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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, 2011, 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.

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.

CURRENT YEAR FINDINGS

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 resulted due to control accounts not being completely closed to fund balance at December 31, 2010. The encumbrance control account balances did not agree with the subsidiary detail information totals due to prior year entries 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 posted directly to reserves. An adjusting entry moving the amounts to/from reserves and from/to unappropriated fund balance should then be done. 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.

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During our current 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 current 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 current year audit, it was noted that 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. This passive approach in applying accounting principles has created glaring discrepancies between actual amounts and those expected.

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

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 uses 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. 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.

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. 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 manual 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.

Ledger Oversight

Finding:

It was noted during the prior years' audits 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 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. The above items resulted in material errors in reports created from the financial accounting system, both for actual and budget numbers, including reports sent to the Legislature. 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. It is also recommended training be provided to all Treasurer's Office personnel on municipal accounting, internal controls and use of the County's financial general ledger accounting software.

Current Status:

During our current year audit, we noted monthly reconciliations of balance sheet accounts are still not being performed. However, all trial balances balanced. In addition, an outside accountant was hired at year-end to reconcile cash accounts. At the time of our audit, all 2011 bank accounts had been reconciled to the general ledger.

Bank Statement Reconciliations

Finding:

It was noted during 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.

Current Status:

As mentioned above, an independent accountant was hired at year-end to reconcile the 2011 monthly bank accounts. At April 2012, the December 31, 2011 bank statements reconciled to KVS.

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.

Recommendation:

It is recommended all journal entries be accompanied by adequate documentation, dated at the time the entry is made or posted to the correct "period," and reviewed by management at the time the entry is made. Any corrections should be made when noted and the incorrect entry should be marked as corrected, noting date, journal entry number and individual posting the entry. All above information should be attached to the journal entry and maintained in chronological order in a general journal book.

Current Status:

During our current year audit, adequate documentation was attached to journal entries examined. However, upon scanning the general ledger, an excessive number of correcting entries were noted.

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, 2010. Additionally, grant revenues were not equal to grant expenditures added to the budget. We noted at least one grant added to the budget twice 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 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 #112 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. 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, schedules of federal expenditures 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 schedule of federal expenditures.

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: increased by \$1,252,557
- Fund Balance of the County Road Fund: increased by \$98,735
- Fund Balance of the Road Machinery Fund: decreased by \$(45,902)
- Fund Balance of the Capital Projects Fund: increased by \$140,040
- Fund Balance of the Self-insurance Fund: increased by \$432,299
- Fund Balance of the Special Grant Fund: increased by \$246,810

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 year audit, we noted an excessive number of vendors who, rather than being processed through the accounts payable cycle, were paid using hand drawn checks. For five of 15 hand drawn checks examined, adequate documentation could not be located. In addition, 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 often are for the incorrect amount.

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 needed 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 are paid timely with proper approvals.

Cash Receipts

Finding:

During our current 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 MAS 90 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 MAS 90 general ledger accounting system was not maintained on a current basis, as previously noted. In addition, the MAS 90 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 MAS 90 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.

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:

During the current year, most of the cash related to closed grants was transferred as necessary. However, a small amount 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.

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

Finding:

During the current 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.

Recommendation:

We recommend the County have an actuarial valuation performed in accordance with GASB Statement Number 45 for the year ended December 31, 2011 and have the valuation updated in the future as required by the Statement.

Prior Year Findings - Resolved

Deficit Fund Balances

Finding:

During our prior years' audits, it was noted the Capital Projects Fund had a deficit fund balance. This was due to expenditures exceeding revenue during the prior year. This deficit will be eliminated by the payoff of Bond Anticipation Notes (BANs) either by issue of bonds or appropriations from the General Fund.

Resolution:

During the current year audit, we noted the County closed its Capital Projects Fund, transferring the necessary funds to/from other funds.

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.



July 9, 2012
Ithaca, New York

COUNTY OF SCHUYLER

Watkins Glen, New York

FINANCIAL STATEMENTS

December 31, 2011

COUNTY OF SCHUYLER
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Independent Auditor's Report	1-1a
Required Supplementary Information:	
Management's Discussion and Analysis	2-2i
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	3-4
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 Assets	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 Assets - 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 Assets - 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
Report Required under Government Auditing Standards:	
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 with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	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

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INDEPENDENT AUDITOR'S REPORT

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

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 (the County), as of and for the year ended December 31, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, as of December 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Auditing Standards*, we have also issued a report dated July 9, 2012 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- 1 -

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 2 through 2i and 36 through 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the 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 financial statements or to the 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.

A handwritten signature in cursive script that reads "Lisa Dietershagen, Little, Mickelson & Company, CPA". The signature is written in black ink and is positioned centrally below the main body of text.

July 9, 2012
Ithaca, New York

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011. Please read this information in conjunction with the County's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$14,742,553 (net assets). Of this amount, \$(5,402,447) is an unrestricted net deficit.
- The County's overall net assets decreased by \$(2,538,887), or 14.69%, while unrestricted net assets decreased by \$(1,873,972) or 53.11%.
- During the year, the County's revenues increased by \$505,482 to \$38,407,434 from \$37,901,952 in 2010.
- Expenses of \$40,946,321 decreased by \$(1,103,956), from \$42,050,277 in the prior year.
- Expenditures exceeded revenue in the Governmental Funds by \$(172), bringing fund balances to \$3,586,799 at December 31, 2011.
- The General Fund recorded a decrease of \$(534,964) in 2011, largely as a result of increased insurance costs and reduced aid, and ended the year with a fund balance of \$2,163,463. Of this fund balance, \$2,835,868 was reserved for future expenditures, and \$(672,405) was unassigned.
- Invested in capital assets, net of debt, decreased \$(957,501) due to a decrease of \$(1,144,095) in capital assets, offset by principal paid on bonds.
- The County's long-term obligations at year end were \$20,289,995, a net increase of \$2,095,534 from 2010, primarily as a result of the recording of the GASB 45 other postemployment benefits liability and expense of \$1,908,130 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 Assets and the Statement of Activities (on pages 3 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, 2011

Reporting the County as a Whole

Analysis of the County as a whole begins on page 3, with the Government-wide statements. The Statement of Net Assets 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 assets and changes in them. The County's net assets, the difference between assets and liabilities, are one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets 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 Assets 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, 2011

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 Assets 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 assets for fiscal year ended December 31, 2011 decreased \$(2,538,887), from \$17,281,440 to \$14,742,553, compared to last year's net assets decrease of \$(4,148,325).

The largest portion of the County's net assets, \$18,748,186 or 128.83%, 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 are 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 assets, \$1,396,814 or 9.60%, represents resources subject to external restrictions on how they may be used and are reported as restricted net assets. These net assets consist of unspent funds restricted for public safety, community development and debt service.

The remaining category of total net assets, unrestricted net deficit of \$(5,402,447) or 38.43% may be used to meet the government's ongoing obligations and services to creditors and citizens. Of this net deficit, the County has appropriated \$370,000 for 2012 expenses and designated another \$1,817,530 for specific purposes.

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

Figure 1 - Net Assets

	Governmental Activities		Dollar Change
	2010	2011	2010 - 2011
<i>Current assets</i>	\$ 8,439,581	\$ 8,628,689	\$ 189,108
<i>Capital assets, net</i>	31,147,827	30,003,732	(1,144,095)
<i>Other noncurrent assets</i>	1,083,107	1,059,714	(23,393)
Total Assets	40,670,515	39,692,135	(978,380)
<i>Current liabilities</i>	5,367,438	5,231,375	(136,063)
<i>Noncurrent liabilities</i>	18,021,637	19,718,207	1,696,570
Total Liabilities	23,389,075	24,949,582	1,560,507
<i>Invested in capital assets, net of debt</i>	19,705,687	18,748,186	(957,501)
<i>Restricted</i>	1,104,228	1,396,814	292,586
<i>Unrestricted</i>	(3,528,475)	(5,402,447)	(1,873,972)
Total Net Assets	\$ 17,281,440	\$ 14,742,553	\$ (2,538,887)

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

The County's current assets increased \$189,108 or 2.24%. Capital assets, net, decreased \$(1,144,095), or 3.67% primarily due to depreciation expense, offset by additions.

Current liabilities decreased \$(136,063) 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, 2011.

The County's total revenues increased by 1.33%, while the total cost of all programs and services decreased by 2.63%. Our analysis in Figure 2 separately considers the operations of Governmental Activities.

Figure 2 - Changes in Net Assets

	Governmental Activities		Dollar Change
	2010	2011	2010 - 2011
REVENUES			
<i>Program Revenues:</i>			
Charges for services	\$ 8,439,092	\$ 6,366,794	\$ (2,072,298)
Operating grants and contributions	9,765,470	9,439,303	(326,167)
Capital grants	808,617	1,685,905	877,288
<i>General Revenues:</i>			
Property taxes and tax items	10,123,887	10,087,847	(36,040)
Sales and other taxes	8,780,783	10,336,543	1,555,760
Tobacco settlement	227,642	249,672	22,030
Use of money and property	13,204	7,864	(5,340)
Other	(256,743)	233,506	490,249
Total Revenues	37,901,952	38,407,434	505,482
PROGRAM EXPENSES			
General government	9,077,059	8,752,248	(324,811)
Education	2,004,446	1,787,898	(216,548)
Public safety	5,023,722	4,846,550	(177,172)
Public health	5,673,644	4,981,974	(691,670)
Transportation	3,978,076	4,807,528	829,452
Economic assistance and opportunity	13,143,035	13,532,438	389,403
Culture and recreation	659,229	661,038	1,809
Home and community services	599,141	909,685	310,544
Self-insurance	1,250,923	-0-	(1,250,923)
Interest on long-term debt	641,002	666,962	25,960
Total Expenses	42,050,277	40,946,321	(1,103,956)
(DECREASE) IN NET ASSETS	\$ (4,148,325)	\$ (2,538,887)	\$ 1,609,438

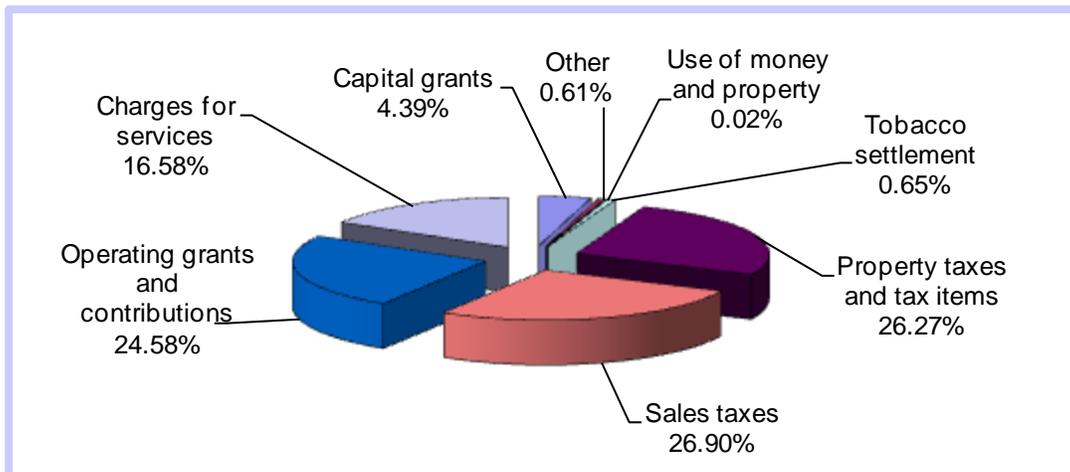
Charges for services decreased \$(2,072,298) as a result of the County changing from being self-funded to a third party provider for health and dental insurance. In addition, in general, there was reduced fee for service activities provided in 2011. Operating grants and contributions, primarily received from State and Federal sources, decreased by \$(326,167), primarily due to decreased aid. Capital grants and contributions increased \$877,288 due to increased road and bridge project grants for the year ended December 31, 2011. Sales and other taxes increased \$1,555,760 due to increased sales and room tax revenue received. Other revenues increased \$490,249 due to a loss on sale of County property during the year ended December 31, 2010. There were no sales of County property during 2011.

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

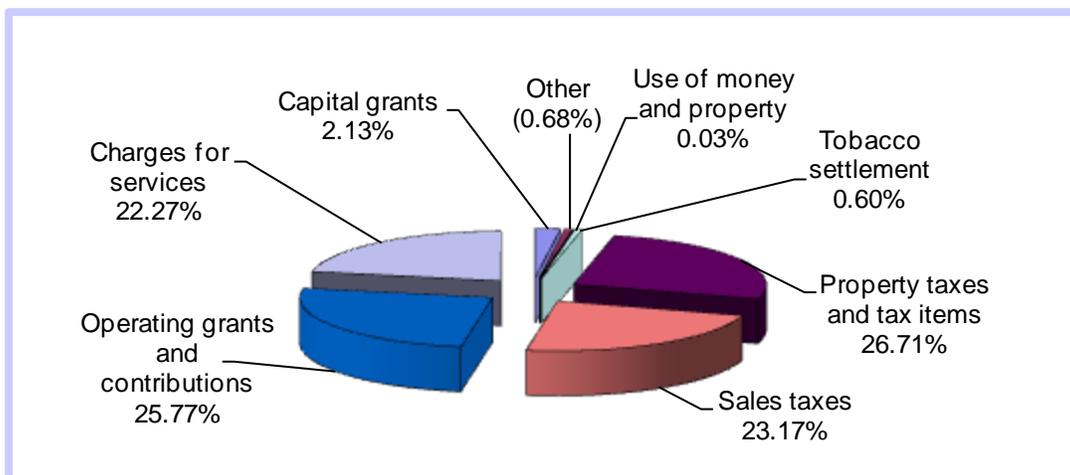
General government, education, public safety, public health and self-insurance expenses decreased primarily due to an overall effort by the County to reduce expenses. Interest on long-term debt increased due to the accrual of accreted interest due, offset by a decrease in accrued interest. The increase in transportation expense is the result of increased highway projects. The increase in home and community services expenses is due to community development grants expended during the year ended December 31, 2011. The decrease in self-insurance expenses is the result of the County changing from being self-funded to using a third party provider for health and dental insurance during 2011.

Figures 3 and 4 show the sources of revenue for 2011 and 2010.

**Figure 3 - Revenues by Source
 Governmental Activities
 2011**



**Figure 4 - Revenues by Source
 Governmental Activities
 2010**

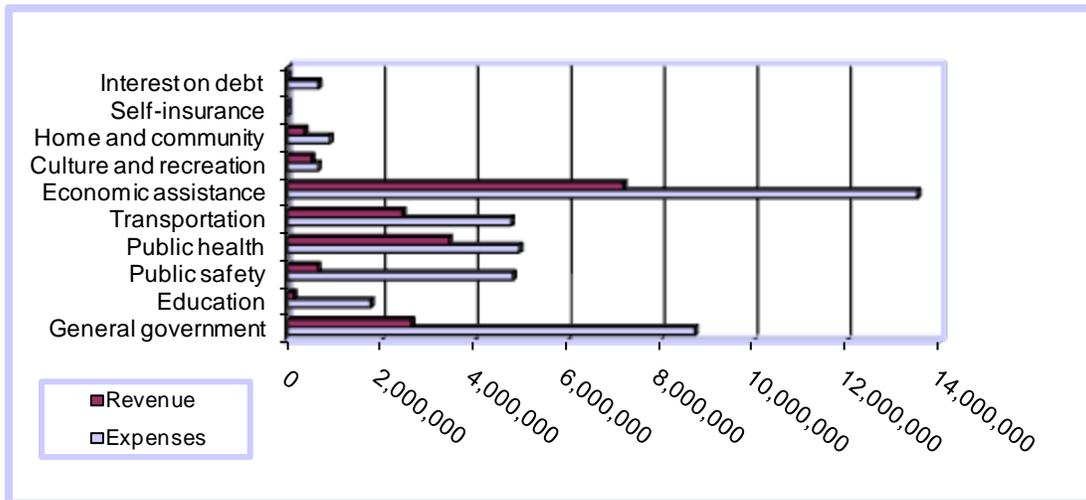


COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2011

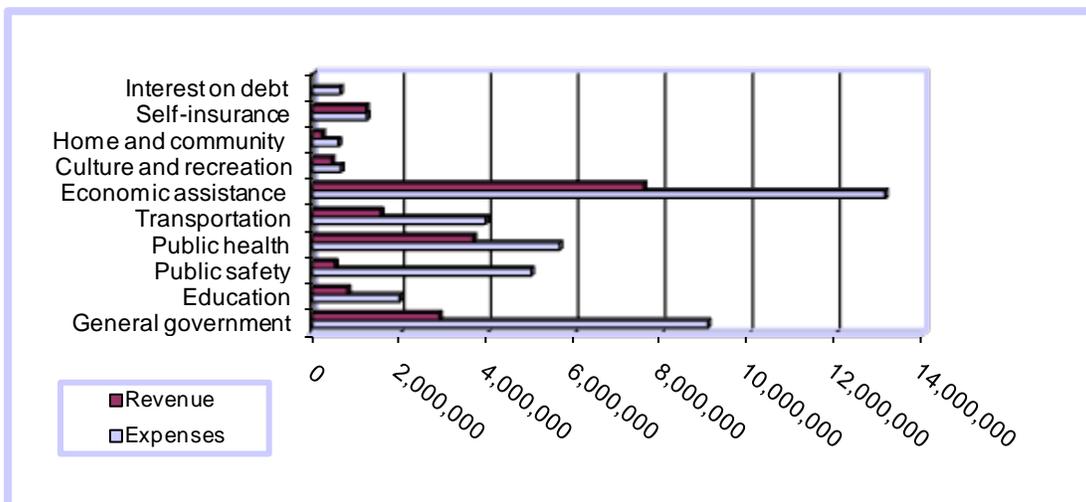
The cost of all Governmental Activities this year was \$40,946,321. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County property and other tax revenues was \$23,454,319, because some of the cost was paid by those who 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 \$17,492,002.

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
 2011**



**Figure 6 - Net Program Cost
 Governmental Activities
 2010**



COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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 \$3,586,799, which is \$(172) lower than last year's total fund balance. Of this amount, \$389,132 is nonspendable, \$666,706 is restricted for future expenditures, \$1,355,793 is committed for future expenditures and \$424,237 is assigned for 2012 expenditures, leaving a \$(672,405) in unassigned fund deficit. 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>2010</i>	<i>2011</i>	<i>2010 - 2011</i>
<i>Major Funds:</i>			
<i>General Fund</i>	\$ 2,698,427	\$ 2,163,463	\$ (534,964)
<i>Special Revenue Fund:</i>			
<i>County Road Fund</i>	74,180	287,378	213,198
<i>Capital Project Fund</i>	(75,759)	-0-	75,759
<i>Nonmajor Funds:</i>			
<i>Special Revenue Funds:</i>			
<i>Special Grant Fund</i>	65,383	312,456	247,073
<i>Road Machinery Fund</i>	185,193	188,867	3,674
<i>STASC Debt Service Fund</i>	639,547	634,635	(4,912)
Totals	\$ 3,586,971	\$ 3,586,799	\$ (172)

This year's total change in fund balance is a decrease of \$(172), compared to a \$77,532 increase in 2010. The primary reason for the 19.83% decrease in the fund balance of General Fund is due to increased social services expenditures. The increase in the fund balance of County Road Fund and Special Grant Fund stems from increased state and federal grants.

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 \$1,485,639. The most significant positive variances occurred in the County's public safety, public health and employee benefits 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 \$(1,212,542) under the final budgeted amount primarily due to departmental income and state aid revenues not received.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Figure 8
Budgetary Comparison Schedule - General Fund
December 31, 2011

	Original Budget	Final Budget	Actual Encumbrances	Variance Fav.(Unfav.)
<u>REVENUES AND OTHER FINANCING SOURCES</u>				
<i>Real property taxes and tax items</i>	\$ 10,451,500	\$ 10,451,500	\$ 10,449,168	\$ (2,332)
<i>Nonproperty tax items</i>	9,547,666	9,547,666	10,400,369	852,703
<i>Departmental income and intergovernmental charges</i>	6,210,541	6,402,269	4,917,288	(1,484,981)
<i>Use of money and property</i>	578,197	578,197	566,357	(11,840)
<i>State sources</i>	5,317,776	5,596,388	4,548,305	(1,048,083)
<i>Federal sources</i>	3,331,903	3,876,183	4,297,757	421,574
<i>Other revenues and financing sources</i>	209,272	209,272	269,689	60,417
Total Revenues and Other Financing Sources	\$ 35,646,855	\$ 36,661,475	\$ 35,448,933	\$ (1,212,542)
Appropriated Reserves and Fund Balance	\$ 779,918	\$ 862,298	\$ -0-	\$ (862,298)
<u>EXPENDITURES AND OTHER FINANCING USES</u>				
<i>General government</i>	\$ 6,809,519	\$ 6,721,246	\$ 6,628,212	\$ 93,034
<i>Education</i>	1,785,000	1,787,898	1,787,898	-0-
<i>Public safety</i>	3,316,801	3,448,401	3,148,361	300,040
<i>Public health</i>	4,140,624	4,439,610	3,924,334	515,276
<i>Transportation</i>	280,000	262,800	253,724	9,076
<i>Economic assistance and opportunity</i>	11,620,714	11,895,783	11,850,583	(45,200)
<i>Culture and recreation</i>	381,268	497,255	491,495	5,760
<i>Home and community services</i>	637,082	654,247	596,285	57,962
<i>Employee benefits</i>	4,814,423	4,813,385	4,356,005	457,380
<i>Debt service</i>	152,294	208,966	207,055	1,911
<i>Other financing uses</i>	2,489,048	2,794,182	2,794,182	-0-
Total Expenditures and Other Financing Uses	\$ 36,426,773	\$ 37,523,773	\$ 36,038,134	\$ 1,485,639
<i>Excess of Expenditures and Other Financing Uses</i>	\$ (779,918)	\$ (862,298)	\$ (589,201)	\$ 273,097

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2011, the County had capital assets of \$30,003,732, net of accumulated depreciation of \$28,079,844, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net decrease (including additions and deductions) of \$1,144,095 from last year.

Figure 9
Capital Assets, Net of Depreciation

	Governmental Activities		Dollar Change
	2010	2011	2010 - 2011
<i>Land</i>	\$ 447,639	\$ 447,639	\$ -0-
<i>Construction-in-progress</i>	85,092	160,423	75,331
<i>Buildings and improvements</i>	12,614,918	12,082,402	(532,516)
<i>Land improvements</i>	2,475,837	2,384,166	(91,671)
<i>Machinery and equipment</i>	2,648,950	2,035,492	(613,458)
<i>Infrastructure</i>	12,875,391	12,893,610	18,219
Totals	\$ 31,147,827	\$ 30,003,732	\$ (1,144,095)

This year's additions consisted of:

Construction-in-progress	\$ 75,331
Machinery and equipment	70,148
Infrastructure	782,363
Total Additions	<u>927,842</u>
Less: Depreciation	1,933,468
HSDC depreciation	129,878
Loss on sale of property	<u>8,591</u>
Total Net Change	<u>\$ (1,144,095)</u>

Debt Administration

Total long-term liabilities increased in 2011 by \$2,095,534 to \$20,289,995. Of this amount, \$70,000 was subject to the constitutional debt limit and represented 0.09% of the County's statutory debt limit. The recording of other postemployment benefits liability and expense of \$1,908,130 was the most significant change in 2011.

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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
	2010	2011	2010 - 2011
<i>Serial bonds</i>	\$ 10,774,176	\$ 10,819,020	\$ 44,844
<i>Capital lease</i>	51,904	45,525	(6,379)
<i>Compensated absences</i>	557,274	552,870	(4,404)
<i>Retiree Health Insurance payable</i>	6,195,047	8,103,177	1,908,130
<i>Tobacco settlement pass-through bonds accreted interest</i>	616,060	769,403	153,343
Totals	\$ 18,194,461	\$ 20,289,995	\$ 2,095,534

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. While the County has made adjustments in spending to reflect declining revenue sources and has sought to fund mandated increases without increasing property taxes, growth in mandated expenses now far outpaces growth in available funding sources. The implementation of, and compliance with, a 2% property tax cap in NYS further exacerbates this position as reserves must be utilized to reconcile the double digit growth in the cost of services that must be provided but which the County has no ability to contain. In that this practice is not sustainable, if the County wishes to avoid a large increase in the property tax rate, continued evaluation of all non mandated spending will be necessary and difficult decisions will likely need to be made concerning the reduction or elimination of services the County provides.

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 ASSETS
DECEMBER 31, 2011

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 573,630	\$ 367,560	\$ 192,869
Restricted cash	711,137	1,198,221	107,395
Taxes receivable, net	1,965,325		
Accounts receivable, net	864,790	112,510	
Loans receivable - Current portion			42,483
Due from state and federal governments	4,084,124		
Due from other governments	38,693		
Prepaid expenses	382,294	5,398	
Inventories	8,696		
Other			
Total Current Assets	8,628,689	1,683,689	342,747
Noncurrent Assets:			
Restricted cash and cash equivalents	681,312		327,577
Loans receivable, long-term portion			326,601
Unamortized bond issue costs	378,402		
Land and construction-in-progress	608,062		
Depreciable capital assets, net	29,395,670	62,470	
Total Noncurrent Assets	31,063,446	62,470	654,178
 Total Assets	 39,692,135	 1,746,159	 996,925
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	1,149,295	73,320	275
Accrued liabilities	375,141	18,144	
Interest payable	82,196		
Due to other governments	1,839,736		
Overpayments	886,794		
Deferred revenue	326,425	1,063,963	
Long-term obligations due within one year:			
Lease payable	29,763		
Bonds payable	486,738		
Compensated absences	55,287		
Total Current Liabilities	5,231,375	1,155,427	275

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
(CONTINUED)
DECEMBER 31, 2011

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
Total current liabilities brought forward	\$ 5,231,375	\$ 1,155,427	\$ 275
Noncurrent Liabilities:			
Long-term obligations due after one year:			
Accreted interest payable	769,403		
Lease payable	15,762		
Bonds payable	10,332,282		
Other postemployment benefits payable	8,103,177		
Compensated absences	497,583		
Total Noncurrent Liabilities	19,718,207	-0-	-0-
Total Liabilities	24,949,582	1,155,427	275
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	18,748,186	62,470	
Restricted for:			
Community development	312,456		107,395
Debt service	681,312		
Public safety	403,046		
Unrestricted (Deficiency)	(5,402,447)	528,262	889,255
Total Net Assets	\$ 14,742,553	\$ 590,732	\$ 996,650

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

<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	\$ 8,752,248	\$ 2,052,678	\$ 609,059	\$ _____
Education	1,787,898	95,268	37,650	_____
Public safety	4,846,550	500,847	149,908	_____
Public health	4,981,974	1,926,084	1,546,252	_____
Transportation	4,807,528	672,474	114,441	1,685,905
Economic assistance and opportunity	13,532,438	745,348	6,472,549	_____
Culture and recreation	661,038	293,651	224,075	_____
Home and community services	909,685	80,444	285,369	_____
Self-insurance	_____	_____	_____	_____
Interest on debt	666,962	_____	_____	_____
Total Governmental Activities	\$ 40,946,321	\$ 6,366,794	\$ 9,439,303	\$ 1,685,905
Component Units:				
Soil and Water Conservation	\$ 1,265,075	\$ 166,023	\$ 1,242,257	\$ _____
Industrial Development Agency	27,908	5,664	_____	_____
Total Component Units	\$ 1,292,983	\$ 171,687	\$ 1,242,257	\$ -0-

Net (Expense) and Changes in Net Assets 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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Assets

Primary Government	Component Units	
Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
\$ (6,090,511)	\$	\$
(1,654,980)		
(4,195,795)		
(1,509,638)		
(2,334,708)		
(6,314,541)		
(143,312)		
(543,872)		
(666,962)		
(23,454,319)		
	143,205	
		(22,244)
	143,205	(22,244)
(23,454,319)	143,205	(22,244)
9,679,291		
408,556		
10,336,543		
249,672		
7,864	1,874	6,569
103,216	42,385	12,028
130,290		
20,915,432	44,259	18,597
(2,538,887)	187,464	(3,647)
17,281,440	403,268	1,000,297
\$ 14,742,553	\$ 590,732	\$ 996,650

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Major Funds	
	General Fund	Special Revenue Fund County Road Fund
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ 221,654	\$ 242,959
- Restricted	398,838	
Taxes receivable (net)	1,965,325	
Due from other funds	1,180,617	787,294
Due from State and Federal governments	3,587,689	201,607
Due from other governments	38,693	
Other receivables, net	573,976	9,692
Prepaid expenses	380,436	
Inventories	8,696	
Total Assets	\$ 8,355,924	\$ 1,241,552
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 1,098,479	\$ 15,936
Accrued liabilities	348,673	21,335
Due to other funds	989,444	916,903
Due to other governments	1,839,736	
Overpayments	886,794	
Deferred revenues	1,029,335	
Total Liabilities	6,192,461	954,174
Fund Balances:		
Nonspendable	389,132	
Restricted	666,706	
Committed	1,355,793	
Assigned	424,237	287,378
Unassigned (Deficit)	(672,405)	
Total Fund Balances	2,163,463	287,378
Total Liabilities and Fund Balances	\$ 8,355,924	\$ 1,241,552

See Independent Auditor's Report and Notes to Financial Statements

<u>Major Funds</u>		
<u>Capital Project Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
\$ 68,438	\$ 295,230	\$ 828,281
	268,312	667,150
		1,965,325
	202,150	2,170,061
	294,828	4,084,124
		38,693
	280,996	864,664
	1,858	382,294
		8,696
<u>\$ 68,438</u>	<u>\$ 1,343,374</u>	<u>\$ 11,009,288</u>
\$	\$ 34,880	\$ 1,149,295
	5,133	375,141
68,438	167,403	2,142,188
		1,839,736
		886,794
		1,029,335
68,438	207,416	7,422,489
		389,132
	580,768	1,247,474
		1,355,793
	188,867	900,482
	366,323	(306,082)
	1,135,958	3,586,799
<u>\$ 68,438</u>	<u>\$ 1,343,374</u>	<u>\$ 11,009,288</u>

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total Governmental Fund Balances \$ 3,586,799

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

Capital assets of the Governmental Funds, net of accumulated depreciation of \$27,527,464 used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 25,530,213

Certain accrued expenses, such as interest on debt, reported in the Statement of Net Assets 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	\$	(27,534)	
Accrued interest payable - STASC		(12,318)	
Accreted interest payable		(769,403)	
Unamortized bond issuance costs - STASC		<u>90,957</u>	<u>(718,298)</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. 702,910

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	\$	(1,560,000)	
Lease payable		(45,525)	
Tobacco settlement pass-through bonds		(3,796,524)	
Other postemployment benefits payable		(8,103,177)	
Compensated absences		<u>(552,870)</u>	<u>(14,058,096)</u>

The assets and liabilities of the Internal Service Funds are included in Governmental Activities in the Statement of Net Assets. (300,975)

Net Assets of Governmental Activities \$ 14,742,553

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, 2011

	Major Funds	
	General Fund	Special Revenue Fund County Road Fund
<u>REVENUES</u>		
Real property taxes	\$ 10,040,612	\$
Real property tax items	408,556	
Nonproperty tax items	10,400,369	
Departmental income	4,350,815	60,416
Intergovernmental charges	566,473	
Use of money and property	566,357	786
Fines and forfeitures	40,671	140
Sale of property and compensation for loss	140,119	4,151
Miscellaneous local sources	88,899	4,961
Interfund revenues		
State sources	4,548,305	884,505
Federal sources	4,297,757	801,400
Total Revenues	35,448,933	1,756,359
<u>EXPENDITURES</u>		
General governmental support	6,627,212	
Education	1,787,898	
Public safety	3,148,361	
Public health	3,924,334	
Transportation	253,724	2,913,589
Economic assistance and opportunity	11,797,346	
Culture and recreation	491,495	
Home and community services	596,285	
Employee benefits	4,356,005	386,342
Debt service - Principal and interest	207,055	
Capital outlay		
Total Expenditures	33,189,715	3,299,931
Excess of Revenues (Expenditures)	2,259,218	(1,543,572)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		1,756,770
Interfund transfers (out)	(2,794,182)	
Total Other Financing Sources (Uses)	(2,794,182)	1,756,770
Excess of (Expenditures) Revenues and Other Financing (Uses) Sources	(534,964)	213,198
Fund Balances, Beginning	2,698,427	74,180
Fund Balances, Ending	\$ 2,163,463	\$ 287,378

See Independent Auditor's Report and Notes to Financial Statements

<u>Major Funds</u>		
<u>Capital Project Fund</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 10,040,612
		408,556
		10,400,369
		4,411,231
	387,031	953,504
458	683	568,284
		40,811
	3,346	147,616
	252,966	346,826
	180,000	180,000
	262,503	5,695,313
	297,721	5,396,878
458	1,384,250	38,590,000
	37,029	6,664,241
		1,787,898
		3,148,361
		3,924,334
	927,556	4,094,869
		11,797,346
		491,495
	313,400	909,685
	75,030	4,817,377
	217,678	424,733
59,822		59,822
59,822	1,570,693	38,120,161
(59,364)	(186,443)	469,839
135,123	432,278	2,324,171
		(2,794,182)
135,123	432,278	(470,011)
75,759	245,835	(172)
(75,759)	890,123	3,586,971
\$ -0-	\$ 1,135,958	\$ 3,586,799

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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (172)

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 depreciation exceeded capital outlay in the current period.

Capital outlay, net of disposal adjustments of \$142,937	\$ 784,905	
Depreciation expense of \$1,933,468, net of disposal adjustments	<u>(1,799,122)</u>	<u>(1,014,217)</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>(280,877)</u>
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Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The amortization of bond issuance costs and bond discounts are expenditures in the Statement of Activities and reduce liabilities.

Bond and capital lease repayments	\$ 151,982	
Proceeds of capital leases	(47,348)	
Bond issuance costs amortization	<u>(5,323)</u>	<u>99,311</u>

The net expense of the Internal Service Fund component unit is reported with Governmental Activities.	<u>688,216</u>
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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	\$ 4,404	
Other postemployment benefits payable	(1,908,130)	
Change in accrued interest payable	25,921	
Change in accreted interest payable	<u>(153,343)</u>	<u>(2,031,148)</u>

Change in Net Assets of Governmental Activities	<u>\$ (2,538,887)</u>
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See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	Internal Service Funds	
	Component Unit	
	HSDC Fund	Self-Insurance Fund
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents - Unrestricted	\$ 29,775	\$ 27,873
- Restricted	413,000	
Due from other funds		70,110
Accounts receivable	126	
Bond Issue Costs, Current	14,137	
Total Current Assets	457,038	97,983
Noncurrent Assets:		
Bond Issue Costs, Long-term	273,308	
Capital Assets:		
Land	40,639	
Depreciable capital assets, net	4,432,880	
Total Noncurrent Assets	4,746,827	-0-
Total Assets	5,203,865	97,983
<u>LIABILITIES</u>		
Current Liabilities:		
Due to other funds		97,983
Accrued interest payable	42,344	
Bonds payable, current	163,483	
Total Current Liabilities	205,827	97,983
Noncurrent Liabilities:		
Bonds payable	5,299,013	
Total Noncurrent Liabilities	5,299,013	-0-
Total Liabilities	5,504,840	97,983
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	(701,532)	
Restricted for debt service	413,000	
Unrestricted	(12,443)	
Total Net Deficit	\$ (300,975)	\$ -0-

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Internal Service Funds	
	Component Unit	
	HSDC Fund	Self-Insurance Fund
Operating Revenues:		
Participant assessments	\$	\$ 154,820
Rent	422,795	
Refund of prior year expenses		267,934
Transfers in		470,011
	<u>422,795</u>	<u>892,765</u>
Total Operating Revenues		
Operating Expenses:		
Contractual expenses	9,011	225,106
Employee benefit payments		
Depreciation and amortization income	<u>131,857</u>	
	<u>140,868</u>	<u>225,106</u>
Total Operating Expenses		
Operating Income	<u>281,927</u>	<u>667,659</u>
Nonoperating (Expense) Income:		
Interest and dividends	45	51
Interest (expense)	<u>(261,466)</u>	
	<u>(261,421)</u>	<u>51</u>
Total Nonoperating (Loss) Income		
Total Net Income	20,506	667,710
Net (Deficiency), January 1, 2011	<u>(321,481)</u>	<u>(667,710)</u>
Net (Deficiency), December 31, 2011	<u>\$ (300,975)</u>	<u>\$ -0-</u>

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, 2011

	Internal Service Funds	
	Component Unit	
	HSDC Fund	Self-Insurance Fund
Cash Flows from Operating Activities:		
Cash received from providing services	\$ 422,669	\$ 1,105,150
Cash payments - Contractual expenses	(9,011)	(1,001,665)
Net Cash Provided by Operating Activities	413,658	103,485
Cash Flows from Noncapital Financing Activities	-0-	-0-
Cash Flows from Capital and Related Financing Activities:		
Cash payments - Interest expense	(256,687)	
Cash payments - Bond principal	(150,000)	
Net Cash (Used) by Capital and Related Financing Activities	(406,687)	
Cash Flows from Investing Activities:		
Interest and dividend income received	45	51
Net Cash Provided by Investing Activities	45	51
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,016	103,536
Cash and Cash Equivalents, January 1, 2011	435,759	(75,663)
Cash and Cash Equivalents, December 31, 2011	\$ 442,775	\$ 27,873
Reconciliation of net operating income to net cash provided by operating activities:		
Operating income	\$ 281,927	\$ 667,659
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation and amortization	131,857	
(Increase) Decrease in accounts receivable	(126)	118,178
Decrease in due from other funds		94,207
(Decrease) in accounts payable		(549,677)
(Decrease) in due to other funds		(226,882)
Net Cash Provided by Operating Activities	\$ 413,658	\$ 103,485

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
DECEMBER 31, 2011

		Agency Funds
<u>ASSETS</u>		
Cash and cash equivalents - Unrestricted	\$	897,760
- Restricted		16,544
Due from other governments		17,105
 Total Assets	 \$	 <u><u>931,409</u></u>
<u>LIABILITIES</u>		
Agency liabilities	\$	831,618
Due to other governments		99,791
 Total Liabilities	 \$	 <u><u>931,409</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, 2011

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 20, 2012 has been issued for the Agency for the year ended December 31, 2011. 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, 2011

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 February 8, 2012 has been issued for the STASC for the year ended December 31, 2011. 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, 2011

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 February 24, 2012 has been issued for the HSDC for the year ended December 31, 2011. 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 2011, 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 Assets 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 assets resulting from the current year's activities.

In the Government-wide Statement of Net Assets, 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, 2011

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 and 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.

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

(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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

(b) Special Grant Fund - Accounts for activities under the Housing and Community Development Act of 1974.

(c) 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.

(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 Assets. The Statement of Activities presents changes in net assets. 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, 2011

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, 2011

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, 2011 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2006-2010)	\$ <u>1,094,757,304</u>
Tax limit @ 1.5%	\$ 16,421,360
Less :	
Tax levy	9,860,513
Less exclusions	<u>(349,134)</u>
Tax levy subject to tax limit	<u>9,511,379</u>
Tax Margin	\$ <u>6,909,981</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, 2011

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 an original cost of over \$5,000 and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

Buildings	50 years
Machinery and equipment	3 - 20 years
Infrastructure	10 - 50 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, 2011

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:

Invested in capital assets, net of related debt - 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 assets - Consists of net assets 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 assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. Governmental Fund Financial Statements

In the year ending December 31, 2012, the County implemented GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement Number 54 changes 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, 2011

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. These 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, 2011

- **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 and Road Machinery 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.
- **Capital Reserve**
Provides funds for financing of all or part of the cost of: a) construction, reconstruction or acquisition of a specific capital improvement or acquisition of a specific item or specific items of equipment, or b) construction, reconstruction or acquisition of a type of capital improvement or acquisition of a type of equipment. This reserve is accounted for in the General 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 \$2,347,701 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, 2011, per the bank, were \$429,841 and \$382,776, respectively, and were fully collateralized.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Total bank balances, including long-term certificates of deposit, of \$625,524 at December 31, 2011 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 \$1,576,976 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, 2011 consisted of the following:

Activity	Amount
Governmental Activities:	
Public Safety Funds	\$ 403,046
STASC Debt Service Fund	268,312
HSDC Funds	413,000
Community Development Fund	94,945
Lamoka-Waneta Lakes District Funds	213,146
Total Governmental Activities	\$ 1,392,449

2. Property Taxes

Property taxes levied for 2011 are recorded as revenue and receivables, net of estimated uncollectible amounts. In the fund financial statements, the net receivables collected during 2011 and expected to be collected within the first sixty days of 2011 are recognized as revenues in 2011.

Net receivables estimated to be collectible subsequent to the first sixty days of 2011 are reflected as deferred revenue. At December 31, 2011, the County had deferred \$702,910 of real property tax revenue.

Taxes receivable at December 31, 2011 are summarized as follows:

School taxes	\$ 980,839
Taxes receivable - City and school	40,162
Taxes receivable - Overdue	1,039,845
Other	19,654
Allowance for uncollectible taxes	(115,175)
Taxes Receivable	\$ 1,965,325

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 levied for schools in the amount of \$1,021,001 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, 2011 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, 2011

	<u>Description</u>	<u>Amount</u>
General Fund	County Clerk	\$ 32,754
	Public health fees	44,611
	Mental health fees	115,198
	Public safety fees	29,794
	Attorney fees	78,819
	Social services fees	70,708
	Central services fees	28,577
	Youth Bureau	29,828
	Due from agency	99,791
	Other	<u>43,896</u>
Total General Fund		<u>573,976</u>
County Road Fund	Billed services	9,692
Road Machinery Fund	Billed services	30,996
HSDC Fund	Rent receivable	126
STASC Fund	TSR receivable	<u>250,000</u>
Total Other Receivables		<u>\$ 864,790</u>

4. Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>Balance at</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>12/31/11</u>
Governmental Activities:				
Land	\$ 407,000	\$	\$	\$ 407,000
Construction in progress	<u>85,092</u>	<u>75,331</u>		<u>160,423</u>
Total Non-depreciable Capital Assets	<u>492,092</u>	<u>75,331</u>	<u>-0-</u>	<u>567,423</u>
Buildings	13,077,247			13,077,247
Machinery and equipment	7,346,508	70,148	(142,937)	7,273,719
Land improvements	3,219,590			3,219,590
Infrastructure	<u>28,137,335</u>	<u>782,363</u>		<u>28,919,698</u>
Total Depreciable Capital Assets	<u>51,780,680</u>	<u>852,511</u>	<u>(142,937)</u>	<u>52,490,254</u>
Total Historical Cost	<u>52,272,772</u>	<u>927,842</u>	<u>(142,937)</u>	<u>53,057,677</u>
Less Accumulated Depreciation:				
Buildings	(4,849,549)	(412,960)		(5,262,509)
Machinery and equipment	(4,697,558)	(675,015)	134,346	(5,238,227)
Land improvements	(919,291)	(81,349)		(1,000,640)
Infrastructure	<u>(15,261,944)</u>	<u>(764,144)</u>		<u>(16,026,088)</u>
Total Accumulated Depreciation	<u>(25,728,342)</u>	<u>(1,933,468)</u>	<u>134,346</u>	<u>(27,527,464)</u>
Governmental Activities Capital Assets, Net	<u>\$ 26,544,430</u>	<u>\$ (1,005,626)</u>	<u>\$ (8,591)</u>	<u>\$ 25,530,213</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government support	\$ 650,422
Public safety	128,664
Public health	15,623
Transportation	979,297
Economic assistance and opportunity	100,580
Culture and recreation	<u>58,882</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,933,468</u>

	Balance at 12/31/10	Additions	Deletions	Balance at 12/31/11
HSDC Fund:				
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>
Less Accumulated Depreciation:				
Buildings	(388,189)	(119,556)		(507,745)
Land improvements	<u>(34,313)</u>	<u>(10,322)</u>		<u>(44,635)</u>
Total Accumulated Depreciation	<u>(422,502)</u>	<u>(129,878)</u>	<u>-0-</u>	<u>(552,380)</u>
HSDC Fund Capital Assets, Net	<u>\$ 4,603,397</u>	<u>\$ (129,878)</u>	<u>\$ -0-</u>	<u>\$ 4,473,519</u>

Depreciation expense for the year ended December 31, 2011 for the Internal Service Fund totaled \$129,878, 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, 2011

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>
2011	\$ 1,521,745
2010	1,180,176
2009	784,206

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

The County's contributions made to the System were equal to 100% of the contributions required for each of the years. The System's pension relief legislation (New York State Chapter 620, Laws of 2004) was enacted to provide employers with relief in payment of their annual ERS cost. This legislation provides several options to employers, including delaying their payments from December 15 to February 6 of the ensuing year, payment of a portion of their cost over an amortized period, and the means to issue serial bonds to provide funding for the employers liability. In addition, the employer was given the option of making full payment on December 15, at a discounted amount. The County exercised its option of making payment on December 15, 2009, equal to 100% of the contributions required for the year.

The New York State Legislature has authorized local governments to make available retirement incentive programs. The County participates in early retirement programs when they are offered and has elected to pay the related cost over a five year amortization period, which includes interest at rates ranging from 8% to 8.5%. There is no remaining liability for these incentive programs at December 31, 2011.

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, 2011 for the fiscal year ending December 31, 2011. 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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011 the County contributed \$374,795 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 thirty 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:

Normal cost	\$ 1,273,015
Amortization of UAAL	1,143,091
Interest	96,644
Total Annual Required Contribution	2,512,750
Interest on net OPEB obligation	247,802
Adjustment to annual required contribution	(358,260)
Annual OPEB Cost (Expense)	2,402,292
Estimated contributions made on behalf of 67 retirees	(494,162)
Increase in Net OPEB Obligation	1,908,130
 Net OPEB Obligation - January 1, 2011	 6,195,047
 Net OPEB Obligation - December 31, 2011	 \$ 8,103,177

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/08	\$ 2,461,073	13.6%	\$ 2,130,735
12/31/09	\$ 2,461,073	13.6%	\$ 4,261,470
12/31/10	\$ 2,395,079	19.3%	\$ 6,195,047
12/31/11	\$ 2,402,292	20.6%	\$ 8,103,177

As of December 31, 2011, the Plan was not funded. The actuarial accrued liability for benefits was \$20,557,001; there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was \$9,773,685 and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 210.3%.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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.

In the December 31, 2011 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, 2011, the total outstanding indebtedness of the County aggregated \$10,797,539. Of this amount, \$70,000 was subject to the constitutional limitations on indebtedness and represented 0.09% 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 Assets.

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, 2011.

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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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	\$ 70,000
Shared Services Construction	01/10	1,500,000	3.50-5.00%	1/2034	<u>1,490,000</u>
STASC Pass-through Bonds:					
Tobacco Settlement Bonds (2000)	12/00	3,280,000	5.25-6.30%	6/2023	2,405,000
Less: Unamortized bond discount					<u>(71,268)</u>
Carrying Value of Series 2000 Bonds					<u>2,333,732</u>
Tobacco Settlement Bonds (2005)	11/05	1,573,852	6.00-7.85%	6/2060	1,497,013
Less: Unamortized bond discount					<u>(34,221)</u>
Add: Interest accretion					<u>769,403</u>
Carrying Value of Series 2005 Bonds					<u>2,232,195</u>
HSDC 2007 Tax-exempt Revenue Bonds	04/07	5,725,000	3.50-5.00%	5/2032	5,290,000
Add: Unamortized bond premium					<u>172,496</u>
Carrying Value of HSDC Bonds					<u>5,462,496</u>
Capital Lease	04/10	23,004	7.10%	4/2012	7,656
Capital Lease	02/09	19,100	7.20%	2/2012	584
Capital Lease	04/10	20,200	7.10%	4/2012	6,723
Capital Lease	02/11	47,348	6.50%	2/2013	<u>30,562</u>
Total					<u>\$ 11,633,948</u>

f. Change in Indebtedness

The following represents changes in the County's indebtedness during the year ended December 31, 2011:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due Within One Year
Serial Bonds	\$ 1,605,000	\$	\$ (45,000)	\$ 1,560,000	\$ 75,000
STASC Bonds	3,962,013		(60,000)	3,902,013	255,000
Add: Accreted interest payable	616,060	153,343		769,403	
Less: Unamortized bond discount	(112,234)	6,745		(105,489)	(6,745)
HSDC Bonds	5,440,000		(150,000)	5,290,000	155,000
Add: Unamortized bond premium	180,979		(8,483)	172,496	8,483
Capital lease	51,904	47,348	(53,727)	45,525	29,763
Compensated absences	557,274		(4,404)	552,870	55,287
Totals	<u>\$ 12,300,996</u>	<u>\$ 207,436</u>	<u>\$ (321,614)</u>	<u>\$ 12,186,818</u>	<u>\$ 571,788</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Additions and deletions to compensated absences are shown net, as it is impractical to determine these amounts separately. The County paid \$108,328 in interest on bonds and capital leases during the year. STASC paid \$157,678 in interest on bonds during the year. HSDC paid \$256,687 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 \$90,957 and \$287,445, respectively, for the year ended December 31, 2011. These costs are being amortized over the life of the respective bonds.

Cash paid	\$ 522,693
Less interest accrued in prior year	(108,992)
Add interest accrued in current year	82,196
Less prior year accreted interest	(616,060)
Add current year accreted interest	769,403
Add amortization of bond issue costs	19,460
Less amortization of bond discount/(premium)	<u>(1,738)</u>
Total	<u>\$ 666,962</u>

g. Debt Service Requirements

The following tables summarize the County's future debt service requirements as of December 31, 2011:

Year	Governmental Activities							
	County Serial Bonds		Capital Lease		STASC Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 75,000	\$ 69,322	\$ 29,763	\$ 3,011	\$ 255,000	\$ 144,029	\$ 359,763	\$ 216,362
2013	75,000	65,842	15,762	1,024	135,000	135,698	225,762	202,564
2014	40,000	62,312			140,000	126,948	180,000	189,260
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
2017-2021	260,000	263,800			1,411,383	752,573	1,671,383	1,016,373
2022-2026	325,000	199,162			962,051	1,133,637	1,287,051	1,332,799
2027-2031	410,000	116,701			328,372	1,645,154	738,372	1,761,855
2032-2036	285,000	21,650			233,120	1,850,006	518,120	1,871,656
2037					18,048	186,144	18,048	186,144
Total	<u>\$ 1,560,000</u>	<u>\$ 918,483</u>	<u>\$ 45,525</u>	<u>\$ 4,035</u>	<u>\$ 3,902,013</u>	<u>\$ 6,288,348</u>	<u>\$ 5,507,538</u>	<u>\$ 7,210,866</u>

Year	HSDC Fund		
	Principal	Interest	Total
2012	\$ 155,000	\$ 251,350	\$ 406,350
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
2017-2021	1,045,000	986,875	2,031,875
2022-2026	1,325,000	692,125	2,017,125
2027-2031	1,690,000	317,000	2,007,000
2032	390,000	9,750	399,750
Total	<u>\$ 5,290,000</u>	<u>\$ 3,201,268</u>	<u>\$ 8,491,268</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011 were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 1,180,617	\$ 989,444
County Road Fund	787,294	916,903
Capital Projects Fund		68,438
Non-Major Fund	202,150	167,403
Self-insurance Fund	70,110	97,983
Total	\$ 2,240,171	\$ 2,240,171
	Interfund Revenues	Interfund Expenditures
General Fund	\$ 1,756,770	\$ 2,794,182
County Road Fund	135,123	
Capital Projects Fund	432,278	
Non-Major Fund	470,011	
Internal Service Fund	470,011	
Total	\$ 2,794,182	\$ 2,794,182

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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.

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, 2011, 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, 2011.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

C. Schuyler County Human Services Development Corporation

The HSDC leases office space to Schuyler County. During the year ended December 31, 2011, the County paid \$307,254 and owed \$-0- on their lease rental commitment. In addition, the Corporation's records are maintained by County employees at no charge to the Corporation.

Note 7 - Fund Balance Detail

At December 31, 2011, nonspendable, restricted and assigned fund balance in the governmental funds was as follows:

	<u>General Fund</u>	<u>County Road Fund</u>	<u>Road Machinery Fund</u>	<u>STASC Debt Service Fund</u>	<u>Special Revenue Fund</u>
<u>Nonspendable:</u>					
Prepaid expenses	\$ 380,436	\$	\$	\$	\$
Inventory	8,696				
Total Nonspendable Fund Balance	<u>\$ 389,132</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Restricted:</u>					
E-911 Reserve	\$ 286,882	\$	\$	\$	\$
Sheriff Seized Assets	7,497				
DA Seized Assets	35,565				
Stop-DWI Reserve	73,102				
Lamoka/Wanetta Lakes Reserve	263,660				
Debt Service				268,312	
Community Development					312,456
Total Restricted Fund Balance	<u>\$ 666,706</u>	<u>\$</u>	<u>\$</u>	<u>\$ 268,312</u>	<u>\$ 312,456</u>
<u>Committed:</u>					
Central Garage Vehicle Reserve	\$ 257,360	\$	\$	\$	\$
Community Services Board Reserve	29,872				
Facilities & Grounds Capital Reserve	710,120				
Voice & Data Reserve	308,394				
Economic Development Reserve	50,047				
Total	<u>\$ 1,355,793</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Assigned:</u>					
Appropriated for next year's budget	\$ 370,000	\$	\$	\$	\$
Encumbered for:					
General support	1,000				
Economic assistance and opportunity	53,237				
Transportation		37,500			
Fund Balance		249,878	188,867		
Total Assigned Fund Balance	<u>\$ 424,237</u>	<u>\$ 287,378</u>	<u>\$ 188,867</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
<u>Unassigned</u>	<u>\$ (672,405)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 323,366</u>	<u>\$ -0-</u>
Total Unassigned Fund Balance	<u>\$ (672,405)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 323,366</u>	<u>\$ -0-</u>

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>
<u>REVENUES</u>		
Real property taxes	\$ 9,931,500	\$ 9,931,500
Real property tax items	520,000	520,000
Nonproperty tax items	9,547,666	9,547,666
Departmental income	5,649,246	5,840,974
Intergovernmental charges	561,295	561,295
Use of money and property	578,197	578,197
Fines and forfeitures	113,222	113,222
Sale of property and compensation for loss	65,000	65,000
Miscellaneous local sources	31,050	31,050
State sources	5,317,776	5,596,388
Federal sources	3,331,903	3,876,183
Total Revenues	35,646,855	36,661,475
<u>EXPENDITURES</u>		
Current:		
General governmental support	6,809,519	6,721,246
Education	1,785,000	1,787,898
Public safety	3,316,801	3,448,401
Public health	4,140,624	4,439,610
Transportation	280,000	262,800
Economic assistance and opportunity	11,620,714	11,895,783
Culture and recreation	381,268	497,255
Home and community services	637,082	654,247
Employee benefits	4,814,423	4,813,385
Debt service - Principal and interest	152,294	208,966
Total Expenditures	33,937,725	34,729,591
Excess of Revenues	1,709,130	1,931,884
<u>OTHER FINANCING (USES)</u>		
Interfund transfers (out)	(2,489,048)	(2,794,182)
Total Other Financing (Uses)	(2,489,048)	(2,794,182)
Excess of (Expenditures) and Other Financing (Uses)	(779,918)	(862,298)
Appropriated Reserves	29,918	112,298
Appropriated Fund Balances	750,000	750,000
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)
\$ 10,040,612	\$	\$ 109,112
408,556		(111,444)
10,400,369		852,703
4,350,815		(1,490,159)
566,473		5,178
566,357		(11,840)
40,671		(72,551)
140,119		75,119
88,899		57,849
4,548,305		(1,048,083)
4,297,757		421,574
35,448,933	-0-	(1,212,542)
6,627,212	1,000	93,034
1,787,898		-0-
3,148,361		300,040
3,924,334		515,276
253,724		9,076
11,797,346	53,237	45,200
491,495		5,760
596,285		57,962
4,356,005		457,380
207,055		1,911
33,189,715	54,237	1,485,639
2,259,218	(54,237)	273,097
(2,794,182)		-0-
(2,794,182)	-0-	-0-
(534,964)	\$ (54,237)	\$ 273,097
2,698,427		
\$ 2,163,463		

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 COUNTY ROAD FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget
<u>REVENUES</u>		
Departmental income	\$ 96,781	\$ 96,781
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	1,086,930	1,086,930
Federal sources	1,916,800	1,916,800
Total Revenues	3,108,911	3,108,911
<u>EXPENDITURES</u>		
Transportation	4,457,938	4,467,938
Employee benefits	407,743	407,743
Total Expenditures	4,865,681	4,875,681
Excess of (Expenditures)	(1,756,770)	(1,766,770)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	1,756,770	1,756,770
Total Other Financing Sources (Uses)	1,756,770	1,756,770
Excess of (Expenditures) and Other Financing Sources (Uses)	-0-	(10,000)
Appropriated Reserves		10,000
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>
\$ 60,416	\$	\$ (36,365)
786		(4,214)
140		(60)
4,151		1,151
4,961		4,761
884,505		(202,425)
801,400		(1,115,400)
1,756,359	-0-	(1,352,552)
2,913,589	37,380	1,516,969
386,342		21,401
3,299,931	37,380	1,538,370
(1,543,572)	(37,380)	185,818
1,756,770		
1,756,770	-0-	-0-
213,198	\$ (37,380)	\$ 185,818
74,180		
\$ 287,378		

COUNTY OF SCHUYLER
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2011

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
1/1/2011	\$ <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, 2011

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 2011, 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 Special Grant Fund, which is a Special Revenue Fund. Budgetary controls for the Special Grant Fund are established in accordance with the applicable 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, 2011

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. Because the year ended December 31, 2008 was the first year of implementation for the County, and because a new actuarial valuation has not yet been completed for 2011, only two years of information are presented for the year ending December 31, 2011.

COUNTY OF SCHUYLER
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	Special Revenue Funds		STASC	Total
	Special Grant Fund	Road Machinery Fund	Debt Service Fund	Non-Major Governmental Funds
<u>ASSETS</u>				
Assets:				
Cash and cash equivalents - Unrestricted	\$ 94,945	\$ 85,820	\$ 114,465	\$ 295,230
- Restricted			268,312	268,312
Due from other funds		202,150		202,150
Due from state and federal governments	294,828			294,828
Other receivables, net		30,996	250,000	280,996
Prepaid expenses			1,858	1,858
 Total Assets	 <u>\$ 389,773</u>	 <u>\$ 318,966</u>	 <u>\$ 634,635</u>	 <u>\$ 1,343,374</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$	\$ 34,880	\$	\$ 34,880
Accrued liabilities		5,133		5,133
Due to other funds	77,317	90,086		167,403
 Total Liabilities	 <u>77,317</u>	 <u>130,099</u>	 <u>-0-</u>	 <u>207,416</u>
Fund Balances:				
Restricted	312,456		268,312	580,768
Assigned		188,867		188,867
Unassigned			366,323	366,323
 Total Fund Balances	 <u>312,456</u>	 <u>188,867</u>	 <u>634,635</u>	 <u>1,135,958</u>
 Total Liabilities and Fund Balances	 <u>\$ 389,773</u>	 <u>\$ 318,966</u>	 <u>\$ 634,635</u>	 <u>\$ 1,343,374</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, 2011

	Special Revenue Funds		STASC	Total
	Special Grant Fund	Road Machinery Fund	Debt Service Fund	Non-Major Governmental Funds
<u>REVENUES</u>				
Intergovernmental charges	\$	\$ 387,031	\$	\$ 387,031
Use of money and property	249	311	123	683
Sale of property and compensation for loss		3,346		3,346
Miscellaneous local sources		3,294	249,672	252,966
Interfund revenues		180,000		180,000
State sources	262,503			262,503
Federal sources	297,721			297,721
Total Revenues	560,473	573,982	249,795	1,384,250
<u>EXPENDITURES</u>				
General governmental support			37,029	37,029
Transportation		927,556		927,556
Home and community services	313,400			313,400
Employee benefits		75,030		75,030
Debt service (principal and interest)			217,678	217,678
Total Expenditures	313,400	1,002,586	254,707	1,570,693
Excess of Revenues (Expenditures)	247,073	(428,604)	(4,912)	(186,443)
<u>OTHER FINANCING SOURCES (USES)</u>				
Interfund transfers in		432,278		432,278
Interfund transfers (out)				-0-
Total Other Financing Sources	-0-	432,278	-0-	432,278
Excess of Revenues (Expenditures) and Other Financing Sources (Uses)	247,073	3,674	(4,912)	245,835
Fund Balances, Beginning	65,383	185,193	639,547	890,123
Fund Balances, Ending	\$ 312,456	\$ 188,867	\$ 634,635	\$ 1,135,958

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.
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Frederick J. Ciaschi, C.P.A.

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

To the County of Schuyler Legislature
Watkins Glen, New York

We have audited 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, as of and for the year ended December 31, 2011, which collectively comprise the County of Schuyler's basic financial statements and have issued our report thereon dated July 9, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Schuyler's internal control over financial reporting 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 of Schuyler's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Schuyler's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [11-1, 11-2, 11-3, 11-4, 11-5, 11-6]

- 43 -

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Schuyler's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the County of Schuyler in a separate letter dated July 9, 2012.

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

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

A handwritten signature in black ink that reads "Lisa Dietershagen, Little, Ninkens & Company, CPA". The signature is written in a cursive style.

July 9, 2012
Ithaca, New York

John H. Dietershagen, C.P.A.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

County Legislature
County of Schuyler
Watkins Glen, New York

Compliance

We have audited the County of Schuyler's 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 of Schuyler's major federal programs for the year ended December 31, 2011. The County of Schuyler's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Schuyler's management. Our responsibility is to express an opinion on the County of Schuyler's compliance based on our audit.

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 of Schuyler's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County of Schuyler's compliance with those requirements.

In our opinion, the County of Schuyler complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

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

- 45 -

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

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

This report is intended solely for the information and use of management, the County Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lisa Dietershagen, Little, Mickelson & Company, LLP". The signature is written in a cursive style.

July 9, 2012
Ithaca, New York

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

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)	\$ 414,135
Passed Through NYS Department of Education:			
School Breakfast Program	10.553	550301100001	830
National School Lunch Program	10.555	550301100001	1,491
Child Nutrition Cluster Total			<u>2,321</u>
Total Department of Agriculture			<u>416,456</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)	110,061
Total Department of Housing and Urban Development			<u>110,061</u>
<u>Department of Justice</u>			
Passed Through NYS Division of Criminal Justice Services:			
Violence Against Women Formula Grants	16.588	T565632	31,435
Violence Against Women Formula Grants	16.588	T565633	9,464
ARRA - Violence Against Women Formula Grants	16.588	T652030	14,222
Violence Against Women Formula Grants Total			<u>55,121</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	T632393	4,803
Passed Through NYS Crime Victims Board:			
Crime Victim Assistance	16.575	C501149	46,920
Total Department of Justice			<u>106,844</u>
<u>Department of Labor</u>			
Passed Through NYS Office of Children & Family Services:			
WIA Youth Activities	17.259	C024736	114,299
Total Department of Labor			<u>114,299</u>
<u>Department of Transportation</u>			
Direct:			
Railroad Development	20.314	N/A	345,611
Passed Through NYS Department of Transportation:			
Highway Planning and Construction	20.205	D030087	741,135
Highway Planning and Construction	20.205	D031724	60,264
Highway Planning and Construction Total			<u>801,399</u>
Formula Grants for Other Than Urbanized Areas	20.509	(1)	90,411
ARRA - Formula Grants for Other Than Urbanized Areas	20.509	C003857	23,000
Formula Grants for Other Than Urbanized Areas Total			<u>113,411</u>
Passed Through Governor's Traffic Safety Commission:			
Occupant Protection Incentive Grants	20.602	SO-00044-049	2,456
Passed Through Division of Criminal Justice Services			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	T523431	5,045
Total Department of Transportation			<u>1,267,922</u>
Subtotal			<u>2,015,582</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, 2011

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>2,015,582</u>
<u>Department of Environmental Conservation</u>			
Passed Through Finger Lakes Resource Conservation and Development Council, Inc.:			
Chesapeake Bay Program	66.466	(1)	<u>99,821</u>
Total Department of Environmental Conservation			<u>99,821</u>
<u>Department of Education</u>			
Passed Through NYS Department of Health:			
Special Education - Grants for Infants and Families	84.181	C-021820	28,048
ARRA - Special Education - Grants for Infants and Families	84.393	C-025243	<u>9,473</u>
Total Department of Education			<u>37,521</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)	2,302
Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	(1)	49,840
Title III, Part C - Nutrition Services	93.045	(1)	89,148
Nutrition Services Incentive	93.053	(1)	<u>26,579</u>
Aging Cluster Total			<u>165,567</u>
National Family Caregiver Support	93.052	(1)	26,361
Medicare Enrollment Assistance Program	93.071	(1)	14,517
Low-Income Home Energy Assistance	93.568	(1)	26,351
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	(1)	23,558
Passed Through NYS Dept. of Health:			
Immunization Grants	93.268	C023269	26,496
ARRA - Immunization Grants	93.712	T025302	8,378
Immunization Grants Total			<u>34,874</u>
Maternal and Child Health Services Block Grant to the States	93.994	C026536	9,373
Maternal and Child Health Services Block Grant to the States	93.994	C024642	14,353
Maternal and Child Health Services Block Grant to the States Total			<u>23,726</u>
Passed Through Health Research, Inc.:			
Public Health Emergency Preparedness	93.069	001609-08	24,873
Public Health Emergency Preparedness	93.069	001609-09	13,825
Public Health Emergency Preparedness Total			<u>38,698</u>
Subtotal			<u>2,513,878</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, 2011

<u>Federal Grantor/ Pass - Through Grantor/ Program Title</u>	<u>Federal Catalog #</u>	<u>Pass - Through Grantor #</u>	<u>Expenditures</u>
Subtotal Carried Forward			\$ <u>2,513,878</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)	1,574,980
Child Support Enforcement	93.563	(1)	238,307
ARRA - Child Support Enforcement	93.563	(1)	<u>5,853</u>
Child Support Enforcement Total			<u>244,160</u>
Low-Income Home Energy Assistance	93.568	(1)	1,417,393
Child Care and Development Block Grant	93.575	(1)	467,549
Foster Care - Title IV-E	93.658	(1)	273,449
ARRA - Foster Care - Title IV-E	93.658	(1)	<u>7,696</u>
Foster Care - Title IV-E Total			<u>281,145</u>
Adoption Assistance	93.659	(1)	33,139
ARRA - Adoption Assistance	93.659	(1)	<u>1,969</u>
Adoption Assistance Total			<u>35,108</u>
Social Services Block Grant	93.667	(1)	317,432
Chafee Foster Care Independent Living	93.674	(1)	320
Medical Assistance Program	93.778	(1)	<u>491,601</u>
Total Department of Health and Human Services			<u>5,190,642</u>
<u>Department of Homeland Security</u>			
Passed Through NYS Office of Homeland Security:			
Emergency Management Performance Grants	97.042	(1)	11,799
Homeland Security Grant Program	97.067	T839402	3,441
Homeland Security Grant Program	97.067	T839490	<u>15,434</u>
Homeland Security Grant Program Total			<u>18,875</u>
Citizen Corps	97.053	(1)	<u>4,586</u>
Total Department of Homeland Security			<u>35,260</u>
Total Expenditures of Federal Awards			\$ <u><u>7,378,826</u></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, 2011

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, 2011

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? yes no

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes 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 no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>20.205</u>	<u>Highway Planning & Construction</u>
<u>20.314</u>	<u>Railroad Development</u>
<u>93.558</u>	<u>Temporary Assistance for Needy Families</u>
<u>93.568</u>	<u>Low-income Home Energy Assistance</u>
<u>93.658</u>	<u>Foster Care –Title IV-E</u>

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

Auditee qualified as low-risk auditee: yes no

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Section II - **Financial Statement Findings**

11-1 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.

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.

11-2 Journal Entries

Condition:

During our current and prior years' audits, we noted journal entries not being reviewed by management, entries posted incorrectly which were often corrected by several other incorrect entries, and backdated journal entries.

Criteria:

All journal entries should be maintained in a general journal book in chronological order, approval or review noted on the entry and supporting documentation attached.

Effect:

This resulted in difficulty determining whether balances at year end were correct, as several entries were made at various times during the year in order to correct one entry.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

Recommendation:

It is recommended all journal entries be accompanied by adequate documentation, dated at the time the entry is made or posted to the correct "period," and reviewed by management immediately after the entry is made. Any corrections should be made when noted and the incorrect entry should be marked as corrected, noting date, journal entry number and individual posting the entry. This information should be attached to the journal entry and maintained in chronological order in a general journal book.

Corrective Action Plan:

The majority of journal entries have supporting documentation with the exception of the direct deposit of sales tax revenue, which the state does not supply, and the recording of daily receipts from manual cash receipts journals. As requested by the auditors, journal entries created from daily receipts journal will be printed and filed in chronological order along with all other journal entries in 3-ring binders.

11-3 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 because of 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.

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 that 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.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

11-4 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: increased by \$1,252,557
- Fund Balance of the County Road Fund: increased by \$98,735
- Fund Balance of the Road Machinery Fund: decreased by \$(45,902)
- Fund Balance of the Capital Projects Fund: increased by \$140,040
- Fund Balance of the Self-insurance Fund: increased by \$432,299
- Fund Balance of the Special Grant Fund: increased by \$246,810

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.

11-5 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.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

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.

11-6 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. Also, cash transactions recorded in the manual check books were not consistently posted to the general ledger and vice-versa.

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. Also, it decreases the County's controls 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. In addition, during December 2011, an independent accountant was hired to reconcile the 2011 bank statements to the general ledger. At the date of the audit, all bank statements were reconciled to KVS.

Section III - Federal Award Findings and Questioned Costs

None noted.