addition to the above control deficiencies noted during our audit, we became aware of other matters that are opportunities for strengthening policies, procedures, operating efficiency, and County compliance with applicable laws and regulations.

Hand drawn Checks

Finding:

During our current and prior year audits, we noted an excessive number of vendors who, rather than being processed through the accounts payable cycle, were paid using hand drawn checks. In the prior year, for five of 15 hand drawn checks examined, adequate documentation could not be located. Also in the prior year, 10 of 15 checks examined were for disbursements made on a monthly basis, primarily utility payments. These checks are not approved by the County Auditor before being disbursed and amounts were often incorrect.

Recommendation:

In general, hand drawn checks should only be used for "emergency" withdrawals and non-routine transactions such as refunds, petty cash replenishment or disbursements which need to be paid immediately. Utility bills are received by the relevant department using the service and the department is responsible for coding the invoice and approving it before sending it to the Treasurer's office to pay. Because the bill is being held by the respective departments, the Treasurer's office is not receiving the bills in a timely manner and, in most cases, is making the invoice an "emergency" payment. We recommend utility bills be sent to the Treasurer's office upon receipt (no more than 3-5 business days). If it is necessary to bill other departments or agencies, a copy of the invoice should be kept by the department and the original sent to the Treasurer. This will assist in insuring these monthly bills are recorded in the general ledger, applied to the respective purchase order, if applicable, and paid timely with proper approvals.

Current Status:

During our current year audit, while an excessive number of vendors were paid using hand drawn checks, of the 15 checks examined, none were missing the required documentation and all 15 had been reviewed by County Auditor. We also did not note any payments issued for an incorrect amount. The County is currently working on running all hand drawn checks through the accounts payable cycle.

Cash Receipts

Finding:

During our current year audit, of 25 receipts examined, one was missing adequate documentation and one was posted to an incorrect account. During our prior year audit we examined 24 cash receipts. Of these receipts, supporting documentation could not be found for 15 receipts.

Recommendation:

We recommend proper documentation be attached to either deposit slips or cash receipts ledgers in order to properly document receipts and ensure proper coding, reporting and asset management.

Interim Reporting

Finding:

We discovered during our prior years' audits the Legislature is not receiving financial reports from the Treasurer. The County Administrator receives Budget-to-Actual reports monthly. However, the Balance Sheet is not provided to anyone outside the Treasurer's Office until the AUD is filed with New York State. Occasionally, the County Administrator will request a Fund Balance projection, but does not receive a general ledger report. Department heads do receive monthly budget to actual revenue and expenditure status reports.

Recommendation:

Timely, accurate financial reports are a necessity for any individual charged with the responsibility of operating a municipality in order to make fiscally prudent decisions. These reports should include, but not be limited to, monthly revenue and expenditure status reports, which show budget to actual results, and quarterly balance sheets for all funds.

Current Status:

No change was noted during our current year audit.

NonCurrent Financial Accounting and Inefficient Offline and Manual Records

Finding:

The County based KVS financial general ledger accounting was in a noncurrent status due to the late completion of financial information for the audit of the December 31, 2000 year, which was finalized during mid-year 2003. The next four years were not yet closed out as of the December 31, 2004 report date due to delays in the development and implementation of a strategic plan to regain current status of the financial records and reporting to the State. It was anticipated software upgrades would facilitate improvements in reporting timeliness and reduce the use of offline and manual records mentioned below, and significant improvements were noted during our audit of the year ending December 31, 2005. However, as of May, 2009, ongoing improvements ceased.

We noted many offline manual columnar worksheet schedules being prepared on a relatively current basis to maintain control over cash balances, cash receipts, and other related processes, because the County based KVS general ledger accounting system was not maintained on a current basis, as previously noted. In addition, the KVS System was not utilized for input of point of receipt cash transactions and generation of report writing features. Tabulation of manual spreadsheet entries was used as a basis to input monthly totals.

It is important to note the significant duplication of effort and inefficiencies caused by manual and noncurrent financial reporting. Furthermore, preparation of manual columnar worksheets rather than electronic Excel spreadsheets for various supporting financial records is inefficient and precludes the ability to easily provide supplemental analysis and reporting of certain information.

Accordingly, we recommend these supplemental processes, as necessary or beneficial, be converted to electronic Excel spreadsheets. However, consideration should first be given to whether the current KVS information technology system could be directly utilized for these transactions with special report writing features.

Current Status:

As was noted during our current and prior year audits, manual columnar worksheet schedules continue to be utilized to enter daily activity not run through the cash receipts module. These manual worksheets are also used for all bank account activity and cash disbursements not paid through the warrant process. During 2007, the County upgraded its financial accounting software to include a cash receipts module. In addition, during 2012, Excel spreadsheets were created to replace the manual worksheets used for all bank account activity. It was noted, however, that these Excel spreadsheets were not utilized during 2012. In addition, when randomly reviewing the information on these manual columnar worksheets we noted information on them was often incorrect in relation to reporting of amounts.

Old Closed Project Funds

Finding:

During our prior years' audits, it was noted several grants and capital projects have been closed. However, cash related to these projects has not been transferred to the necessary fund and remains "due to other funds." These accounts should be closed and funds transferred to the necessary fund or government.

Recommendation:

We recommend necessary transfers of cash be completed and due to/due from accounts be reviewed and cleared as appropriate.

Current Status:

While most of the cash related to closed grants was transferred as necessary in the prior year, a small amount of capital project funds still remains "due to other funds."

Departmental Cash

Finding:

During our prior years' audits, we noted several departments with specific bank accounts. The majority of these accounts should have zero balances at month end. Also, they should be reconciled monthly and copies of the monthly bank statements and reconciliations sent to the Treasurer's Office. We could not locate reconciliations for several of these accounts. Copies of the monthly bank statements and reconciliations are not being sent to the Treasurer's Office on a regular basis. These accounts are property of the County and should be collateralized, as required by GML. Also, in order to further monitor internal controls over cash, these bank statements should be reviewed by the Treasurer's Office for reasonableness.

Recommendation:

We continue to recommend copies of all monthly department bank accounts, with reconciliations, be received by the Treasurer's Office and reviewed by the Office for reasonableness.

Current Status:

During our current audit we noted most departments are providing copies of their bank statements and reconciliations to the Treasurer. However, it was necessary to request bank statements and reconciliations from a few of the larger departments.

Stale Dated Checks

Finding:

During our prior years' audits, we noted several stale dated checks older than one year. However, the total amount of stale dated checks was immaterial to the basic financial statements.

Recommendation:

We recommend the Treasurer research these checks and attempt to reissue them. If reissue is unsuccessful, the Legislature must take action and consult with the State of New York to determine proper disposition of unclaimed funds in accordance with State laws.

Current Status:

No change was noted during our current year audit.

Prior Year Findings – Resolved

Journal Entries

Finding:

During our prior year audits, we noted entries posted incorrectly which were often corrected by several other incorrect entries, and backdated journal entries. Also, adequate documentation for journal entries was not, in most instances, attached to the entries. This resulted in difficulty correcting balances at year end, as the actual entry backup could not be located.

Resolution:

During our current year audit, adequate documentation was attached to journal entries examined.

Governmental Accounting Standards Board (GASB) Statement Number 45 Actuarial Valuation

Finding:

During the prior year audit, the County changed its health insurance plans from self-insured to provided and administered by a third party. GASB Statement Number 45 requires an actuarial valuation of the County's other postemployment benefits every two years, unless a significant change in those benefits occurs. A change in funding would constitute a significant change. However, a new valuation was not performed for the current year, nor was an update of the prior year valuation performed. We were unable to determine the effects on current year liabilities but believe they would be insignificant to the government-wide financial statements.

Resolution:

It was noted during the current year audit, the County had an actuarial valuation performed in accordance with GASB Statement Number 45 for the year ended December 31, 2012.

We will review the status of these comments during our next audit engagement. We are available at any time to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in formulating any corrective action.

This communication is intended solely for the information and use of the County Legislature and management and is not intended to be and should not be used for anyone other than these specified parties.



August 28, 2013
Ithaca, New York

COUNTY OF SCHUYLER

Watkins Glen, New York

FINANCIAL STATEMENTS

December 31, 2012

COUNTY OF SCHUYLER
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Independent Auditor's Report	1-2
Required Supplementary Information:	
Management's Discussion and Analysis	3-3i
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Position	4-4a
Statement of Activities	5-5a
Governmental Fund Financial Statements	
Balance Sheet - Governmental Funds	6-6a
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	8-8a
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Position - Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds	11
Statement of Cash Flows - Proprietary Funds	12
Statement of Fiduciary Net Position - Fiduciary Fund	13
Notes to Financial Statements	14-35
Required Supplementary Information:	
Budgetary Comparison Schedule (Non-GAAP) - General Fund	36-36a
Budgetary Comparison Schedule (Non-GAAP) - County Road Fund	37-37a
Schedule of Funding Progress	38
Notes to Required Supplementary Information	39-40
Supplementary Information:	
Combining Balance Sheet - Non-Major Governmental Funds	41
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds	42
Reports Required under Government Auditing Standards:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43-44
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	45-46
Schedule of Expenditures of Federal Awards	47-49
Notes to Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Questioned Costs	51-55

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



Ciaschi • Dietershagen • Little • Mickelson & Company, LLP

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and
Members of the Legislature
County of Schuyler
Watkins Glen, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, 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 of Schuyler, New York, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdln.com

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

Emphasis of a Matter

During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress on pages 3-3i and 36-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Schuyler, New York's basic financial statements. The combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 28, 2013 on our consideration of the County of Schuyler's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering County of Schuyler's internal control over financial reporting and compliance.



August 28, 2013
Ithaca, New York

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Our discussion and analysis of the County of Schuyler's (the County) financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. Please read this information in conjunction with the County's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$13,331,250 (net position). Of this amount, \$(7,934,133) is an unrestricted net deficit.
- The County's overall net position decreased by \$(1,411,303), or 9.57%, while unrestricted net position decreased by \$(2,531,686) or 46.86%.
- During the year, the County's revenues increased by \$1,401,426 to \$39,808,860 from \$38,407,434 in 2011.
- Expenses of \$41,220,163 increased \$273,842, from \$40,946,321 in the prior year.
- Expenditures exceeded revenues in the Governmental Funds by \$(123,280), bringing fund balances to \$3,463,519 at December 31, 2012.
- The General Fund recorded an increase of \$8,063 in 2012, largely as a result of increased charges for services, and ended the year with a fund balance of \$2,171,526. Of this fund balance, \$1,902,217 was reserved for future expenditures, and \$269,309 was unassigned.
- Invested in capital assets, net of debt, increased \$1,380,196 due to an increase of \$342,142 in capital assets and the payment of principal on bonds.
- The County's long-term obligations at year end were \$22,101,250, a net increase of \$1,811,255 from 2011, primarily as a result of the recording of the GASB 45 other postemployment benefits liability and expense of \$1,950,194 for the year and the increase in accreted interest related to the issuance of STASC Bonds in 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Position and the Statement of Activities (on pages 4 through 5a) provide information about the County as a whole and present a longer-term view of the County's finances. Governmental Fund financial statements start on page 6. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Governmental Fund financial statements also report the County's operations in greater detail than the Government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside the government. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's Major Fund budgets for the year.

In addition to the basic financial statements, the annual report contains other information in the form of combining statements for those funds that are not considered Major Funds and, therefore, are not presented individually in the basic financial statements.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Reporting the County as a Whole

Analysis of the County as a whole begins on page 4, with the Government-wide statements. The Statement of Net Position and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer the question of whether the County, as a whole, is better off or worse off as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the County's net position and changes in it. The County's net position, the difference between assets and liabilities, is one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net position are one indicator of whether its financial health is improving or deteriorating. One needs to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of the County's roads, to assess the overall health of the County.

In the Statement of Net Position and the Statement of Activities, the County reports:

Governmental Activities: Most of the County's services are reported in this category, including public safety, public health, transportation, economic assistance and opportunity, culture and recreation, home and community services and general administration. Property and sales taxes, and state and federal grants finance most of these activities.

Component Units: The County includes four separate legal entities in its report - the Schuyler County Industrial Development Agency, the Soil and Water Conservation District, the Schuyler County Human Services Corporation (HSDC) and the Schuyler Tobacco Asset Securitization Corporation (STASC). The STASC is reported as a blended component unit with the County's Governmental Activities. The HSDC is reported as an Internal Service Fund and blended with the County's Governmental Activities. The other two component units are reported discretely. Although legally separate, these component units are important because the County is financially accountable for them. Complete financial statements for the Industrial Development Agency can be obtained from their administrative office at 2 North Franklin Street, Suite 330, Watkins Glen, New York 14891. Financial statements for the STASC and HSDC can be obtained from Schuyler County, 105 9th Street, Watkins Glen, New York 14891. Soil and Water Conservation District financial information may be obtained from Schuyler County Soil and Water Conservation District, 208 Broadway, Montour Falls, New York, 14865.

Reporting the County's Most Significant Funds

Governmental Fund Financial Statements

Analysis of the County's Major Funds begins on page 6. The Governmental Fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes and grants. The County reports its activities in Governmental Funds.

Governmental Funds: All of the County's services are reported in the Governmental Funds which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting* which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund financial statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between Governmental *Activities* (reported in the Government-wide financial statements) and Governmental *Funds* is explained in a reconciliation following the Governmental Fund financial statements.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The County as Trustee: The County is the trustee, or fiduciary, for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the County's Fiduciary Activities are reported in a separate Statement of Fiduciary Net Position on page 13. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE COUNTY AS A WHOLE

The County's net position for fiscal year ended December 31, 2012 decreased \$(1,411,303), from \$14,742,553 to \$13,331,250, compared to last year's net position decrease of \$(2,538,887).

The largest portion of the County's net position, \$20,128,382 or 150.99%, reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the County's net position, \$1,137,001 or 8.53%, represents resources subject to external restrictions on how they may be used and are reported as restricted net position. These net resources consist of unspent funds restricted for public safety, community development and debt service.

The remaining category of total net position, unrestricted net (deficit) of \$(7,934,133) or (59.52)% may be used to meet the government's ongoing obligations and services to creditors and citizens. Of this net deficit, the County has designated \$1,095,215 for specific purposes.

Our analysis below focuses on the net position (Figure 1), and changes in net position (Figure 2), of the County's Governmental Activities.

Figure 1 - Net Position

	Governmental Activities		Dollar Change
	2011	2012	2011 - 2012
<i>Current assets</i>	\$ 8,628,689	\$ 9,241,959	\$ 613,270
<i>Capital assets, net</i>	30,003,732	30,345,874	342,142
<i>Other noncurrent assets</i>	1,059,714	1,023,433	(36,281)
Total Assets	39,692,135	40,611,266	919,131
<i>Current liabilities</i>	5,231,375	5,822,793	591,418
<i>Noncurrent liabilities</i>	19,718,207	21,457,223	1,739,016
Total Liabilities	24,949,582	27,280,016	2,330,434
<i>Net invested in capital assets</i>	18,748,186	20,128,382	1,380,196
<i>Restricted</i>	1,396,814	1,137,001	(259,813)
<i>Unrestricted</i>	(5,402,447)	(7,934,133)	(2,531,686)
Total Net Position	\$ 14,742,553	\$ 13,331,250	\$ (1,411,303)

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The County's current assets increased \$613,270 or 7.11%. Capital assets, net, increased \$342,142, or 1.14% primarily due to additions, offset by depreciation expense.

Current liabilities increased \$591,418 primarily due to the timing of year end disbursements. The increase in noncurrent liabilities is primarily due to the reporting of the County's net Other Postemployment Benefits obligation at December 31, 2012.

The County's total revenues increased by 3.65%, while the total cost of all programs and services increased by 0.67%. Our analysis in Figure 2 separately considers the operations of Governmental Activities.

Figure 2 - Changes in Net Position

	Governmental Activities		Dollar Change
	2011	2012	2011 - 2012
REVENUES			
<i>Program Revenues:</i>			
Charges for services	\$ 6,366,794	\$ 7,229,114	\$ 862,320
Operating grants and contributions	9,439,303	9,685,093	245,790
Capital grants	1,685,905	1,813,284	127,379
<i>General Revenues:</i>			
Property taxes and tax items	10,087,847	10,600,762	512,915
Sales and other taxes	10,336,543	10,194,309	(142,234)
Tobacco settlement	249,672	276,680	27,008
Use of money and property	7,864	5,918	(1,946)
Other	233,506	3,700	(229,806)
Total Revenues	38,407,434	39,808,860	1,401,426
PROGRAM EXPENSES			
General government	8,752,248	8,858,705	106,457
Education	1,787,898	1,732,137	(55,761)
Public safety	4,846,550	5,259,046	412,496
Public health	4,981,974	4,721,632	(260,342)
Transportation	4,807,528	3,740,928	(1,066,600)
Economic assistance and opportunity	13,532,438	14,610,372	1,077,934
Culture and recreation	661,038	575,906	(85,132)
Home and community services	909,685	1,059,012	149,327
Interest on long-term debt	666,962	662,425	(4,537)
Total Expenses	40,946,321	41,220,163	273,842
(DECREASE) IN NET POSITION	\$ (2,538,887)	\$ (1,411,303)	\$ 1,127,584

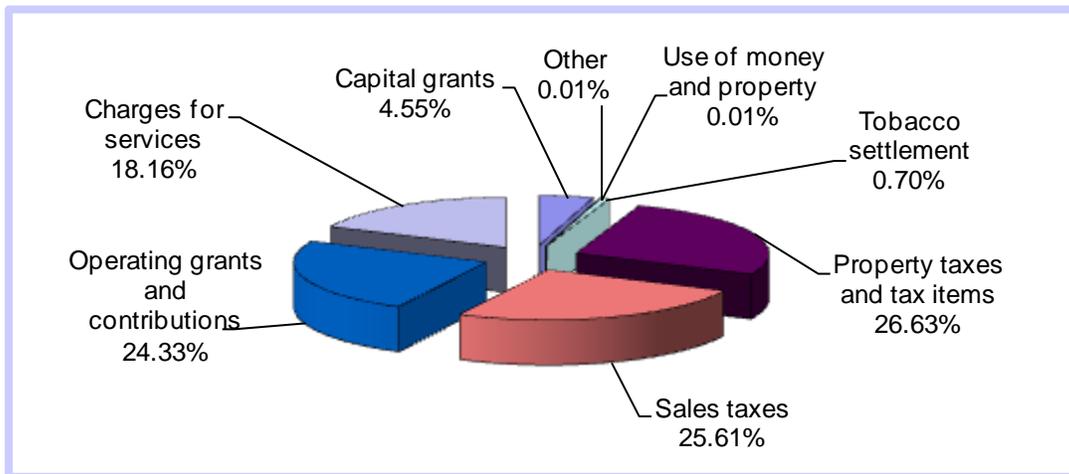
Charges for services increased \$862,320 as a result of the County increasing fees related to services provided. Operating grants and contributions, primarily received from State and Federal sources, increased by \$245,790, primarily due to increased aid. Capital grants and contributions increased \$127,379 due to road and bridge project grants for the year ended December 31, 2012. Sales and other taxes decreased \$(142,234) due to decreased sales and room tax revenue received. Other revenues decreased \$(229,806) due to a loss on sale of County property during the year ended December 31, 2012.

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

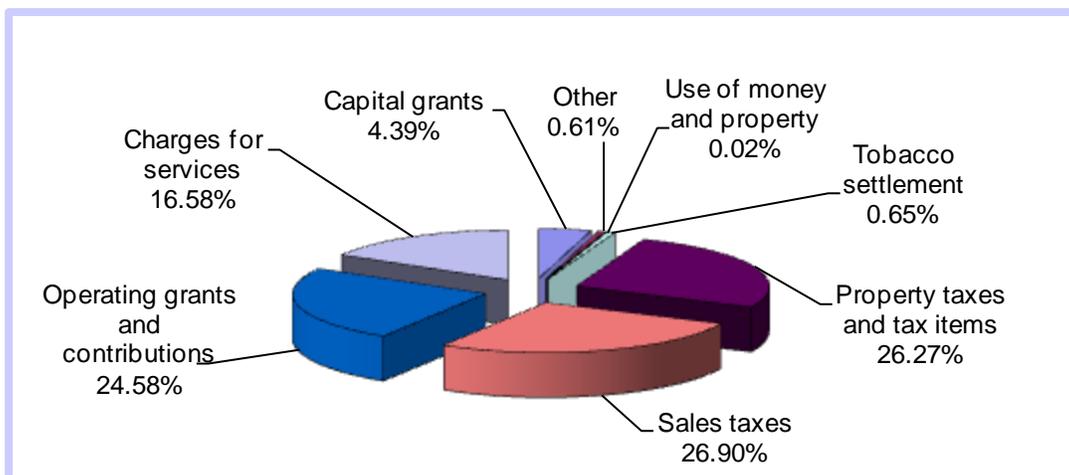
General government, education, public health, transportation, culture and recreation and interest on long-term debt expenses decreased primarily due to an overall effort by the County to reduce expenses. The increase in public safety, economic assistance and opportunity and home and community services expenses is the result of increased costs related to mandated social services programs and increased grants.

Figures 3 and 4 show the sources of revenue for 2012 and 2011.

**Figure 3 - Revenues by Source
 Governmental Activities
 2012**



**Figure 4 - Revenues by Source
 Governmental Activities
 2011**

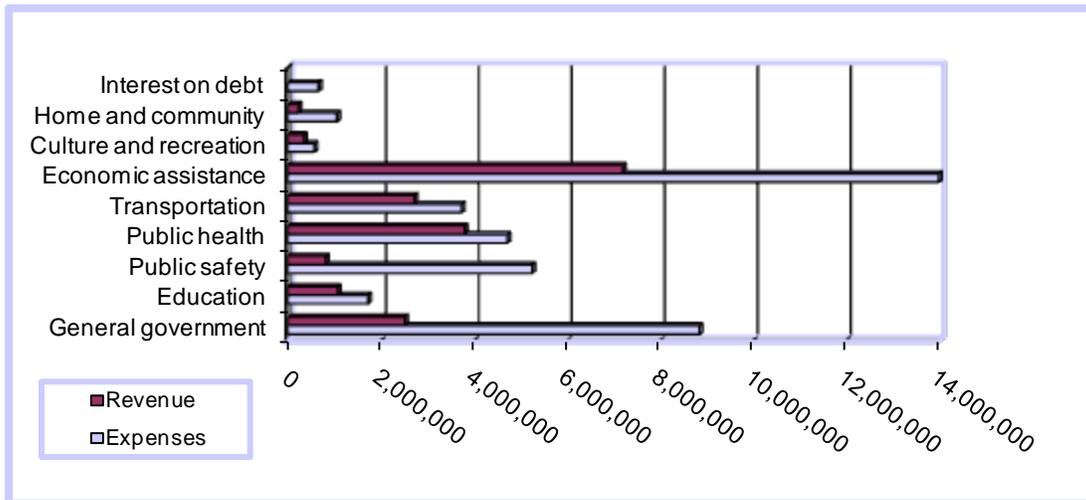


COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

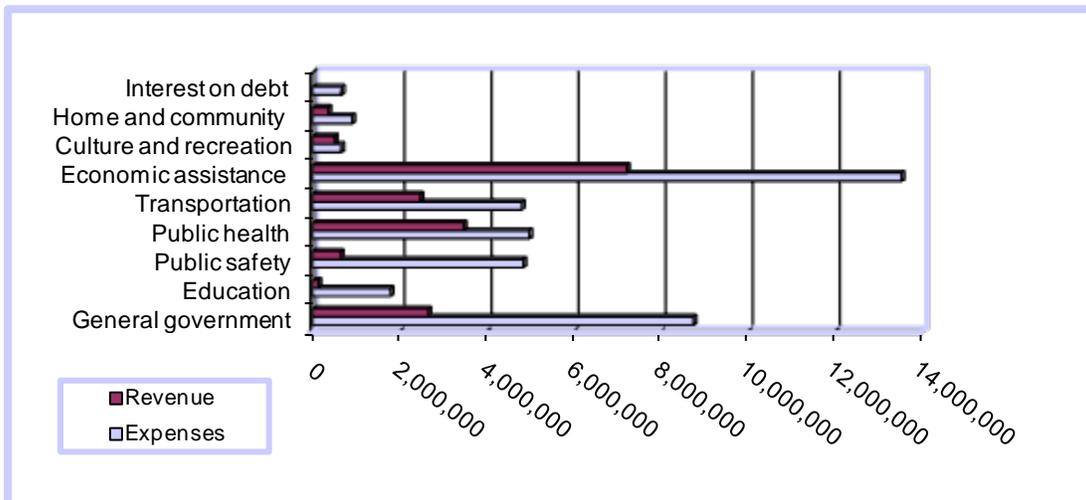
The cost of all Governmental Activities this year was \$41,220,163. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County property and other tax revenues was \$22,492,672, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the County's governmental program revenues were \$18,727,491.

The total cost versus revenue generated by activities for the County's largest programs is presented below. The difference between the cost and revenue shows the financial burden that was placed on the County's taxpayers by each of these functions.

**Figure 5 - Net Program Cost
Governmental Activities
2012**



**Figure 6 - Net Program Cost
Governmental Activities
2011**



COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

THE COUNTY'S FUNDS

As the County completed the year, its Governmental Funds, as presented in the balance sheets on pages 6 - 6a reported a combined fund balance of \$3,463,519, which is \$(123,280) less than last year's total fund balance. Of this amount, \$487,764 is nonspendable, \$831,704 is restricted for future expenditures, \$599,849 is committed for future expenditures and \$951,913 is assigned for 2012 expenditures, leaving \$592,289 in unassigned fund balance. Figure 7 shows the changes in fund balance for the County's Governmental Funds.

Figure 7
Governmental Funds
Fund Balances

			<i>Dollar Change</i>
	<i>2011</i>	<i>2012</i>	<i>2011 - 2012</i>
<i>Major Funds:</i>			
<i>General Fund</i>	\$ 2,163,463	\$ 2,171,526	\$ 8,063
<i>Special Revenue Fund:</i>			
<i>County Road Fund</i>	287,378	443,130	155,752
<i>STASC Debt Service Fund</i>	634,635	593,929	(40,706)
<i>Nonmajor Funds:</i>			
<i>Special Revenue Funds:</i>			
<i>Special Grant Fund</i>	312,456	26,679	(285,777)
<i>Road Machinery Fund</i>	188,867	228,176	39,309
<i>Capital Project Fund</i>	-0-	79	79
Totals	\$ 3,586,799	\$ 3,463,519	\$ (123,280)

This year's total change in fund balance is a decrease of \$(123,280), compared to a \$(172) decrease in 2011. The primary reason for the 0.37% increase in the fund balance of General Fund is due to increased charges for services and an overall increase in expenditures. The increase in the fund balance of County Road Fund is primarily due to increased state and federal grants. The decrease in the fund balance of Special Grant Fund is primarily due to the use of grant funds in 2012 received in 2011.

General Fund Budgetary Highlights

Over the course of the year, the County Legislature revised the County budget several times. These budget amendments consist of budget transfers between functions, which did not increase the overall budget. In addition to these transfers, the County Legislature increased the overall budget to provide for unspent appropriations from the previous year (encumbrances) and various grants where the majority of the funding came from federal and state sources.

Even with these adjustments, the actual charges to appropriations (expenditures) were below the final budget amounts by \$1,232,117. The most significant positive variances occurred in the County's general governmental support, public safety, public health and economic assistance and opportunity accounts. These significant variances are due to cross period grants included in the budget for which no expenditures have been made. Resources available for appropriation were \$(717,644) under the final budgeted amount primarily due to departmental income and nonproperty tax items not received.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Figure 8
Budgetary Comparison Schedule - General Fund
December 31, 2012

	Original Budget	Final Budget	Actual w/ Encumbrances	Variance Fav.(Unfav.)
<u>REVENUES AND OTHER FINANCING SOURCES</u>				
<i>Real property taxes and tax items</i>	\$ 10,635,457	\$ 10,635,457	\$ 10,519,891	\$ (115,566)
<i>Nonproperty tax items</i>	10,710,000	10,710,000	10,266,907	(443,093)
<i>Departmental income and intergovernmental charges</i>	5,889,294	6,041,588	5,733,172	(308,416)
<i>Use of money and property</i>	647,018	647,018	646,848	(170)
<i>State sources</i>	5,043,088	5,504,171	5,430,807	(73,364)
<i>Federal sources</i>	3,568,245	3,845,314	4,131,142	285,828
<i>Other revenues and financing sources</i>	260,399	261,957	199,094	(62,863)
Total Revenues and Other Financing Sources	\$ 36,753,501	\$ 37,645,505	\$ 36,927,861	\$ (717,644)
Appropriated Reserves and Fund Balance	\$ 370,000	\$ 786,938	\$ -0-	\$ (786,938)
<u>EXPENDITURES AND OTHER FINANCING USES</u>				
<i>General government</i>	\$ 6,946,137	\$ 7,027,262	\$ 6,681,111	\$ 346,151
<i>Education</i>	1,870,000	1,870,000	1,732,137	137,863
<i>Public safety</i>	3,585,230	3,770,419	3,466,892	303,527
<i>Public health</i>	4,086,149	4,414,183	3,661,647	752,536
<i>Transportation</i>	280,000	476,542	282,295	194,247
<i>Economic assistance and opportunity</i>	12,086,087	12,150,157	12,669,449	(519,292)
<i>Culture and recreation</i>	353,511	389,655	375,329	14,326
<i>Home and community services</i>	592,348	754,366	678,807	75,559
<i>Employee benefits</i>	4,830,322	4,830,322	4,903,437	(73,115)
<i>Debt service</i>	144,313	195,309	195,309	-0-
<i>Other financing uses</i>	2,349,404	2,554,228	2,553,913	315
Total Expenditures and Other Financing Uses	\$ 37,123,501	\$ 38,432,443	\$ 37,200,326	\$ 1,232,117
<i>Excess of Expenditures and Other Financing Uses</i>	\$ (370,000)	\$ (786,938)	\$ (272,465)	\$ 514,473

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2012, the County had capital assets of \$30,345,874, net of accumulated depreciation of \$29,760,707, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net increase (including additions and deductions) of \$342,142 from last year.

Figure 9
Capital Assets, Net of Depreciation

	Governmental Activities		Dollar Change
	2011	2012	2011 - 2012
<i>Land</i>	\$ 447,639	\$ 464,759	\$ 17,120
<i>Construction-in-progress</i>	160,423	197,453	37,030
<i>Buildings and improvements</i>	12,082,402	11,603,686	(478,716)
<i>Land improvements</i>	2,384,166	2,280,684	(103,482)
<i>Machinery and equipment</i>	2,035,492	1,534,341	(501,151)
<i>Infrastructure</i>	12,893,610	14,264,951	1,371,341
Totals	\$ 30,003,732	\$ 30,345,874	\$ 342,142

This year's additions consisted of:

Construction-in-progress	\$ 37,030
Land	17,120
Buildings	20,630
Machinery and equipment	159,357
Infrastructure	2,190,859
Total Additions	<u>2,424,996</u>
Less: Depreciation	1,865,192
HSDC depreciation	129,478
Loss on sale of property	<u>88,184</u>
Total Net Change	<u>\$ 342,142</u>

Debt Administration

Total long-term liabilities increased in 2012 by \$1,811,255 to \$22,101,250. Of this amount, \$35,000 was subject to the constitutional debt limit and represented 0.20% of the County's statutory debt limit. The recording of other postemployment benefits liability and expense of \$1,950,194 was the most significant change in 2012.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Tobacco settlement pass-through bonds are debt of STASC, under which the County's future tobacco settlement proceeds were securitized. The County is not responsible for this debt in the event the STASC were to default in repayment of the bonds. The HSDC bonds are debt of the Human Services Corporation. The County is not responsible in the event the HSDC were to default in repayment of the bonds.

Figure 10
Outstanding Debt at Years Ended

	Governmental Activities		Dollar Change
	2011	2012	2011 - 2012
<i>Serial bonds</i>	\$ 10,819,020	\$ 10,527,281	\$ (291,739)
<i>Capital lease</i>	45,525	49,154	3,629
<i>Compensated absences</i>	552,870	538,001	(14,869)
<i>Retiree Health Insurance payable</i>	8,103,177	10,053,371	1,950,194
<i>Tobacco settlement pass-through bonds accreted interest</i>	769,403	933,443	164,040
Totals	\$ 20,289,995	\$ 22,101,250	\$ 1,811,255

The County's Moody's bond rating is currently A, which did not change from the prior year. More detailed information about the County's long-term liabilities is presented in Note 2.B.3 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While continued growth in the leading economic indicators can reasonably be expected, said growth is no longer keeping pace with the inflation of costs associated with state mandated services the County must continue to provide. The County will continue to make adjustments in spending to reflect declining revenue sources, seeking to fund mandated increases without proportionately increasing property taxes. Effective January 1, 2014 the County has enacted a change in sales tax distribution reducing the amount of revenue shared with local municipalities, reserving a greater portion for County purposes. New York State pension contributions are leveling off and are expected to be reduced in 2014 and beyond. This, coupled with continued conservative fiscal management should result in future tax levies that stay within the New York State tax cap legislative mandate.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about the report or need any additional financial information, contact Gary Whyman, Treasurer, Schuyler County, 105 9th Street, Watkins Glen, New York 14891.

COUNTY OF SCHUYLER
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 19,185	\$ 500,480	\$ 127,560
Restricted cash	583,088	904,765	145,333
Taxes receivable, net	2,253,081		
Accounts receivable, net	956,216		5,595
Loans receivable - Current portion			38,655
Due from state and federal governments	4,885,403	279,243	
Due from other governments	35,702		
Prepaid expenses	481,568	3,660	
Inventories	8,257		
Unamortized bond issue costs	19,459		
Total Current Assets	<u>9,241,959</u>	<u>1,688,148</u>	<u>317,143</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	683,949		330,167
Loans receivable, long-term portion			291,237
Unamortized bond issue costs, long-term portion	339,484		
Land and construction-in-progress	662,212		
Depreciable capital assets, net	29,683,662	313,894	
Total Noncurrent Assets	<u>31,369,307</u>	<u>313,894</u>	<u>621,404</u>
Total Assets	<u>40,611,266</u>	<u>2,002,042</u>	<u>938,547</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	1,468,416	4	
Accrued liabilities	408,851	18,212	
Interest payable	85,104		
Due to other governments	1,923,865		
Retainage payable	2,118		
Overpayments	837,808		
Deferred revenue	452,604	882,284	
Long-term obligations due within one year:			
Lease payable	31,972		
Bonds payable	558,255		
Compensated absences	53,800		
Total Current Liabilities	<u>5,822,793</u>	<u>900,500</u>	<u>-0-</u>

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET POSITION
(CONTINUED)
DECEMBER 31, 2012

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
Total current liabilities brought forward	\$ 5,822,793	\$ 900,500	\$ -0-
Noncurrent Liabilities:			
Long-term obligations due after one year:			
Accreted interest payable	933,443		
Lease payable	17,182		
Bonds payable	9,969,026		
Other postemployment benefits payable	10,053,371		
Compensated absences	484,201		
Total Noncurrent Liabilities	21,457,223	-0-	-0-
Total Liabilities	27,280,016	900,500	-0-
<u>NET POSITION</u>			
Net investment in capital assets	20,128,382	313,894	
Restricted for:			
Community development	26,679		480,820
Debt service	683,949		
Public safety	426,373		
Unrestricted (Deficit)	(7,934,133)	787,648	457,727
Total Net Position	\$ 13,331,250	\$ 1,101,542	\$ 938,547

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General governmental support	\$ 8,858,705	\$ 2,202,653	\$ 319,482	\$ _____
Education	1,732,137	202,602	872,757	_____
Public safety	5,259,046	547,234	270,962	_____
Public health	4,721,632	2,403,418	1,398,595	_____
Transportation	3,740,928	589,073	322,695	1,813,284
Economic assistance and opportunity	14,610,372	905,366	6,301,495	_____
Culture and recreation	575,906	259,639	85,904	_____
Home and community services	1,059,012	119,129	113,203	_____
Interest on debt	662,425	_____	_____	_____
Total Governmental Activities	\$ 41,220,163	\$ 7,229,114	\$ 9,685,093	\$ 1,813,284
Component Units:				
Soil and Water Conservation District	\$ 855,722	\$ 87,626	\$ 1,026,846	\$ _____
Industrial Development Agency	87,491	14,883	_____	_____
Total Component Units	\$ 943,213	\$ 102,509	\$ 1,026,846	\$ -0-

Net (Expense) and Changes in Net Position brought forward

GENERAL REVENUES:

Taxes:

Property taxes, levied for general purposes

Property tax items

Sales and other taxes

Tobacco settlement payments

Use of money and property

Miscellaneous

Sale of property and compensation for loss

Loss (gain) on sale of property

Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Position

Primary Government	Component Units	
Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
\$ (6,336,570)	\$	\$
(656,778)		
(4,440,850)		
(919,619)		
(1,015,876)		
(7,403,511)		
(230,363)		
(826,680)		
(662,425)		
(22,492,672)		
	258,750	
		(72,608)
	258,750	(72,608)
(22,492,672)	258,750	(72,608)
10,071,470		
529,292		
10,194,309		
276,680		
5,918	2,289	3,500
65,513	242,167	11,005
77,976	7,604	
(139,789)		
21,081,369	252,060	14,505
(1,411,303)	510,810	(58,103)
14,742,553	590,732	996,650
\$ 13,331,250	\$ 1,101,542	\$ 938,547

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Major Funds	
	General Fund	Special Revenue Fund County Road Fund
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ (41,999)	\$ 60,999
- Restricted	413,647	
Taxes receivable (net)	2,253,081	
Due from other funds	859,834	516,743
Due from State and Federal governments	4,355,059	521,359
Due from other governments	35,702	
Other receivables, net	634,101	20,229
Prepaid expenses	479,507	
Inventories	8,257	
Total Assets	\$ 8,997,189	\$ 1,119,330
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 1,407,304	\$ 12,011
Accrued liabilities	367,701	32,768
Due to other funds	933,471	631,421
Due to other governments	1,923,865	
Retained percentages		
Overpayments	837,808	
Deferred revenues	1,355,514	
Total Liabilities	6,825,663	676,200
Fund Balances:		
Nonspendable	487,764	
Restricted	534,076	
Committed	599,849	
Assigned	280,528	443,130
Unassigned	269,309	
Total Fund Balances	2,171,526	443,130
Total Liabilities and Fund Balances	\$ 8,997,189	\$ 1,119,330

See Independent Auditor's Report and Notes to Financial Statements

Major Funds STASC Debt Service Fund	Non-Major Funds	Total Governmental Funds
\$ 60,919	\$ 86,665	\$ 166,584
270,949		684,596
		2,253,081
	435,296	1,811,873
	8,985	4,885,403
		35,702
260,000	30,570	944,900
2,061		481,568
		8,257
<u>\$ 593,929</u>	<u>\$ 561,516</u>	<u>\$ 11,271,964</u>
\$	\$ 49,101	\$ 1,468,416
	8,382	408,851
	246,981	1,811,873
		1,923,865
	2,118	2,118
		837,808
		1,355,514
-0-	306,582	7,808,445
		487,764
270,949	26,679	831,704
		599,849
	228,255	951,913
322,980		592,289
593,929	254,934	3,463,519
<u>\$ 593,929</u>	<u>\$ 561,516</u>	<u>\$ 11,271,964</u>

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total Governmental Fund Balances \$ 3,463,519

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets of the Governmental Funds, net of accumulated depreciation of \$29,078,849 used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 26,001,833

Certain accrued expenses, such as interest on debt, reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in Governmental Funds. Similarly, unamortized bond issue costs are not recognized as assets in the Governmental Fund financial statements.

Accrued interest payable	\$	(31,654)	
Accrued interest payable - STASC		(12,010)	
Accreted interest payable		(933,443)	
Unamortized bond issuance costs - STASC		<u>85,634</u>	<u>(891,473)</u>

Certain revenues are deferred in Governmental Funds due to applying the "availability criterion" to receivables for the modified accrual basis of accounting. However, these deferred revenues are considered revenues in the Statement of Activities due to applying the full accrual basis of accounting. 902,910

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. See Note 2.B.2 and 2.B.3.

Serial bonds payable	\$	(1,485,000)	
Lease payable		(49,154)	
Tobacco settlement pass-through bonds		(3,743,268)	
Other postemployment benefits payable		(10,053,371)	
Compensated absences		<u>(538,001)</u>	<u>(15,868,794)</u>

The assets and liabilities of the Internal Service Funds are included in Governmental Activities in the Statement of Net Position. (276,745)

Net Position of Governmental Activities \$ 13,331,250

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Major Funds	
	General Fund	Special Revenue Fund County Road Fund
<u>REVENUES</u>		
Real property taxes	\$ 9,990,599	\$
Real property tax items	529,292	
Nonproperty tax items	10,266,907	
Departmental income	5,264,465	32,830
Intergovernmental charges	468,707	
Use of money and property	646,848	409
Fines and forfeitures	62,626	100
Sale of property and compensation for loss	71,962	1,450
Miscellaneous local sources	64,506	65
Interfund revenues		
State sources	5,430,807	898,964
Federal sources	4,131,142	914,320
Total Revenues	36,927,861	1,848,138
<u>EXPENDITURES</u>		
General governmental support	6,612,614	
Education	1,732,137	
Public safety	3,382,652	
Public health	3,660,848	
Transportation	169,854	3,173,072
Economic assistance and opportunity	12,657,730	
Culture and recreation	372,497	
Home and community services	678,807	
Employee benefits	4,903,437	379,460
Debt service - Principal and interest	195,309	
Capital outlay		
Total Expenditures	34,365,885	3,552,532
Excess of Revenues (Expenditures)	2,561,976	(1,704,394)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		1,860,146
Interfund transfers (out)	(2,553,913)	
Total Other Financing Sources (Uses)	(2,553,913)	1,860,146
Excess of Revenues (Expenditures) and Other Financing Sources (Uses)	8,063	155,752
Fund Balances, Beginning	2,163,463	287,378
Fund Balances, Ending	\$ 2,171,526	\$ 443,130

See Independent Auditor's Report and Notes to Financial Statements

Major Funds STASC Debt Service Fund	Non-Major Funds	Total Governmental Funds
\$	\$	\$ 9,990,599
		529,292
		10,266,907
		5,297,295
	376,142	844,849
80	248	647,585
		62,726
	4,564	77,976
276,680		341,251
	180,000	180,000
	90,294	6,420,065
	4,068	5,049,530
276,760	655,316	39,708,075
103,392		6,716,006
		1,732,137
		3,382,652
		3,660,848
	933,964	4,276,890
		12,657,730
		372,497
	380,205	1,059,012
	76,794	5,359,691
214,074		409,383
	204,509	204,509
317,466	1,595,472	39,831,355
(40,706)	(940,156)	(123,280)
	693,767	2,553,913
		(2,553,913)
-0-	693,767	-0-
(40,706)	(246,389)	(123,280)
634,635	501,323	3,586,799
\$ 593,929	\$ 254,934	\$ 3,463,519

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (123,280)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay, net of disposal adjustments of \$401,991	\$ 2,023,005	
Depreciation expense of \$1,865,192, net of disposal adjustments	<u>(1,551,385)</u>	<u>471,620</u>

Revenues and expenses in the Statement of Activities that do not provide current financial resources are not reported as revenues and expenses in the funds.

Deferred revenue		<u>200,000</u>
------------------	--	----------------

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The amortization of bond issuance costs and bond discounts are expenditures in the Statement of Activities and reduce liabilities.

Bond and capital lease repayments	\$ 182,976	
Proceeds of capital leases	(51,605)	
Bond issuance costs amortization	<u>(11,759)</u>	<u>119,612</u>

The net revenue of the Internal Service Fund component unit is reported with Governmental Activities.		<u>24,230</u>
---	--	---------------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds. These expenses include changes in compensated absences, other postemployment benefits, and interest payable.

Compensated absences	\$ 14,869	
Other postemployment benefits payable	(1,950,194)	
Change in accrued interest payable	(4,120)	
Change in accreted interest payable	<u>(164,040)</u>	<u>(2,103,485)</u>

Change in Net Position of Governmental Activities		<u>\$ (1,411,303)</u>
---	--	-----------------------

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

		Internal Service Funds	
		Component Unit	
		HSDC Fund	Self-Insurance Fund
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	- Unrestricted	\$ 22,042	\$
	- Restricted	413,000	
Due from other funds			70,111
Accounts receivable		11,316	
Bond Issue Costs, Current		14,137	
Total Current Assets		460,495	70,111
Noncurrent Assets:			
Bond Issue Costs, Long-term		259,172	
Capital Assets:			
Land		40,639	
Depreciable capital assets, net		4,303,402	
Total Noncurrent Assets		4,603,213	-0-
Total Assets		5,063,708	70,111
<u>LIABILITIES</u>			
Current Liabilities:			
Due to other funds			70,111
Accrued interest payable		41,440	
Bonds payable, current		160,000	
Total Current Liabilities		201,440	70,111
Noncurrent Liabilities:			
Bonds payable		5,139,013	
Total Noncurrent Liabilities		5,139,013	-0-
Total Liabilities		5,340,453	70,111
<u>NET POSITION</u>			
Invested in capital assets, net of related debt		(681,663)	
Restricted for debt service		413,000	
Unrestricted		(8,082)	
Total Net (Deficit)		\$ (276,745)	\$ -0-

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Internal Service Funds	
	Component Unit	
	HSDC Fund	Self-Insurance Fund
Operating Revenues:		
Participant assessments	\$	\$ 344
Rent		
	425,469	
Total Operating Revenues	425,469	344
Operating Expenses:		
Contractual expenses	15,687	352
Depreciation expense	129,478	
	145,165	352
Total Operating Expenses	145,165	352
Operating Income	280,304	(8)
Nonoperating (Expense) Income:		
Interest and dividends	25	8
Interest (expense)	(256,099)	
	(256,074)	8
Total Nonoperating (Loss) Income	(256,074)	8
Total Net Income	24,230	-0-
Net (Deficiency), January 1, 2012	(300,975)	-0-
Net (Deficiency), December 31, 2012	\$ (276,745)	\$ -0-

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Internal Service Funds	
	Component Unit	
	HSDC Fund	Self-Insurance Fund
Cash Flows from Operating Activities:		
Cash received from providing services	\$ 414,279	\$ 344
Cash payments - Contractual expenses	(15,687)	(28,225)
Net Cash (Used) Provided by Operating Activities	398,592	(27,881)
Cash Flows from Noncapital Financing Activities	-0-	-0-
Cash Flows from Capital and Related Financing Activities:		
Cash payments - Interest expense	(251,350)	
Cash payments - Bond principal	(155,000)	
Net Cash (Used) by Capital and Related Financing Activities	(406,350)	-0-
Cash Flows from Investing Activities:		
Interest and dividend income received	25	8
Net Cash Provided by Investing Activities	25	8
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,733)	(27,873)
Cash and Cash Equivalents, January 1, 2012	442,775	27,873
Cash and Cash Equivalents, December 31, 2012	\$ 435,042	\$ -0-
Reconciliation of net operating income (deficit) to net cash provided (used) by operating activities:		
Operating income (deficit)	\$ 280,304	\$ (8)
Adjustments to reconcile net operating income (deficit) to net cash provided (used) by operating activities:		
Depreciation	129,478	
(Increase) in accounts receivable	(11,190)	
(Decrease) in due to other funds		(27,873)
Net Cash Provided (Used) by Operating Activities	\$ 398,592	\$ (27,881)

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
DECEMBER 31, 2012

		Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents - Unrestricted	\$	881,921
- Restricted		79,180
Due from other governments		17,105
 Total Assets	 \$	 <u><u>978,206</u></u>
<u>LIABILITIES</u>		
Agency liabilities	\$	852,334
Due to other governments		125,872
 Total Liabilities	 \$	 <u><u>978,206</u></u>

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Summary of Significant Accounting Policies

The financial statements of the County of Schuyler (the County) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the County's accounting policies are described below.

A. Financial Reporting Entity

The County, which was incorporated in 1854, is governed by County Law and other laws of the State of New York and various local laws and ordinances. The County Legislature, which is the legislative body responsible for the overall operation of the County, consists of eight legislators. The Chairman of the Legislature serves as Chief Executive Officer of the County and the Treasurer serves as Chief Fiscal Officer.

The County provides the following basic services: public safety (including district attorney, assigned counsel, sheriff, probation, and jail), education (partial tuition to community colleges and tuition and transportation of handicapped children), public health, mental health, social services, highway maintenance, culture, and recreation programs.

All Governmental Activities and functions performed for the County are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is the County, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's statements to be misleading or incomplete, as set forth in GASB Statement Number 14, "The Financial Entity," as amended by GASB Statement Number 39, "Determining Whether Certain Organizations are Component Units."

The decision to include a component unit in the County's reporting entity is based on several criteria set forth in GASB Statement Number 14, "The Financial Entity," as amended by GASB Statement Number 39, "Determining Whether Certain Organizations are Component Units," including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the County's reporting entity.

1. Included in the Reporting Entity

Based on the foregoing criteria and the significant factors presented below, the following organizations are included in the reporting entity.

a. The Schuyler County Industrial Development Agency

The Schuyler County Industrial Development Agency (the Agency) was created in 1971 by the Schuyler County Legislature under the provisions of Chapter 535 of the 1971 Laws of New York State for the purpose of encouraging economic growth in Schuyler County. The Agency is exempt from federal, state and local income taxes. The Agency, although established by the Schuyler County Legislature, is a separate entity and operates independently of the County. A separate audit report dated March 13, 2013 has been issued for the Agency for the year ended December 31, 2012. The Agency is considered a component unit of the County and is discretely presented. Complete financial statements for the Schuyler County Industrial Development Agency may be obtained by writing their administrative office at 2 North Franklin Street, Suite 330, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Section 870 of General Municipal Law indicates that the bonds or notes and other obligations of the Agency are not the debt of the County, and the payment of such is payable out of the funds of the Agency.

b. The Schuyler County Soil and Water Conservation District

The Schuyler County Soil and Water Conservation District (the District) was established in October, 1940, in accordance with the Soil and Water Conservation District's Law, to provide for the conservation of soil and water resources. Members of the District's Board of Directors are appointed by the County Board of Supervisors and 10% of the District's General Fund revenue is provided through a County appropriation. The District is considered a component unit of the County and is discretely presented. Complete financial information for the Schuyler County Soil and Water Conservation District may be obtained by writing their administrative office at 208 Broadway, Montour Falls, NY 14865.

c. The Schuyler Tobacco Asset Securitization Corporation

The Schuyler Tobacco Asset Securitization Corporation (STASC) is a local development corporation organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York. The STASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTT). The trust in-turn issued \$227,130,000 aggregate principal amounts of Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The STASC, along with 23 other TASCs, created a trust known as the New York Counties Tobacco Trust V (NYCTTV) in order to issue \$199,375,348 aggregate principal amount of Tobacco Settlement Pass-Through Bonds (Series 2005 NYCTT Bonds). Series 2005 NYCTT Bonds, issued on November 29, 2005, represent a direct, pass-through interest in corresponding TASC bonds held by the trust and are subordinate to the prior bonds issued. The Series 2005 TASC bonds are subject to the rights of holders of the prior bonds, payable solely from, and secured solely by, the Collections and the funds and accounts pledged by the respective TASC Indenture. The Collections of the STASC will be comprised of the TSRs remaining after payment of the prior bonds and investment earnings on funds and accounts established under the STASC's Indenture. The STASC Series 2005 TASC Bonds are also payable from certain amounts released from Liquidity Reserve Accounts upon retirement of the prior bonds and amounts released from Trapping Accounts.

The STASC is controlled by a group of four directors who are appointed by the Chair of the Schuyler County Legislature. At this time, two directors are members of the County Legislature, one of whom is a member of the management team of the County and one who has no affiliation with the County. STASC is deemed to be a component unit of the County and is presented in the annual financial statements of the County as a blended component unit, reported as a Non-Major Debt Service Fund. A separate audit report dated March 1, 2013 has been issued for the STASC for the year ended December 31, 2012. Complete financial statements for Schuyler Tobacco Asset Securitization Corporation may be obtained from Schuyler County, 105 9th Street, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

d. The Schuyler County Human Services Development Corporation

The Schuyler County Human Services Development Corporation (HSDC) was created in 2006 by the Schuyler County Legislature under the provisions of Section 1411 of the Not-For-Profit Corporation Law of the State of New York for the purpose of encouraging economic growth in Schuyler County. HSDC is exempt from federal, state, and local income taxes. HSDC, although established by the Schuyler County Board of Legislators, is a separate entity and operates independently of the County. HSDC is considered a component unit of the County and is presented in the annual financial statements of the County as an internal service fund. A separate audit report dated March 7, 2013 has been issued for the HSDC for the year ended December 31, 2012. Complete financial statements for Human Services Development Corporation may be obtained from Schuyler County, 105 9th Street, Watkins Glen, NY 14891.

2. Excluded from the Reporting Entity

The Counties of Steuben, Chemung, and Schuyler are participants in the joint Southern Tier Central Regional Planning and Development Board. The municipal agreement provides that each county's share of the cost shall be prorated as agreed upon by the member counties. In 2012, the County's share aggregated \$35,000. As none of the member counties have sole control over the Board's operation, the activity of the Board is excluded from the reporting entity of all member counties. Complete financial statements for the Southern Tier Central Regional Planning and Development Board may be obtained by writing their administrative office at 8 Denison Parkway East, Suite 310, Corning, NY 14830.

B. Basic Financial Statements

The County's basic financial statements include both Government-wide (reporting the County as a whole) and Governmental Fund financial statements (reporting the County's Major Funds.) Both the Government-wide and Governmental Fund financial statements categorize primary activities as either governmental or business type. The County's general governmental support, education, public safety, public health, transportation, highways and streets, economic assistance and opportunity, culture and recreation, and home and community services are classified as Governmental Activities. The County currently has no funds classified as Business-type Activities.

1. Government-wide Financial Statements

The Government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of activities for the primary government and for the County's discretely presented component units.

Government-wide financial statements do not include the activities reported in the Fiduciary Funds or fiduciary component units. This Government-wide focus is more on the sustainability of the County as an entity and the change in the County's net position resulting from the current year's activities.

In the Government-wide Statement of Net Position, the Governmental Activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The Statement of Activities reports both the gross and net cost for each of the County's functions or programs. Gross expenses are direct expenses, including depreciation, specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. These expenses are offset by program revenues - charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the program or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The net cost represents the extent to which each function or program is self-financing or draws from the general revenues of the County.

The County does not allocate indirect costs. Indirect costs are reported in the function entitled "general government."

2. Governmental Fund Financial Statements

The financial transactions of the County are reported in individual funds in the Governmental Fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The County records its transactions in the fund types described below.

a. Governmental Funds

Governmental Funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position. The following are the County's Governmental Funds.

(1) Major Funds

General Fund - Principal operating fund which includes all operations not required to be recorded in other funds.

Special Revenue Fund:

(a) County Road Fund - Accounts for expenditures for highway purposes authorized by Section 114 of the Highway Law.

(b) Debt Service Fund:

STASC Debt Service Fund - Accounts for accumulation of resources from tobacco settlement payments and payment of principal and interest on the tobacco settlement pass-through bonds.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

(2) Non-Major Funds

Special Revenue Funds:

- (a) Road Machinery Fund - Accounts for the purchase, repair, maintenance, and storage of highway machinery, tools, and equipment pursuant to Section 133 of the Highway Law.
- (b) Special Grant Fund - Accounts for activities under the Housing and Community Development Act of 1974.

Capital Project Fund - Accounts for financial resources to be used for the acquisition, construction or renovation of major capital facilities.

(3) Proprietary Funds

Internal Service Funds:

- (a) Self-Insurance Fund - Accounts for payment of health claims and accumulation of participant payments.
- (b) HSDC Internal Service Fund - Accounts for accumulation of rent and interest revenue and payment of principal and interest on Human Services Development Corporation bonds.

(4) Fiduciary Funds

Fiduciary Funds are used to account for assets held by the County in a trustee or custodial capacity, which therefore are not available to support the County's programs.

Agency Funds - Account for money received and held by the County in the capacity of trustee, custodian, or agent. The Agency Funds are custodial in nature and do not involve measurement of results of operations. The most significant of the County's Agency Funds are mortgage tax and social service trust funds.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and 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. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

1. Accrual Basis

The Government-wide financial statements and the Proprietary and Fiduciary Fund financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the County's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

2. Modified Accrual Basis

Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. The County considers property tax receivables collected within 60 days after year end to be available and recognizes them as revenues of the current year. All other revenues that are deemed collectible within one year after year end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when received. Exceptions to this general rule are that 1) principal and interest on indebtedness are not recognized as an expenditure until due, and 2) compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

D. Property Taxes

The authority of levying taxes for the support of County and town governments, inclusive of special districts, and for re-levying unpaid school taxes, has been delegated by the State Legislature to the governing board of the County through various provisions of the Real Property Tax Law. For purposes of both county and town taxes, the value of real property is listed and established by the towns for each parcel of real property therein. Amounts to be raised by tax are determined from balanced budgets of towns and the County and levied on or before December 31, each year. Unpaid school taxes are purchased from each school district and added to tax levies and, until paid, are counted among the assets of the County; the County thus acquires all rights, title, and interest in any unpaid school taxes. Any such taxes remaining unpaid at the time of the tax sale are sold along with any other unpaid taxes subject to County enforcement.

Property taxes are levied each December 31, on the assessed value of all real property located within the County and become a lien on January 1. Taxes are payable during January without penalty. Beginning in February a 1% penalty is added. Property tax payments may be made in installments, which carry a 1% fee, payable on January 30, and on or before July 1. The initial responsibility of collecting County property taxes rests with the towns located within the County. The tax rolls are delivered to the Treasurer on or before the 15th of April at which time a 5% fee plus 12% per annum from February 1, to date of payment are added. The towns retain the full amount of their related town levy and remit the balance of collected taxes to the County. Responsibility for collection of delinquent taxes is then transferred to the County.

Property taxes are recorded as receivables and revenues at the time the tax levy is billed. Uncollected amounts estimated to be collected subsequent to the first 60 days after year end are recorded as deferred revenues.

Non-city school district taxes are turned over to the County for enforcement on November 15. The County collects the second installment of school taxes on or before November 30. Payment to school districts for second installments is required to be remitted within ten days of collection. On December 1, any such taxes remaining unpaid are relieved as County taxes in the subsequent year. The balance of uncollected school taxes is required to be remitted by April 1.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

City school district taxes are turned over to the County for enforcement on April 15, and are enforced as a separate tax until the time of tax sale at which time they become part of the County's lien. The balance of uncollected city school taxes is remitted by December 31.

E. Constitutional Tax Limit

The amount that may be raised by the County-wide 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.

The County's constitutional tax limit (per New York State statutes) for the fiscal year ended December 31, 2012 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2007-2011)	\$ <u>1,150,179,765</u>
Tax limit @ 1.5%	\$ 17,252,696
Less :	
Tax levy	10,091,793
Less exclusions	<u>(311,573)</u>
Tax levy subject to tax limit	<u>9,780,220</u>
Tax Margin	\$ <u>7,472,476</u>

F. Receivables

Amounts due from state and federal governments represent amounts owed to the County to reimburse it for expenditures incurred pursuant to state and federally funded programs. Other receivables represent amounts owed to the County for billed services, health insurance, and medical loans. No provision has been made for uncollectible accounts for amounts reported as Other Receivables, as it is believed such amounts would be immaterial.

G. Vacation and Sick Leave and Compensatory Absences

Pursuant to contractual agreements, County employees are entitled to accrue a maximum of 216 days of sick leave and 30 days of vacation leave. An individual who leaves the employ of the County is entitled to be paid for unused vacation leave credits.

Estimated vacation accumulated by Governmental Fund type employees has been recorded in the Government-wide financial statements.

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

H. Cash and Cash Equivalents

For financial statement purposes, the County considers all highly liquid investments of three months or less as cash equivalents.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

I. Investments

Investments are valued at fair value.

J. Inventory

Inventory is recorded at cost on a first-in, first-out basis.

K. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets.

Governmental capital assets purchased or acquired with minimum value of \$1,000 for equipment; \$5,000 for land, buildings and building improvements; and \$10,000 for infrastructure and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

Real Property (Buildings)	50 years
Machinery and equipment	10 years
Infrastructure	10 years
Vehicles	5 years
Police Vehicles	3 years
Computers	5 years

L. Postemployment Benefits

In addition to providing pension benefits, the County provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the County's employees may become eligible for these benefits if they reach normal retirement age while working for the County. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The County offers the benefit, with related premiums funded 50% by participating retirees. The retiree also pays 65% of the premium covering the retiree's spouse. See more detailed information related to the GASB Statement Number 45 information in Note 2.

M. Sales Tax

Pursuant to local law, the County levies a 4% tax in accordance with the Tax Law, Section 1210. The County retains 3/4 of such taxes for County purposes and distributes the remainder to the towns and villages in the County.

N. Revenues

Substantially all Governmental Fund revenues are accrued. In applying GASB Statement Number 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient. Subsidies and grants to Proprietary Funds that finance either capital or current operations are reported as nonoperating revenue based on GASB Statement Number 33.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

O. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the County's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

P. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between Governmental or Proprietary Funds are netted as part of the reconciliation to the Government-wide financial statements.

Q. Insurance

The County assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

R. Equity Classifications

1. Government-wide Financial Statements

Equity is classified as net assets and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position - Consists of net position with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net resources that do not meet the definition of "restricted" or "net investment in capital assets."

2. Governmental Fund Financial Statements

The County follows GASB Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement Number 54 changed the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- **Nonspendable:** Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowment principal.
- **Restricted:** Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation.
- **Committed:** Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority prior to the end of the fiscal year, which requires the same level of formal action to remove said constraint.
- **Assigned:** Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- **Unassigned:** Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

Currently, the County does not have a policy stating the highest level of authority able to assign fund balance. The Legislature, by resolution, approves fund balance appropriations for next year's budget. Expenditures which affect more than one fund balance type are applied against fund balance in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, then unassigned fund balance, respectively.

3. Legally Adopted Reserves

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. With the exception of the encumbrance reserve, reserve funds are established through Legislative action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Reserves currently in use by the County include the following:

- **Encumbrance Reserve**
Represents amount of outstanding encumbrances at the end of the fiscal year. This reserve is accounted for in the General Fund, County Road Fund, and Road Machinery Fund.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

- **Miscellaneous Special Reserve**
Accounts for funds restricted for miscellaneous projects, as authorized by County Resolution. This reserve is further outlined in Note 7, and accounted for in the General Fund.
- **Mandatory Reserve for Debt Service**
Used to establish a reserve for the purpose of retiring outstanding obligations upon the sale of County property or capital improvement financed by obligations which remain outstanding at the time of sale (GMC§ 6-1). The funding of the reserve is from the proceeds of the sale of County property or capital improvement. This reserve is accounted for in the HSDC Fund and STASC Debt Service Fund.

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. While the County does not have a specific policy for custodial credit risk, New York State statutes govern the County's investment policies. The County has its own written investment policy. The County's monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. The Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities. Collateral (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts, obligations of Puerto Rico, obligations of municipalities of other states, obligations of domestic corporations, mortgage related securities, commercial paper and bankers acceptances, and zero coupon obligations of the United States.

GASB Statement Number 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the County's name.

The County's aggregate bank balances of \$1,922,045 are either insured or collateralized with securities held by the pledging financial institution in the County's name.

Total financial institution (bank) balances of the HSDC and STASC at December 31, 2012, per the bank, were \$435,042 and \$331,868, respectively, and were fully collateralized.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Total bank balances of the Agency, including long-term certificates of deposit, totaled \$603,096 at December 31, 2012 are entirely insured or collateralized with securities held by SCIDA's agent in the Agency's name.

The Soil and Water Conservation District's aggregate bank balances of \$1,431,855 are either insured or collateralized with securities held by the pledging financial institution in the District's name.

Restricted cash and cash equivalents of the primary government at December 31, 2012 consisted of the following:

Activity	Amount
Governmental Activities:	
Public Safety Funds	\$ 426,373
STASC Debt Service Fund	270,949
HSDC Funds	413,000
Community Development Fund	49,012
Lamoka-Waneta Lakes District Funds	107,703
Total Governmental Activities	\$ 1,267,037

2. Property Taxes

Property taxes levied for 2012 are recorded as revenue and receivables, net of estimated uncollectible amounts. In the fund financial statements, the net receivables collected during 2012 and expected to be collected within the first sixty days of 2013 are recognized as revenues in 2012.

Net receivables estimated to be collectible subsequent to the first sixty days of 2013 are reflected as deferred revenue. At December 31, 2012, the County had deferred \$902,910 of real property tax revenue.

Taxes receivable at December 31, 2012 are summarized as follows:

Returned school taxes receivable	\$ 1,069,951
Returned city taxes receivable	45,052
Taxes receivable - Overdue	1,232,357
Other	18,654
Allowance for uncollectible taxes	(112,933)
Taxes Receivable	\$ 2,253,081

Uncollected school taxes assumed by the County as a result of settlement proceedings are reported as receivables in the General Fund to maintain central control and provide for tax settlement and enforcement proceedings. The portion of the receivable that represents taxes relieved for schools in the amount of \$1,115,003 is reflected as part of a liability, due to other governments, in the accompanying basic financial statements.

3. Other Receivables

Other receivables at December 31, 2012 consisted of the following, which are stated at net realizable value. The County has deemed the amounts to be fully collectible.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Description</u>	<u>Amount</u>
General Fund	County Clerk	\$ 42,124
	Public health fees	4,752
	Mental health fees	148,263
	Public safety fees	35,033
	Attorney fees	103,088
	Social services fees	53,948
	Central services fees	19,891
	Youth Bureau	44,697
	Due from agency	125,872
	Other	<u>56,433</u>
Total General Fund		<u>634,101</u>
County Road Fund	Billed services	20,229
Road Machinery Fund	Billed services	30,570
HSDC Fund	Rent receivable	11,316
STASC Fund	TSR receivable	<u>260,000</u>
Total Other Receivables		<u>\$ 956,216</u>

4. Capital Assets

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>Balance at 12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/12</u>
<u>Governmental Activities:</u>				
Land	\$ 407,000	\$ 17,120	\$ (1,233,441)	\$ 424,120
Construction in progress	<u>160,423</u>	<u>1,270,471</u>	<u>(1,233,441)</u>	<u>197,453</u>
Total Non-depreciable Capital Assets	<u>567,423</u>	<u>1,287,591</u>	<u>(1,233,441)</u>	<u>621,573</u>
Buildings	13,077,247	20,630		13,097,877
Machinery and equipment	7,273,719	159,357	(187,991)	7,245,085
Land improvements	3,219,590			3,219,590
Infrastructure	<u>28,919,698</u>	<u>2,190,859</u>	<u>(214,000)</u>	<u>30,896,557</u>
Total Depreciable Capital Assets	<u>52,490,254</u>	<u>2,370,846</u>	<u>(401,991)</u>	<u>54,459,109</u>
Total Historical Cost	<u>53,057,677</u>	<u>3,658,437</u>	<u>(1,635,432)</u>	<u>55,080,682</u>
<u>Less Accumulated Depreciation:</u>				
Buildings	(5,262,509)	(380,319)		(5,642,828)
Machinery and equipment	(5,238,227)	(645,084)	172,567	(5,710,744)
Land improvements	(1,000,640)	(93,031)		(1,093,671)
Infrastructure	<u>(16,026,088)</u>	<u>(746,758)</u>	<u>141,240</u>	<u>(16,631,606)</u>
Total Accumulated Depreciation	<u>(27,527,464)</u>	<u>(1,865,192)</u>	<u>313,807</u>	<u>(29,078,849)</u>
Governmental Activities Capital Assets, Net	<u>\$ 25,530,213</u>	<u>\$ 1,793,245</u>	<u>\$ (1,321,625)</u>	<u>\$ 26,001,833</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government support	\$ 617,966
Public safety	121,601
Public health	14,441
Transportation	960,317
Economic assistance and opportunity	80,922
Culture and recreation	<u>69,945</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,865,192</u>

	Balance at 12/31/11	Additions	Deletions	Balance at 12/31/12
<u>HSDC Fund:</u>				
Land	\$ 40,639	\$ -	\$ -	\$ 40,639
Total Non-depreciable Capital Assets	<u>40,639</u>	<u>-0-</u>	<u>-0-</u>	<u>40,639</u>
Buildings	4,775,409			4,775,409
Land improvements	209,851			209,851
Total Depreciable Capital Assets	<u>4,985,260</u>	<u>-0-</u>	<u>-0-</u>	<u>4,985,260</u>
Total Historical Cost	<u>5,025,899</u>	<u>-0-</u>	<u>-0-</u>	<u>5,025,899</u>
<u>Less Accumulated Depreciation:</u>				
Buildings	(507,745)	(119,027)		(626,772)
Land improvements	(44,635)	(10,451)		(55,086)
Total Accumulated Depreciation	<u>(552,380)</u>	<u>(129,478)</u>	<u>-0-</u>	<u>(681,858)</u>
HSDC Fund Capital Assets, Net	<u>\$ 4,473,519</u>	<u>\$ (129,478)</u>	<u>\$ -0-</u>	<u>\$ 4,344,041</u>

Depreciation expense for the year ended December 31, 2012 for HSDC totaled \$129,478, and was charged to economic assistance and opportunity in the Statement of Activities.

B. Liabilities

1. Pension Plans

a. Plan Description

The County participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (Systems).

These are cost-sharing multiple-employer defined benefit public employee retirement systems. The Systems provide 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 Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

b. Funding Policy

The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and have fewer than ten years of credited service. These members contribute 3% of their salary. Prior to October 2000, all County employees who joined after July 27, 1976 were required to contribute 3%, but the laws were modified to forgive the 3% contribution for those with ten or more years of service time. 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 the employer to the Pension Accumulation Fund.

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

<u>Year</u>	<u>ERS</u>
2012	\$ 1,918,030
2011	1,521,745
2010	1,180,176

The County's contributions made to the Systems were equal to 100% of the contributions required for each year.

2. Other Postemployment Benefits

In 2008, the County adopted GASB Statement Number 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." In the past, the County reported the cost of retiree health care on a "pay-as-you-go" basis.

An actuarial valuation of the Schuyler County Postretirement Medical Plan (Plan) was performed as of January 1, 2012 for the fiscal year ending December 31, 2012. The Plan is a single-employer defined benefit Other Postemployment Benefit Plan administered by the County. The Plan provides for the continuation of medical insurance benefits for certain retirees and their spouses. The County assigns the authority to establish and amend benefit provisions to the County Legislature. The Plan does not issue a stand-alone financial report.

The contribution requirements of Plan members and the County are established and may be amended by the County Legislature. The County Legislature has negotiated several collective bargaining agreements, which include obligations of Plan members and the County. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2012 the County contributed \$333,878 to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit.

The County's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement Number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB obligation to the County of Schuyler Postretirement Medical Plan:

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Normal cost	\$ 1,323,936
Amortization of UAAL	1,234,405
Interest	<u>102,334</u>
Total Annual Required Contribution	2,660,675
Interest on net OPEB obligation	324,127
Adjustment to annual required contribution	<u>(468,608)</u>
Annual OPEB Cost (Expense)	2,516,194
Estimated contributions made on behalf of 82 retirees	<u>(566,000)</u>
Increase in Net OPEB Obligation	1,950,194
Net OPEB Obligation - January 1, 2012	<u>8,103,177</u>
Net OPEB Obligation - December 31, 2012	<u>\$ 10,053,371</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/12	\$ <u>2,516,194</u>	22.5%	\$ <u>10,053,371</u>
12/31/11	\$ <u>2,402,292</u>	20.6%	\$ <u>8,103,177</u>
12/31/10	\$ <u>2,395,079</u>	19.3%	\$ <u>6,195,047</u>

As of December 31, 2012, the Plan was not funded. The actuarial accrued liability for benefits was \$22,199,170; there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was \$9,241,858 and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 240.2%.

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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding funded status of the Plan and 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 multi-year trend information about 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 purposed are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to 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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 8% initially reduced by decrements to an ultimate rate of 5% after five years. The rate included a 4% inflation assumption.

3. Debt

a. Constitutional Debt Limit

At December 31, 2012, the total outstanding indebtedness of the County aggregated \$10,511,167. Of this amount, \$35,000 was subject to the constitutional limitations on indebtedness and represented 0.20% of the County's statutory debt limit.

b. Serial Bonds

The County borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the Statement of Net Position.

c. Bond Anticipation Notes

Liabilities for Bond Anticipation Notes (BANs) are generally accounted for in the Capital Project Funds. Principal payments on BANs must be made annually.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for period's equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. The County did not redeem or issue any BANs during the year ended December 31, 2012.

d. Other Debt

In addition to the above debt, the County had the following liability:

Compensated Absences - Represents the unfunded value of the liability for accumulated vacation. This liability is liquidated from the General, County Road and Road Machinery Funds.

Capital Lease - Represents principal balance of equipment lease. This liability is liquidated from the General Fund.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

e. Summary of Debt

The following is a statement of serial bonds and capital leases payable with corresponding maturity schedules:

Description	Original Date of Issue	Original Amount	Interest Rate	Date of Final Maturity	Balance December 31,
Serial Bonds:					
Courthouse/Office Reconstruction	04/94	\$ 2,300,000	5.50-5.80%	10/2013	\$ 35,000
Shared Services Construction	01/10	1,500,000	3.50-5.00%	1/2034	1,450,000
STASC Pass-through Bonds:					
Tobacco Settlement Bonds (2000)	12/00	3,280,000	5.25-6.30%	6/2023	2,345,000
Less: Unamortized bond discount					(66,160)
Carrying Value of Series 2000 Bonds					2,278,840
Tobacco Settlement Bonds (2005)	11/05	1,573,852	6.00-7.85%	6/2037	1,497,013
Less: Unamortized bond discount					(32,585)
Add: Interest accretion					933,443
Carrying Value of Series 2005 Bonds					2,397,871
HSDC 2007 Tax-exempt Revenue Bonds	04/07	5,725,000	3.50-5.00%	5/2032	5,135,000
Add: Unamortized bond premium					164,013
Carrying Value of HSDC Bonds					5,299,013
Capital Lease	02/11	47,348	6.50%	2/2013	15,762
Capital Lease	06/12	51,605	6.00%	6/2014	33,392
Total					\$ 11,509,878

f. Change in Indebtedness

The following represents changes in the County's indebtedness during the year ended December 31, 2012:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due Within One Year
Serial Bonds	\$ 1,560,000	\$	\$ (75,000)	\$ 1,485,000	\$ 75,000
STASC Bonds	3,902,013		(60,000)	3,842,013	330,000
Add: Accreted interest payable	769,403	164,040		933,443	
Less: Unamortized bond discount	(105,489)	6,744		(98,745)	(6,745)
HSDC Bonds	5,290,000		(155,000)	5,135,000	160,000
Add: Unamortized bond premium	172,496		(8,483)	164,013	8,483
Capital lease	45,525	51,605	(47,976)	49,154	31,972
Compensated absences	552,870		(14,869)	538,001	53,800
Totals	\$ 12,186,818	\$ 222,389	\$ (361,328)	\$ 12,047,879	\$ 652,510

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Additions and deletions to compensated absences are shown net, as it is impractical to determine these amounts separately. The County paid \$72,333 in interest on bonds and capital leases during the year. STASC paid \$154,074 in interest on bonds during the year. HSDC paid \$251,350 in interest on bonds during the year. Interest paid on the Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements. STASC and HSDC have unamortized bond issue costs in the amounts of \$85,634 and \$273,309, respectively, for the year ended December 31, 2012. These costs are being amortized over the life of the respective bonds.

Cash paid	\$ 477,757
Less interest accrued in prior year	(82,196)
Add interest accrued in current year	85,104
Less prior year accreted interest	(769,403)
Add current year accreted interest	933,443
Add amortization of bond issue costs	19,459
Less amortization of bond discount/(premium)	<u>(1,739)</u>
 Total	 <u>\$ 662,425</u>

g. Debt Service Requirements

The following tables summarize the County's future debt service requirements as of December 31, 2012:

Year	Governmental Funds							
	County Serial Bonds		Capital Lease		STASC Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 75,000	\$ 65,842	\$ 31,972	\$ 3,028	\$ 330,000	\$ 135,698	\$ 436,972	\$ 204,568
2014	40,000	62,312	17,182	1,031	140,000	126,948	197,182	190,291
2015	45,000	60,719			199,031	154,700	244,031	215,419
2016	45,000	58,975			220,008	159,459	265,008	218,434
2017	50,000	57,075			222,203	158,066	272,203	215,141
2018-2022	270,000	252,250			1,473,938	650,193	1,743,938	902,443
2023-2027	340,000	184,200			754,497	1,384,046	1,094,497	1,568,246
2028-2032	425,000	97,913			305,312	1,701,759	730,312	1,799,672
2033-2037	195,000	9,875			197,024	1,673,450	392,024	1,683,325
 Total	 <u>\$ 1,485,000</u>	 <u>\$ 849,161</u>	 <u>\$ 49,154</u>	 <u>\$ 4,059</u>	 <u>\$ 3,842,013</u>	 <u>\$ 6,144,319</u>	 <u>\$ 5,376,167</u>	 <u>\$ 6,997,539</u>

Year	HSDC Fund		
	Principal	Interest	Total
2013	\$ 160,000	\$ 245,637	\$ 405,637
2014	170,000	239,450	409,450
2015	175,000	232,981	407,981
2016	180,000	226,100	406,100
2017	190,000	217,750	407,750
2018-2022	1,095,000	933,375	2,028,375
2023-2027	1,390,000	624,250	2,014,250
2028-2032	1,775,000	230,375	2,005,375
 Total	 <u>\$ 5,135,000</u>	 <u>\$ 2,949,918</u>	 <u>\$ 8,084,918</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

h. STASC Bonds

The County's future right, title, and interest in the Tobacco Settlement Revenues were financed through the issuance of bonds in the amount of \$3,280,000 and bearing interest rates ranging from 5.25% to 6.3% in December 2000. STASC elected the 25 year flexible amortization option.

STASC Series 2005 bonds are capital appreciation bonds, upon which the investment return on the initial principal amount is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates, at which time a single payment is made representing both the initial principal amount and the total investment return.

The Series 2005 bonds are subject to redemption prior to maturity through turbo redemption payments which are to be made from surplus collections on deposit, as provided in the Bond Indenture. The amounts and timing of the turbo redemption payments are based on projections of future tobacco settlement receipts less amounts needed to satisfy debt service on the Series 2000 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default.

C. Interfund Receivables and Payables

During the course of normal operations, the County has numerous transactions between funds including expenditures and transfers of resources primarily to subsidize other funds. The Governmental Funds financial statements generally reflect such transactions as transfers. Interfund receivables and payables and interfund transfer revenues and expenditures at December 31, 2012 were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 859,834	\$ 933,471
County Road Fund	516,743	631,421
Non-Major Fund	435,296	246,981
Self-insurance Fund	70,111	70,111
Total	\$ 1,881,984	\$ 1,881,984
	Interfund Revenues	Interfund Expenditures
General Fund	\$ 1,860,146	\$ 2,553,913
County Road Fund	693,767	
Non-Major Fund	693,767	
Total	\$ 2,553,913	\$ 2,553,913

Note 3 - Summary of Significant Commitments and Contingencies

A. State and Federally Assisted Programs

The County receives many different state and federal grants to be used for specific purposes. These grants are generally conditioned on compliance with certain statutory, regulatory, and/or contractual requirements. The County makes every effort to comply with all applicable requirements. However, because these grants are audited from time to time, it is possible that the County will be required, upon audit, to repay portions of the grant monies received and recorded as revenue in a prior year. County officials do not anticipate material grant-in-aid disallowances, and no provision, therefore, is reflected in the financial statements.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

B. Other Litigation

The County and/or its agencies are named in several minor lawsuits arising in the ordinary course of the County's operations. These claims and lawsuits, in the opinion of management, are either adequately covered by insurance or will not result in a material impact on the financial position of the County and therefore, are not reflected in the accompanying financial statements. In the past three years, no settlements exceeded insurance coverage.

Note 4 - Other Disclosures

A. Schuyler County Community Services Board

The Schuyler County Community Services Board was formed under Mental Hygiene Law, Section 41, to enable and encourage the County to develop preventive, rehabilitative and treatment services for the mentally ill, the mentally retarded and the developmentally disabled, and those suffering from the diseases of alcoholism and substance abuse in the community.

The Board was formed to be a policy-making body with regards to the services provided to the community. During 1996, the Board applied for and received funding to build a new building. Bonding was obtained through the Local Government Services Corporation (LGSC) and various other state grants were received to supplement the funding stream. Because the bonding was obtained through the LGSC, the LGSC will retain title to the building for the life of the bonds. Therefore, no asset has been recorded on the County's fixed asset records.

Note 5 - Other Contingencies

During 1999, New York State and its localities achieved final approval of the Master Settlement Agreement (MSA) with the tobacco industry. The Settlement represents reimbursement to the state for medical costs incurred, primarily paid by Medicaid, for treating smoking-related illnesses. The state and its localities are expected to receive approximately \$25,000,000,000 over the next 25 years. There are a number of risks associated with the tobacco settlement that may cause the settlement amount to change. These risks include inflating adjustments, adjustments for consumption of cigarettes, bankruptcy by tobacco companies, federal litigation and individual and class action lawsuits. STASC is considered a component unit of the County and is presented as a blended component unit.

Note 6 - Transactions with Component Units

A. Schuyler County Industrial Development Agency

During the year ended December 31, 2012, the County of Schuyler paid \$1,000 in administration fees to the IDA.

B. Schuyler County Soil and Water Conservation District

The County contributed \$145,000 to the Soil and Water Conservation District during the year ended December 31, 2012.

C. Schuyler County Human Services Development Corporation

The HSDC leases office space to Schuyler County. During the year ended December 31, 2012, the County paid \$298,612 and owed \$11,316 on their lease rental commitment. In addition, the Corporation's records are maintained by County employees at no charge to the Corporation.

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 7 - Fund Balance Detail

At December 31, 2012, nonspendable, restricted and assigned fund balance in the governmental funds was as follows:

	General Fund	County Road Fund	Road Machinery Fund	STASC Debt Service Fund	Special Grant Fund
<u>Nonspendable:</u>					
Prepaid expenses	\$ 479,507	\$	\$	\$	\$
Inventory	8,257				
Total Nonspendable Fund Balance	<u>\$ 487,764</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Restricted:</u>					
E-911 Reserve	\$ 342,262	\$	\$	\$	\$
Sheriff Seized Assets	16,180				
DA Seized Assets	35,598				
Stop-DWI Reserve	32,333				
Lamoka/Wanetta Lakes Reserve	107,703				
Debt Service				270,949	
Community Development					26,679
Total Restricted Fund Balance	<u>\$ 534,076</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 270,949</u>	<u>\$ 26,679</u>
<u>Committed:</u>					
Community Services Board Reserve	\$ 31,461	\$	\$	\$	\$
Facilities & Grounds Capital Reserve	375,980				
Voice & Data Reserve	184,177				
Economic Development Reserve	8,231				
Total	<u>\$ 599,849</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Assigned:</u>					
Encumbered for:	\$	\$	\$	\$	\$
General support	68,497				
Public Safety	84,240				
Public Health	799				
Economic assistance and opportunity	11,719				
Culture and recreation	2,832				
Transportation	112,441	19,770	87,365		
Fund Balance		423,360	140,811		
Total Assigned Fund Balance	<u>\$ 280,528</u>	<u>\$ 443,130</u>	<u>\$ 228,176</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Unassigned</u>	<u>\$ 269,309</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 322,980</u>	<u>\$ -0-</u>
Total Unassigned Fund Balance	<u>\$ 269,309</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 322,980</u>	<u>\$ -0-</u>

Note 8 - Stewardship

At December 31, 2012, the County had over-expended budgets in the General Fund in the economic assistance and opportunity and employee benefits functions.

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget
<u>REVENUES</u>		
Real property taxes	\$ 10,142,457	\$ 10,142,457
Real property tax items	493,000	493,000
Nonproperty tax items	10,710,000	10,710,000
Departmental income	5,399,755	5,552,049
Intergovernmental charges	489,539	489,539
Use of money and property	647,018	647,018
Fines and forfeitures	121,599	120,999
Sale of property and compensation for loss	132,000	132,600
Miscellaneous local sources	6,800	8,358
State sources	5,043,088	5,504,171
Federal sources	3,568,245	3,845,314
Total Revenues	36,753,501	37,645,505
<u>EXPENDITURES</u>		
Current:		
General governmental support	6,946,137	7,027,262
Education	1,870,000	1,870,000
Public safety	3,585,230	3,770,419
Public health	4,086,149	4,414,183
Transportation	280,000	476,542
Economic assistance and opportunity	12,086,087	12,150,157
Culture and recreation	353,511	389,655
Home and community services	592,348	754,366
Employee benefits	4,830,322	4,830,322
Debt service - Principal and interest	144,313	195,309
Total Expenditures	34,774,097	35,878,215
Excess of Revenues	1,979,404	1,767,290
<u>OTHER FINANCING (USES)</u>		
Interfund transfers (out)	(2,349,404)	(2,554,228)
Total Other Financing (Uses)	(2,349,404)	(2,554,228)
Excess of (Expenditures) Revenues and Other Financing (Uses) Sources	(370,000)	(786,938)
Appropriated Reserves		416,938
Appropriated Fund Balances	370,000	370,000
Net Increase	\$ -0-	\$ -0-
Fund Balance, Beginning		
Fund Balance, Ending		

See Independent Auditor's Report and Notes to Required Supplementary Information

Actual	Encumbrances	Variance Favorable- (Unfavorable)
\$ 9,990,599	\$	\$ (151,858)
529,292		36,292
10,266,907		(443,093)
5,264,465		(287,584)
468,707		(20,832)
646,848		(170)
62,626		(58,373)
71,962		(60,638)
64,506		56,148
5,430,807		(73,364)
4,131,142		285,828
36,927,861	-0-	(717,644)
6,612,614	68,497	346,151
1,732,137		137,863
3,382,652	84,240	303,527
3,660,848	799	752,536
169,854	112,441	194,247
12,657,730	11,719	(519,292)
372,497	2,832	14,326
678,807		75,559
4,903,437		(73,115)
195,309		-0-
34,365,885	280,528	1,231,802
2,561,976	(280,528)	514,158
(2,553,913)		315
(2,553,913)	-0-	315
8,063	\$ (280,528)	\$ 514,473

2,163,463
\$ 2,171,526

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 COUNTY ROAD FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget
<u>REVENUES</u>		
Departmental income	\$ 37,084	\$ 37,084
Use of money and property	5,000	5,000
Fines and forfeitures	200	200
Sale of property and compensation for loss	3,000	3,000
Miscellaneous local sources	200	200
State sources	846,225	846,225
Federal sources	627,240	907,240
Total Revenues	1,518,949	1,798,949
<u>EXPENDITURES</u>		
Transportation	2,897,095	3,214,475
Employee benefits	482,000	482,000
Total Expenditures	3,379,095	3,696,475
Excess of (Expenditures)	(1,860,146)	(1,897,526)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	1,860,146	1,860,146
Total Other Financing Sources (Uses)	1,860,146	1,860,146
Excess of (Expenditures) Revenues and Other Financing (Uses) Sources	-0-	(37,380)
Appropriated Reserves		37,380
Net Increase	\$ -0-	\$ -0-
Fund Balance, Beginning		
Fund Balance, Ending		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable- (Unfavorable)</u>
\$ 32,830	\$	\$ (4,254)
409		(4,591)
100		(100)
1,450		(1,550)
65		(135)
898,964		52,739
914,320		7,080
1,848,138	-0-	49,189
3,173,072	19,770	21,633
379,460		102,540
3,552,532	19,770	124,173
(1,704,394)	(19,770)	173,362
1,860,146		
1,860,146	-0-	-0-
155,752	\$ (19,770)	\$ 173,362
287,378		
\$ 443,130		

COUNTY OF SCHUYLER
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2012	\$ <u>-0-</u>	\$ <u>22,199,170</u>	\$ <u>22,199,170</u>	0.0%	\$ <u>9,241,858</u>	240.2%
1/1/2011	\$ <u>-0-</u>	\$ <u>20,557,001</u>	\$ <u>20,557,001</u>	0.0%	\$ <u>9,773,685</u>	210.3%
1/1/2010	\$ <u>-0-</u>	\$ <u>21,146,864</u>	\$ <u>21,146,864</u>	0.0%	\$ <u>10,082,718</u>	209.7%
1/1/2008	\$ <u>-0-</u>	\$ <u>20,290,478</u>	\$ <u>20,290,478</u>	0.0%	\$ <u>9,776,623</u>	207.5%

See Independent Auditor's Report and Notes to Required Supplementary Information

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Budgetary Data

A. Budget Policies - The budget policies are as follows:

1. No later than November 15, the budget officer submits a tentative budget to the County Legislature for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for the following funds:
 - General Fund
 - County Road Fund
 - Road Machinery Fund
2. After public hearings are conducted to obtain taxpayer comments, no later than December 20, the governing board adopts the budget.
3. All modifications of the budget must be approved by the County Legislature. During 2012, the budget was modified for unanticipated grants and revenues, use of reserve funds and carryover encumbrances.
4. Appropriations are adopted at the functional level by department.
5. Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects, which remain in effect for the life of the project.
6. An annual legal budget is not adopted for the STASC, a debt service fund and Special Grant Fund, which is a Special Revenue Fund. Budgetary controls for the STASC and Special Grant Fund are established in accordance with the applicable debt service schedules and grant agreements.
7. Appropriations lapse at year end.

B. Encumbrances

Encumbrances are recorded to reserve a portion of fund balance for outstanding commitments to be financed from current appropriations. Encumbrance accounting, under which contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the General and Special Revenue Funds. Encumbrances are reported as assignments of fund balances, as they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

C. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America for the General, County Road, and Road Machinery Funds. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered disbursements in the financial plan or expenditures in GAAP based financial statements. Encumbrances reserve a portion of the applicable appropriation for purchase orders, contracts, and other commitments not expended at year end, thereby ensuring that appropriations are not exceeded. The accompanying Budgetary Comparison Schedules for the budgeted major Governmental Funds, General and County Road Fund, present comparisons of the legally adopted budget with actual data.

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 2 - Reconciliation of the General Fund Budget Basis to GAAP

No adjustment is necessary to convert excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis as there were no encumbrances added to the actual expenditures recorded in the budgetary comparison schedules.

Note 3 - Schedule of Funding Progress

The Schedule of Funding Progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

COUNTY OF SCHUYLER
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Special</u>	<u>Road</u>	<u>Capital Project</u>	<u>Non-Major</u>
	<u>Grant</u>	<u>Machinery</u>	<u>Fund</u>	<u>Governmental</u>
<u>ASSETS</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
Assets:				
Cash and cash equivalents - Unrestricted	\$ 49,012	\$ 7,337	\$ 30,316	\$ 86,665
Due from other funds	<u> </u>	<u>376,408</u>	<u>58,888</u>	<u>435,296</u>
Due from state and federal governments	<u>8,985</u>	<u> </u>	<u> </u>	<u>8,985</u>
Other receivables, net	<u> </u>	<u>30,570</u>	<u> </u>	<u>30,570</u>
 Total Assets	 <u>\$ 57,997</u>	 <u>\$ 414,315</u>	 <u>\$ 89,204</u>	 <u>\$ 561,516</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ <u> </u>	\$ 49,101	\$ <u> </u>	\$ 49,101
Accrued liabilities	<u> </u>	<u>8,382</u>	<u> </u>	<u>8,382</u>
Retainage payable	<u> </u>	<u> </u>	<u>2,118</u>	<u>2,118</u>
Due to other funds	<u>31,318</u>	<u>128,656</u>	<u>87,007</u>	<u>246,981</u>
 Total Liabilities	 <u>31,318</u>	 <u>186,139</u>	 <u>89,125</u>	 <u>306,582</u>
 Fund Balances:				
Restricted	<u>26,679</u>	<u> </u>	<u> </u>	<u>26,679</u>
Assigned	<u> </u>	<u>228,176</u>	<u>79</u>	<u>228,255</u>
 Total Fund Balances	 <u>26,679</u>	 <u>228,176</u>	 <u>79</u>	 <u>254,934</u>
 Total Liabilities and Fund Balances	 <u>\$ 57,997</u>	 <u>\$ 414,315</u>	 <u>\$ 79</u>	 <u>\$ 561,516</u>

See Independent Auditor's Report

COUNTY OF SCHUYLER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Special Revenue Funds			Total
	Special Grant Fund	Road Machinery Fund	Capital Project Fund	Non-Major Governmental Funds
<u>REVENUES</u>				
Intergovernmental charges	\$	\$ 376,142	\$	\$ 376,142
Use of money and property	66	103	79	248
Sale of property and compensation for loss		4,564		4,564
Interfund revenues		180,000		180,000
State sources	90,294			90,294
Federal sources	4,068			4,068
Total Revenues	94,428	560,809	79	655,316
<u>EXPENDITURES</u>				
Transportation		933,964		933,964
Home and community services	380,205			380,205
Employee benefits		76,794		76,794
Capital outlay			204,509	204,509
Total Expenditures	380,205	1,010,758	204,509	1,595,472
Excess of Revenues (Expenditures)	(285,777)	(449,949)	(204,430)	(940,156)
<u>OTHER FINANCING SOURCES (USES)</u>				
Interfund transfers in		489,258	204,509	693,767
Total Other Financing Sources	-0-	489,258	204,509	693,767
Excess of (Expenditures) Revenues and Other Financing (Uses) Sources	(285,777)	39,309	79	(246,389)
Fund Balances, Beginning	312,456	188,867		501,323
Fund Balances, Ending	\$ 26,679	\$ 228,176	\$ 79	\$ 254,934

See Independent Auditor's Report

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



Ciaschi • Dietershagen • Little • Mickelson & Company, LLP

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

INDEPENDENT AUDITOR'S 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

INDEPENDENT AUDITOR'S REPORT

To the County of Schuyler Legislature
Watkins Glen, New York

We have audited, in accordance with the 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, 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 Schuyler, New York (the County), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 28, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 *significant deficiency* is a deficiency, or a 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. 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 County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [12-1, 12-2, 12-3, 12-4 and 12-5]

- 43 -

CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdlim.com

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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*.

The County's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Lisa Dietershagen, Little, Miliken & Company, CPA". The signature is written in black ink and is positioned above the date and location information.

August 28, 2013
Ithaca, New York

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.
D. Leslie Spurgin, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

County Legislature
County of Schuyler
Watkins Glen, New York

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdlim.com

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

Report on Internal Control Over Compliance

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

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

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

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



August 28, 2013
Ithaca, New York

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal Catalog #	Pass - Through Grantor #	Expenditures
<u>Department of Agriculture</u>			
Passed Through NYS Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	(1)	\$ 419,405
Passed Through NYS Department of Education:			
School Breakfast Program	10.553	550301100001	1,755
National School Lunch Program	10.555	550301100001	2,726
Child Nutrition Cluster Total			<u>4,481</u>
Total Department of Agriculture			<u>423,886</u>
<u>Department of Housing and Urban Development</u>			
Passed Through NYS Housing Trust Fund Corporation:			
Community Development Block Grant - State's Program	14.228	(1)	<u>85,236</u>
Total Department of Housing and Urban Development			<u>85,236</u>
<u>Department of Justice</u>			
Passed Through NYS Division of Criminal Justice Services:			
Violence Against Women Formula Grants	16.588	T565634	10,478
Violence Against Women Formula Grants	16.588	T565635	31,435
Violence Against Women Formula Grants Total			<u>41,913</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	T632393	4,817
Edward Byrne Memorial Justice Assistance Grant Program	16.738	T632618	11,435
Edward Byrne Memorial Justice Assistance Grant Program Total			<u>16,252</u>
Passed Through NYS Crime Victims Board:			
Crime Victim Assistance	16.575	C501149	<u>42,624</u>
Total Department of Justice			<u>100,789</u>
<u>Department of Transportation</u>			
Direct:			
Railroad Development	20.314	N/A	4,069
Passed Through NYS Department of Transportation:			
Highway Planning and Construction	20.205	D032588	55,232
Highway Planning and Construction	20.205	D031724	869,895
Highway Planning and Construction Total			<u>925,127</u>
Formula Grants for Other Than Urbanized Areas	20.509	(1)	64,709
Passed Through Division of Criminal Justice Services:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	T523693	1,653
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	T523583	3,898
Minimum Penalties for Repeat Offenders for Driving While Intoxicated Total			<u>5,551</u>
Total Department of Transportation			<u>999,456</u>
Subtotal			<u>1,609,367</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass - Through Grantor/ <u>Program Title</u>	<u>Federal Catalog #</u>	<u>Pass - Through Grantor #</u>	<u>Expenditures</u>
Subtotal Carried Forward			\$ <u>1,609,367</u>
<u>Department of Environmental Conservation</u>			
Passed Through Finger Lakes Association, Inc.:			
Great Lakes Program	66.469	(1)	<u>133,528</u>
Total Department of Environmental Conservation			<u>133,528</u>
<u>Department of Education</u>			
Passed Through NYS Department of Health:			
Special Education - Grants for Infants and Families	84.181	C-027508	<u>25,472</u>
Total Department of Education			<u>25,472</u>
<u>Department of Health and Human Services</u>			
Passed Through National Association of County and City Health Officials:			
Medical Reserve Corps Small Grant Program	93.008	MRC 11 1187	5,000
Passed Through NYS Office for the Aging:			
Title III, Part D - Disease Prevention and Health Promotion Services	93.043	(1)	3,987
Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	(1)	50,828
Title III, Part C - Nutrition Services	93.045	(1)	87,738
Nutrition Services Incentive	93.053	(1)	<u>34,211</u>
Aging Cluster Total			<u>172,777</u>
National Family Caregiver Support	93.052	(1)	28,722
Medicare Enrollment Assistance Program	93.071	(1)	13,419
Low-Income Home Energy Assistance	93.568	(1)	12,983
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	(1)	41,962
Passed Through NYS Department of Health:			
Immunization Grants	93.268	C023269	36,599
Maternal and Child Health Services Block Grant to the States	93.994	C026536	10,668
Maternal and Child Health Services Block Grant to the States	93.994	C024642	18,579
Maternal and Child Health Services Block Grant to the States Total			<u>29,247</u>
Passed Through Health Research, Inc.:			
Public Health Emergency Preparedness	93.069	001609-10	15,570
Public Health Emergency Preparedness	93.069	001609-09	20,124
Public Health Emergency Preparedness Total			<u>35,694</u>
Subtotal			<u>2,148,757</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal Catalog #	Pass - Through Grantor #	Expenditures
Subtotal Carried Forward			\$ <u>2,148,757</u>
<u>Department of Health and Human Services (continued)</u>			
Passed Through NYS Department of Social Services:			
Temporary Assistance for Needy Families	93.558	(1)	2,238,585
Child Support Enforcement	93.563	(1)	194,759
ARRA - Child Support Enforcement	93.563	(1)	24,500
Child Support Enforcement Total			<u>219,259</u>
Low-Income Home Energy Assistance	93.568	(1)	1,501,392
Child Care and Development Block Grant	93.575	(1)	409,354
Foster Care - Title IV-E	93.658	(1)	482,981
Adoption Assistance	93.659	(1)	48,088
ARRA - Adoption Assistance	93.659	(1)	53
Adoption Assistance Total			<u>48,141</u>
Social Services Block Grant	93.667	(1)	354,786
Chafee Foster Care Independent Living	93.674	(1)	1,867
Medical Assistance Program	93.778	(1)	411,741
Total Department of Health and Human Services			<u>6,048,496</u>
<u>Department of Homeland Security</u>			
Passed Through NYS Office of Homeland Security:			
Emergency Management Performance Grants	97.042	(1)	11,701
Homeland Security Grant Program	97.067	T973312	29,744
Homeland Security Grant Program	97.067	T839402	6,722
Homeland Security Grant Program	97.067	T839492	6,850
Homeland Security Grant Program	97.067	C973310	44,706
Homeland Security Grant Program	97.067	C839480	8,510
Homeland Security Grant Program	97.067	C839490	15,821
Homeland Security Grant Program	97.067	C839400	56,621
Homeland Security Grant Program Total			<u>168,974</u>
Citizen Corps	97.053	(1)	4,703
Total Department of Homeland Security			<u>185,378</u>
Total Expenditures of Federal Awards			\$ <u>8,002,241</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the County, an entity as defined in Note 1 to the County's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

Note 2 - Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the basic financial statements.

Note 3 - Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the federal financial reports used as the source for the data presented.

Note 4 - Matching Costs

Matching costs, i.e., the County's share of certain program costs, are not included in the reported expenditures.

Note 5 - Department of Social Services - Administrative Costs

Differences between the amounts reflected in the Schedule of Expenditures of Federal Awards and the Department of Social Service's federal financial reports (RF-2 claims) are due to the allocation of administrative costs to the individual programs.

COUNTY OF SCHUYLER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - **Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.561</u>	<u>State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</u>
<u>93.044, 93.045, 93.053</u>	<u>Office for the Aging Cluster</u>
<u>93.558</u>	<u>Temporary Assistance for Needy Families</u>
<u>93.563</u>	<u>Child Support Enforcement Cluster</u>
<u>93.658</u>	<u>Foster Care -Title IV-E</u>
<u>93.575</u>	<u>Child Care and Development Block Grant</u>
<u>93.778</u>	<u>Medical Assistance Program</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: yes X no

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - **Financial Statement Findings**

12-1 General Ledger Oversight

Condition:

During our current and prior years' audits we have noted general ledger balance sheet accounts not being reviewed or reconciled on a periodic basis, resulting in large negative balances in receivable and payable accounts during the year. In addition, Due To/Due From and Interfund revenue and expenditure accounts did not balance between funds and encumbrances did not agree with the manual open purchase order listing. It has also been noted one-time entries were either not made or not made on a timely basis during the year and trial balances did not balance.

Criteria:

It is the responsibility of the County to provide accurate and timely financial statements.

Effect:

These items together result in material errors in reports created from the financial accounting system both for actual and budget numbers, including reports sent to New York State, the County Administrator and Department heads. Significant time was also required at year end to correct these errors.

Recommendation:

We recommend all asset and liability accounts be reviewed and reconciled monthly. Any discrepancies should be corrected immediately to ensure accurate and timely financial reporting. We also recommended training be provided to all Treasurer Office's personnel on municipal accounting, internal controls and use of the County's financial general ledger accounting software.

Corrective Action Plan:

As recommended, we will strive to review and reconcile all asset and liability accounts on a monthly basis, correct discrepancies when found, and research when necessary to ensure accuracy. General ledger entries are made by the Treasurer and Deputy Treasurer due to the small staff in the Treasurer's Office.

12-2 Budgets

Condition:

During our current and prior years' audits, we noted the County's budget, as entered into the financial accounting system, did not balance. This was due to remaining budgeted grant funds from prior years carrying over, regardless of status, and the expenditures appropriation not agreeing with the related revenue appropriation. Most of these grants were closed during prior years and funds were remaining due to incorrect coding of expenditures.

Criteria:

Per GML, management is responsible for following the approved use of County funds in accordance with an approved budget.

Effect:

During our current and prior year audit, the modified budget for the General Fund did not balance. Also, in current and prior years, certain expenditure function totals in the General and County Road Funds were over-expended at year end.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Recommendation:

It is recommended departments be urged to properly code grant expenditures and periodically review their respective grant budgets per the Treasurer's reports to ensure grant expenditures are being reported properly. In addition, grant funds remaining at year end should be reviewed with Department heads before being added to the current year budget to ensure they are legitimate budget items. Revenue status and expenditures status reports should periodically be checked to ensure they balance. Also, budget balances should be checked prior to expenditures being made to ensure budgets are not over-expended, per GML.

Corrective Action Plan:

Due to the set-up of the financial accounting software, balances of grants at the end of the prior year are automatically added to (or subtracted from) the current year budget. Because grant revenues do not always agree with expenditures, at year end remaining grant revenue budgets may not agree with remaining grant expenditures budgets, causing the subsequent modified budget to be out of balance. We will attempt to review carryover grant budgets with department heads before adding these amounts to the adopted budget. We will also attempt to periodically review grant budgets, as shown on budget status reports, with department heads to reduce duplicated grants and the carryover of closed grants.

12-3 Audit Adjustments

Condition:

Management's lack of accounting ability and knowledge has led to numerous posting errors throughout recent fiscal years. During our current and prior years' audits we made numerous audit adjustments. Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Audit adjustments that, either individually or in the aggregate, may have a significant effect on the County's financial reporting process were reviewed, approved and posted by management.

Criteria:

Management is charged with maintaining fiscal integrity and stewardship. This includes reconciling balance sheet accounts, reviewing budgets, reviewing journal entries to ensure they are properly posted and have adequate supporting documentation attached, and confirming the financial statements are accurately presented at any point in time.

Effect:

These errors have resulted in material financial statement misstatements in reports received by the Legislature prior to our audit adjustments. The net effect of our proposed adjustments which have an effect considered material to the financial statements taken as a whole follow:

- Fund Balance of the General Fund: decreased by \$(127,067)
- Fund Balance of the County Road Fund: decreased by \$(643,346)
- Fund Balance of the Road Machinery Fund: increased by \$127,751
- Fund Balance of the Capital Projects Fund: increased by \$204,578
- Fund Balance of the Self-insurance Fund: decreased by \$(348)
- Fund Balance of the Special Grant Fund: increased by \$285,571

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Recommendation:

We recommend monthly reviews and reconciliations of general ledger balances be performed and reviewed by a responsible official. Differences should be investigated and adjustments made on a timely basis to ensure accurate and timely financial reporting. In addition, we recommend a knowledgeable accountant be hired to perform these monthly accounting functions and a balance sheet be provided to the Legislature along with the financial information they are currently receiving.

Corrective Action Plan:

As recommended, we will strive to review and reconcile all asset and liability accounts on a monthly basis and correct discrepancies when found, and if necessary, research will be done to ensure accuracy.

12-4 Preparation of Financial Statements

Condition:

The preparation and assembly of the Schuyler County's financial statements, Schedule of Federal Expenditures (SEFA) and related footnotes were delegated to the audit firm. While it is common for the auditor to prepare the financial statements for many small organizations, the role of the auditor continues to be expressing an opinion on those financial statements.

Criteria:

Statement on Auditing Standards #115 requires us to assess whether the organizations we audit are able to prepare financial statements, Schedule of Federal Expenditures and footnotes in accordance with generally accepted accounting principles.

Effect:

Based on the comments in this report, it is our opinion that management has not demonstrated the knowledge or ability to prepare such financial statements, SEFA and footnotes in accordance with generally accepted accounting principles. The County Administrator and the legislative oversight finance committee have taken on the responsibility to review and edit the draft financial statements, disclosures and schedule of federal expenditures.

Recommendation:

We recommend the County consider hiring an accounting consultant to prepare the County's financial statements.

Corrective Action Plan:

The Treasurer's Office welcomes the opportunity to be trained in preparing its own financial statements to help reduce costs and continues to investigate training options.

12-5 Bank Statement Reconciliation

Condition:

It was noted during current and prior years' audits that the County's bank accounts are not being reconciled to the general ledger system on a monthly basis. In addition, during the current year it was noted the General Fund checking and Welfare checking accounts were not reconciled timely and, at the end of April 2013 were not reconciled. In addition, the Treasurer was unable to reconcile these accounts to the general ledger. However, the unreconciled differences were immaterial to the financial statements. Also, cash transactions recorded in the manual check books were not consistently posted to the general ledger and vice-versa.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Criteria:

Bank statements should be reconciled to the general ledger accounting system monthly as a safeguarding of assets control. In addition, activity should be posted to the general ledger daily. Posting to the general ledger daily and reconciling bank statements to the ledger monthly helps insure the County departments, County Administrator and Legislature are receiving accurate and useful financial information.

Effect:

The above condition resulted in significant differences between general ledger and reconciled cash balances, and required a significant time investment at year end to reconcile the two. In addition, County departments, the County Administrator and Legislature are not receiving accurate and useful financial information. This decreases the County's control over safeguarding of assets.

Recommendation:

We recommend all bank accounts be reconciled monthly to the general ledger and any discrepancies resolved at that time in order to increase the County's safeguarding of assets controls.

Corrective Action Plan:

Bank accounts now have their own general ledger account and are reconciled to the general ledger and not to a manual checkbook.

Section III - Federal Award Findings and Questioned Costs

None noted.