

# **STEUBEN COUNTY**

## **New York**



## **Audited Financial Statements**

**For Fiscal Year Ended December 31, 2012**

**Prepared by:**  
**Steuben County Treasurer's Office**  
Patrick F. Donnelly, Treasurer  
Tammy Hurd-Harvey, Deputy Treasurer

# **Steuben County, New York**

## **Comprehensive Annual Financial Report**

**For the fiscal year Ended: December 31, 2012**

**Prepared by:**

**Steuben County Treasurer's Office**

Patrick F. Donnelly, Treasurer

Tammy Hurd-Harvey, Deputy Treasurer

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**December 31, 2012**  
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# Financial Section

## **Independent Auditor's Report**

## INDEPENDENT AUDITOR'S REPORT

July 1, 2013

To the Board of Legislators of the  
County of Steuben, New York:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Steuben, New York (the County) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Steuben County Industrial Development Agency (the Agency), which represent 79%, 79%, and 48%, respectively, of the assets, net position, and revenues of the discretely presented component units.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Agency, which represent 79%, 79%, and 48%, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by an other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### ***Opinions***

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

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–16 and 71–72 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.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining nonmajor fund financial statements on pages 73-76 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2013, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

# Financial Section

## **Management's Discussion and Analysis**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**(Unaudited)**

**Introduction**

The following is management's discussion and analysis (MD&A) of Steuben County's (the County) financial performance, providing a narrative overview of the activities for the fiscal year that ended December 31, 2012. Please read it in conjunction with the County's financial statements, which follow this section. This MD&A focuses on the County, exclusive of the Component Units. However, where relevant, specific reference may be made to that information.

**Financial Highlights**

- The County's net position on the government-wide statements totaled \$142,391,590 at the close of the year compared to \$141,436,379 at the end of 2011.
- Of the total net position, \$15,571,344 or 11% is classified as unrestricted and may be used to meet the County's ongoing obligations compared to \$14,546,418 or 10% at the end of 2011.
- Total net position increased from the previous year by \$955,211 and the unrestricted portion increased by \$1,024,926.
- Governmental activities net investment in capital assets decreased \$161,655 for a total of \$97,618,399 at the end of 2012.
- Governmental activities increased the County's net position by \$3,092,015 or 2.4% compared to the 2011 increase of \$1,834,419 or 1.5%. The governmental activities net position at the end of 2012 was \$131,305,302.
- Operating and Capital Grants/Contributions equaled \$38,789,323 or 24% of the total governmental activities revenue compared to \$41,116,287 or 26% in 2011.
- Business-type activities include the Health Care Facility (HCF) and the Solid Waste Operations. Business-type activities net position at the end of 2012 was \$11,086,288 compared to \$13,223,092 at the end of 2011.
- The HCF change in net position was a decrease of \$2,825,816 or a decrease of 960%. Total net position at December 2012 was (\$2,531,637) compared to \$294,179 for 2011. In 2012 the HCF realized a loss of \$2,881,322 from operating activities compared to a loss of \$1,004,216 in 2011. There was \$1,592,169 Intergovernmental Transfer (IGT) revenue recorded for 2012 compared to \$3,256,728 in 2011.
- The Solid Waste Operations experienced a gain of \$671,498 from operations compared to a gain of \$1,159,021 in 2011. Non-Operating Activities generated revenue of \$17,514 in 2012. Total net position increased by \$689,012 or 5.3% to bring the balance to \$13,617,925 at the end of 2012.

- At December 31, 2012, the County had total debt, excluding the Steuben Tobacco Asset Securitization Corporation (STASC), of \$21,530,000 consisting of:
  - Installment bonds for the expansion of cell#2 of the Bath landfill of \$1,160,000.
  - Bonds for the prior construction of the new health care facility of \$14,595,000.
  - Bonds for the prior construction of an expansion of the jail facility for \$5,350,000.
  - Highway equipment installment note of \$350,000.
  - Bond Anticipation Note for watershed district repairs of \$75,000.
- At December 31, 2012, STASC had total bonds, net of bond premiums, of \$30,507,790 which are securitized by future tobacco settlement payments.
- The government-wide "Current Ratio," which is an indicator of liquidity, for governmental activities was 3.0 at the end of both 2012 and 2011.

### Overview of the Financial Statements

The MD&A is intended to serve as an introduction to the County's financial statements. The financial statements include both the government-wide and fund financial statements, which present different views of the County. The financial statements also include the notes, which provide more detail and explanations of the financial data. Required Supplementary Information follows the Notes to the Financial Statements.

**Government-wide financial statements** consist of the Statement of Net Position and the Statement of Activities. These statements together provide a broad overview with a long-term focus on the County's finances as a whole and are presented in a manner similar to private-sector companies using the full-accrual basis of accounting.

The **Statement of Net Position** presents information on all of the County's assets or deferred outflows and liabilities or deferred inflows, with the difference reported as net position. Over time, changes in net position may be a useful indicator of whether the County's financial health is improving or deteriorating.

The **Statement of Activities** presents information showing how the County's net position changed during the current fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period, such as uncollected taxes and earned but unused vacation and sick leave.

Both government-wide financial statements distinguish between functions of the County that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the County include general government, education, public safety, health, transportation, economic assistance & opportunity, culture & recreation, and home & community services. The business-type activities of the County include the HCF and the Solid Waste Operations. Worker's Compensation, an internal service fund, consists predominantly of business-type activity.

**Component Units** are legally separate organizations for which the elected officials of the primary government are financially accountable. A description of the component units and addresses for obtaining their separately issued financial statements can be found in the Notes to the Financial Statements. The Steuben County Industrial Development Agency and the Steuben County Soil and Water Conservation District are displayed in separate, discrete columns on the government-wide financial statements to emphasize their legal separation from the County. The Steuben County Tobacco Asset Securitization Corporation presentation is blended with the County's governmental activities.

**Fund Financial Statements** provide detailed information about individual major funds, not the County as a whole. A fund is a fiscal/accounting entity with a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County's funds can be divided into three categories, each of which uses a different accounting approach: governmental funds, proprietary funds, and fiduciary funds.

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

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

The County maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and county road fund, which are considered to be major funds. Data from the non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the combining statements elsewhere in this report.

The County adopts an annual budget for its governmental funds. A budgetary comparison has been provided for the general fund and for each major individual fund to demonstrate compliance with this budget.

**Proprietary funds.** The County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its nursing home facility and for its landfill operations. Internal

service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for workers' compensation.

Proprietary funds provide the same type of information as the government-wide financial statements using the full accrual basis of accounting. The proprietary fund financial statements provide separate information for the HCF and for Solid Waste Operations, both of which are considered to be major enterprise funds of the County.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Reconciliation Between Government-wide and Fund Statements** - The financial statements include schedules that reconcile the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). Following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements but they are expenditures on the governmental fund statements.
- Repayments of long-term debt reduce long-term liabilities on the government-wide statements but they are expenditures on the governmental fund statements.

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

**Required Supplementary Information** follows the Basic Financial Statements and consists of budgetary comparison schedules to demonstrate compliance with legally adopted and modified budgets.

## Government-Wide Financial Analysis

**Government-Wide Summary of Net Position** - Net position may serve over time as a useful indicator of a government's financial position.

Steuben County, NY - Statement of Net Position						
As of December 31,						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets (unrestricted)	\$ 116,972,807	\$ 110,637,503	\$ 11,162,306	\$ 13,276,800	128,135,113	\$123,914,303
Restricted assets	1,755,747	1,758,489	46,786	1,060,512	1,802,533	2,819,001
Other non-current assets (unrestricted)	-	-	754,152	-	754,152	-
Capital assets, net	103,318,398	103,610,054	30,159,097	31,764,800	133,477,495	135,374,854
<b>Total assets</b>	<b>222,046,952</b>	<b>216,006,046</b>	<b>42,122,341</b>	<b>46,102,112</b>	<b>264,169,293</b>	<b>262,108,158</b>
Current liabilities	38,581,000	37,115,383	3,926,528	4,104,016	42,507,528	41,219,399
Non-current liabilities	52,160,650	50,677,376	27,109,525	28,775,004	79,270,175	79,452,380
<b>Total Liabilities</b>	<b>90,741,650</b>	<b>87,792,759</b>	<b>31,036,053</b>	<b>32,879,020</b>	<b>121,777,703</b>	<b>120,671,779</b>
Net investment in capital assets	97,618,399	97,780,054	14,348,211	13,472,369	111,966,610	111,252,423
Restricted	14,806,850	15,337,967	46,786	299,571	14,853,636	15,637,538
Unrestricted	18,880,053	15,095,266	(3,308,709)	(548,848)	15,571,344	14,546,418
<b>Total Net Position</b>	<b>\$ 131,305,302</b>	<b>\$ 128,213,287</b>	<b>\$ 11,086,288</b>	<b>\$ 13,223,092</b>	<b>\$ 142,391,590</b>	<b>\$141,436,379</b>

Net position total \$142,391,590 in 2012 compared to \$141,436,379 in 2011. Governmental activities comprise 92% of the total net position with \$131,305,302 in 2012 compared to 90% or \$128,213,287 in 2011. Business-type activities have total net position of \$11,086,288 in 2012 compared to net position of \$13,223,092 in 2011. Governmental unrestricted net position increased to \$18,880,053 in 2012 compared to \$15,095,266 in 2011.

The largest component of the County's net position, \$111,966,610 or 79% (\$111,252,423 or 79% in 2011) reflects investments in capital assets (land, buildings, equipment, roads, and bridges) net of any related debt. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position comprises \$14,853,636 or 10% of the total net position compared to \$15,637,538 or 11% of the total net position in 2011. These assets are subject to constitutional, legal, or external constraints on how they may be used. The decrease in governmental restricted net position is primarily related to capital projects that were expended during 2012. Business-type restricted net position decreased to \$46,786 in 2012 from \$299,571 in 2011.

The balance of unrestricted net position of \$15,571,344 (\$14,546,418 in 2011) represents the net position which may be used to meet the County's ongoing obligations, though certain laws and internally imposed designations of resources may result in the restriction of net position currently unrestricted.

**Government-Wide Statement of Activities** – The Government-Wide Statement of Activities reflects the results of operations in the governmental and business-type functions. The following condensed financial information was derived from the government-wide statement of activities and reflects how the County's net position changed during the fiscal year.

Steuben County, NY - Statement of Activities and Changes in Net Position						
For the Year Ended December 31:						
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 26,140,151	\$ 25,510,707	\$ 14,834,071	\$ 15,086,098	\$ 40,974,222	\$ 40,596,805
Operating grants & contributions	38,789,323	41,116,287	2,042,306	3,440,724	40,831,629	44,557,011
Capital grants & contributions	976,150	554,695	-	-	976,150	554,695
General Revenues:						
Taxes:						
Real property taxes	39,148,766	39,309,225	-	-	39,148,766	39,309,225
Real property tax items	3,702,322	3,111,094	-	-	3,702,322	3,111,094
Sales & Use Tax	30,170,580	29,397,083	-	-	30,170,580	29,397,083
Other Nonproperty tax items	19,497,690	18,227,569	-	-	19,497,690	18,227,569
Interest and earnings	218,071	312,055	15,748	16,722	233,819	328,777
Gain(Loss) on disposition of assets	518,568	53,073	-	-	518,568	53,073
Miscellaneous	5,457,329	3,132,593	614,378	1,179,247	6,071,707	4,311,840
<b>TOTAL REVENUE</b>	<b>164,618,950</b>	<b>160,724,381</b>	<b>17,506,503</b>	<b>19,722,791</b>	<b>182,125,453</b>	<b>180,447,172</b>
Expenses:						
General Government	\$27,763,366	\$25,412,985	-	-	27,763,366	25,412,985
Education	8,176,948	8,440,942	-	-	8,176,948	8,440,942
Public Safety	20,206,355	19,472,101	-	-	20,206,355	19,472,101
Health	15,693,884	16,072,443	13,960,347	14,438,320	29,654,231	30,510,763
Transportation	23,516,973	23,646,751	-	-	23,516,973	23,646,751
Economic asst & opportunity	62,030,906	61,952,112	-	-	62,030,906	61,952,112
Culture and recreation	613,811	574,200	-	-	613,811	574,200
Home and community	1,276,642	1,093,210	5,682,960	5,364,690	6,959,602	6,457,900
Interest and amortization expense	2,248,050	2,225,218	-	-	2,248,050	2,225,218
<b>TOTAL EXPENSES</b>	<b>161,526,935</b>	<b>158,889,962</b>	<b>19,643,307</b>	<b>19,803,010</b>	<b>181,170,242</b>	<b>178,692,972</b>
Increase (decrease) in Net Position	3,092,015	1,834,419	(2,136,804)	(80,219)	955,211	1,754,200
Net Position, Beginning of year	128,213,287	126,378,868	13,223,092	13,303,311	141,436,379	139,682,179
Net Position, End of year	\$ 131,305,302	\$ 128,213,287	\$ 11,086,288	\$ 13,223,092	\$ 142,391,590	\$ 141,436,379

**Governmental Activities:** Governmental activities increased the County's net position by \$3,092,015 or 2.4% in 2012 compared to an increase of \$1,834,419 or 1.5% in 2011. Total revenue in 2012 was approximately \$165,000,000 which is about \$4,000,000 more than the \$161,000,000 in 2011. Expenses increased approximately \$2,600,000 in 2012 to about \$161,500,000 in 2012 compared to \$158,900,000 in 2011.

The \$4,000,000 increase in total governmental activities revenue is comprised of various increases and decreases in revenue categories. Capital grants increased by about \$400,000 from 2011. This was primarily the result of the revenue associated with an interoperability public safety communications grant. Operating grants decreased by \$38,789,323 or approximately \$2 million from 2011. This decrease was primarily within the economic assistance and opportunity services as federal revenues for social services programs declined about \$3,000,000 in 2012 while state aid increased by about \$500,000 compared to 2011. The decline in Federal revenue was more than offset by increases in several other revenue categories. Real property tax items revenue

increased approximately \$591,000 or 19% over the 2011 amount. This increase was the result of a greater gain on the sale of tax foreclosure properties as well as an increase in Payments In Lieu of Taxes receipts. The County share of sales tax increased about \$773,000 and the other municipalities' share of sales tax increased by over \$1 million. The largest increase in revenues resulted from a refund of prior years' expenses included in the miscellaneous revenue category. This increased over \$2 million resulting from a review and downward adjustment of the outstanding self-insured health insurance claim liability.

Expenses increased about \$2,600,000 or 2% compared to 2011. Of this increase about \$2,350,000 is within the general government category of costs. Over \$1 million of this increase is related to the County's payment to the other municipalities for their share of the sales tax increase. Approximately \$1.1 million was expensed for a county-wide fiber optic cable capital project. Another capital project to enhance the energy efficiency of the County office building had expense of approximately \$379,000. Lastly, the expense related to judgments and claims against the County increased over \$555,000 compared to 2011.

There were no transfers between governmental activities and business-type activities in either 2012 or 2011.

**Business-type Activities:** Net position from the business-type activities decreased \$2,136,804 in 2012 compared to a decrease of \$80,219 in 2011.

The HCF had a decrease in net position of \$2,825,816 in 2012 compared to a decrease of 1,145,806 in 2011. The HCF had revenue of \$11,134,531 in 2012 compared to \$13,247,484 in 2011 for an decrease of about \$2,100,000. This decrease was driven primarily by the receipt of the 2011 Intergovernmental Transfer (IGT) funding of \$1,592,169 compared to \$3,256,728 that was received in 2011 for the 2009 and 2010 years. The remaining decrease is primarily driven by a decline in patient revenues related to an increase of about \$654,000 in the allowance for doubtful accounts. The HCF had decreased expenses of approximately \$433,000 (\$13,960,347 in 2012 compared to \$14,393,290 in 2011). The majority of this difference is comprised of a decrease of approximately \$200,000 in the New York State cash receipts assessment. There was also about a \$338,000 decrease in wages and fringe benefits with a \$230,000 increase in contractual costs. Lastly, the indirect County costs decreased about \$81,000 from 2011.

The Solid Waste Operations had an increase in net position of \$689,012 in 2012 compared to an increase of \$1,125,466 in 2011. The Solid Waste Operations revenue decreased only slightly from about \$6,486,000 in 2011 compared to approximately \$6,381,000 in 2012. Solid Waste Operations expenses increased by about \$300,000 in 2012 compared to 2011 (\$5,692,040 in 2012 and \$5,360,690 in 2011). Most of this increase in expense is primarily attributable to an increase in the closure and post closure cost from (\$29,003) in 2011 to \$269,699 in 2012.

## **Financial Analysis of Governmental Funds**

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

**Governmental funds.** The focus of the County's governmental funds financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$76,478,304, an increase of \$5,350,166 in comparison with the prior year. Approximately 62% of this amount (\$47,605,981) constitutes unassigned fund balance, which is available for spending at the County's discretion. The nonspendable portion of fund balance (\$2,186,921) is invested in inventory and prepaid expenses. Restricted fund balance of \$14,594,219 (20%) is not available for new spending because it has already been designated by an outside source or the Legislative Board; 1) to pay debt service (\$1,755,747), 2) to pay potential future insurance claims (\$3,506,922), 3) to pay for future facility and equipment repair and renovations (\$8,429,510), and 4) for a variety of other special purposes (\$901,418). Assigned fund balance represents the amounts the County intends to use for specific purposes. The assigned balance of \$12,091,183 (16%) is comprised of; 1) the residual balance in the governmental funds exclusive of the general fund (\$3,468,669), 2) amounts appropriated for the 2013 budget (\$6,768,627), 3) \$1,000,000 intended to be used for large self-funded health insurance claims, and 4) the value of open purchase orders at year end (\$853,887).

The **General Fund** is the primary operating fund of the County.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures excluding other financing uses (transfers to other funds):

The total of unassigned fund balance represented 37% of expenditures in 2012 and 34% in 2011.

Total fund balance represents 49% of the expenditures in 2012, compared to 45% of the expenditures in 2011.

The general fund unassigned fund balance increased by \$4,337,447 or 10% in 2012 compared to an increase of \$2,632,530 or 6% in 2011. In 2012, the unassigned fund balance equaled 74% of the total fund balance compared to 75% in 2011.

In 2012, \$4,758,627 of the assigned general fund balance was allocated to fund 2013 appropriations compared to \$4,221,397 for 2012 appropriations in 2011.

Total fund balance for the general fund increased by \$6,191,767 or 11% in 2012 compared to an increase of \$4,399,712 or 8% in 2011. Total general fund revenues were greater in 2012 than 2011 by approximately \$3,333,000 (\$136,987,656 in 2012

and \$133,654,592 in 2011). As discussed relative to all governmental funds, there were several items impacting the general fund revenue. Real property taxes for the general fund increased about \$1.1 million compared to the 2011 general fund levy. Real property tax items revenue increased approximately \$591,000 over the 2011 amount. This increase was the result of a greater gain on the sale of tax foreclosure properties as well as an increase in Payments In Lieu of Taxes receipts. The County share of sales tax increased about \$773,000 and the other municipalities' share of sales tax increased by over \$1 million. The largest increase in revenues resulted from a refund of prior years' expenses included in the miscellaneous revenue category. This increased over \$2 million resulting from a review and downward adjustment of the outstanding self-insured health insurance claim liability. These revenue increases were offset by several revenue declines. Federal revenue for social services programs declined about \$3,000,000 in 2012. State aid increased by about \$821,000 for general fund programs compared to 2011. Expenditures also increased in 2012 over 2011 by about \$1,254,000 overall. Total general fund expenditures were \$130,239,489 in 2012 compared to \$128,985,082 in 2011. General government expenditures increased about \$926,000 which is primarily related to the additional \$1,000,000 in sales tax paid to municipalities. Public safety increased about \$723,000 which stemmed from an increase in probation costs of about \$185,000 and in the jail costs of \$496,000. Economic assistance and opportunity expenditures increased about \$538,000. Although there were several both positive and negative fluctuations within the social services expenditures, the bulk of the increase can be attributed to the increase in local share of Medicaid spending. The remainder of the expenditure classification all decreased slightly or increased immaterially.

The **County Road Fund** has a total fund balance of \$2,519,029 representing a 1% increase from the 2011 fund balance of \$2,493,400. Total revenues were up only slightly overall (\$77,983) in 2012 when compared to 2011. Property tax revenue was down about \$500,000. There was a settlement on damage to a County road of about \$436,000 in 2012 with no similar income in 2011. The adjustment to the health insurance liability resulted in an increase in revenue of about \$250,000 for the County Road fund. Lastly, there was a decrease in intergovernmental services revenue of about \$150,000. Expenditures increased about \$245,000 to \$20,154,772 compared to \$19,909,955 in 2011. This increase was the net impact of about \$1.6 million more being spent on repairs and permanent improvements while \$1.1 million less was spent on snow removal and \$255,000 less was spent on public works administration. Additionally, net interfund transfer was a net source of \$178,596 in 2012 compared to a net use of \$124,148 in 2011. This was the result of an increase in machinery chargeback costs in 2012 compared to 2011.

**Financial Analysis of Proprietary funds** The County proprietary funds provide the same type of information found in the government-wide financial statement, but in more detail.

The **Health Care Facility** had net position deficit of (\$2,531,637) compared to a surplus of \$294,179 at the end of 2011. In 2012, the Health Care Facility had a negative change in net position of \$2,825,816 or 960%. The results for the past five consecutive years follow:

2012	(\$ 2,825,816)
2011	(\$ 1,145,806)
2010	(\$ 3,299,613)
2009	(\$ 1,964,400)
2008	\$ 1,535,298

The **Solid Waste Operations** had net position of \$13,617,925 at the end of 2012 compared to \$12,928,913 at the end of 2011, representing an increase of \$689,012 or 5%. The results for the past five consecutive years follow:

2012	\$ 689,012
2011	\$ 1,125,466
2010	(\$ 467,238)
2009	(\$ 1,514,078)
2008	(\$ 2,381,436)

**General Fund Budgetary Highlights** - Appropriation budget adjustments increased the original budget by \$2,816,387 or 2% compared to \$2,862,617 or 2.1% in 2011. Please contact the County for a separately issued report with detailed budget comparisons. Changes in appropriations are summarized as follows:

Budget Comparison							
General Fund							
For the Year Ended December 31, 2012							
	Original	Modified	Difference	% change	Expenditures		Variance with Modified Budget
					Actual	Encumbrance	
<b>Budgetary Basis</b>							
<b>EXPENDITURES</b>							
General government	\$ 25,200,597	\$ 26,923,327	\$ 1,722,730	6.8%	\$ 24,482,557	\$ 46,392	\$ 2,394,378
Education	9,293,000	9,293,000	-	0.0%	8,176,948	-	1,116,052
Public safety	18,163,474	18,743,688	580,214	3.2%	17,786,892	105,041	851,755
Health	17,938,854	17,978,282	39,428	0.2%	15,398,781	6,455	2,573,046
Transportation	449,844	435,559	(14,285)	-3.2%	367,227	-	68,332
Economic assistance and opportunity	67,687,111	67,826,663	139,552	0.2%	61,537,657	29,667	6,259,339
Culture and recreation	618,633	622,809	4,176	0.7%	586,264	75	36,470
Home and community services	1,341,372	1,333,544	(7,828)	-0.6%	1,204,538	-	129,006
Debt service	698,626	698,626	-	0.0%	698,625	-	1
<b>TOTAL APPROPRIATED EXPENDITURES</b>	<b>141,391,511</b>	<b>143,855,498</b>	<b>2,463,987</b>	<b>1.7%</b>	<b>130,239,489</b>	<b>187,630</b>	<b>13,428,379</b>
Transfers Out	205,000	557,400	352,400	171.9%	557,400	-	-
<b>TOTAL APPROPRIATIONS &amp; TRANSFERS</b>	<b>141,596,511</b>	<b>144,412,898</b>	<b>2,816,387</b>	<b>2.0%</b>	<b>130,796,889</b>	<b>187,630</b>	<b>13,428,379</b>

Explanation of significant budget modifications:

- The current year General Fund budget was increased by \$223,934 to fund encumbrances issued in 2011.
- In 2012, \$494,550 or 35% (\$300,350 or 22% in 2011) of the contingency budget of \$1,400,000 established for unforeseen purposes was allocated. The three most

significant transfers include \$250,000 to fund judgments and claims costs, \$150,000 to fund the cost of assigned counsel services and \$50,000 to fund inmate medications.

- The increase in the General Government Support area is primarily driven by an increase of about \$1,165,000 in the distribution of sales tax to municipalities. There was \$150,000 transferred to the judgments and claims line from the social services department to cover the cost of claims. In addition there were a few small grants received by a couple of different departments within the general government category.
- The increase in the Public Safety area is primarily related to various grants received by the Sheriff and the Emergency Management Office in the amount of approximately \$460,000. Additionally, there was about \$70,000 appropriated from the DWI reserve and the \$50,000 from contingency for inmate medications.
- The increase in Transfers Out was related to additional capital projects for several building maintenance and improvement projects and the central communications and central copier capital projects.

#### General Fund Final Budget Compared to Actual Expenditures and Revenues –

- Actual revenues fell short of the final-modified revenue budget by \$2,788,762 or 2% (\$3,777,094 or 3% in 2011). This difference was the net result of about \$3,500,000 more sales tax received than anticipated and the refund of prior years' expense income related to the adjustment to the health insurance claim liability of about \$2,400,000. These over budget revenues were offset by budget shortages in departmental income of about \$1,600,000, state aid of about \$2,000,000 and federal aid of approximately \$3,900,000. The shortage in the departmental income grouping is almost entirely related to the home nursing visits budget. Both revenue and expenditures were significantly less than budget. The areas with budget shortfalls in the state aid revenue lines include special children's services, early intervention, and social services. Most of the shortage in federal aid was within the department of social services (\$2.8 million) with an additional \$500,000 within aging services programs.
- The final-appropriation budget exceeded actual expenditures by \$13,428,379 or 9% (\$12,633,888 or 9% in 2011). General government actual costs were less than budgeted by about \$2,400,000. Education was underspent by \$1,100,000, health by \$2,600,000 and economic assistance and opportunity by \$6,300,000. Within the general government category, approximately \$905,000 was unexpended contingency budget, \$359,000 was in the buildings and grounds area, and \$246,000 was from elections. Central communications, central mailroom and central information technology departments were each underspent between \$120,000 and \$175,000. The under-spending in education is comprised of about \$952,000 within the special children's services and \$164,000 is from unexpended Community College Tuition budget. Of the budget difference in expenditures for health services of \$2,600,000, \$1,600,000 is within the public health area (as discussed in the revenue section). Alcohol and mental health services were underspent by about \$408,000 and special children's services was underspent by about \$106,000. The greatest budgetary difference is within social services program services. Almost all of the under-spending of \$6,300,000 in the economic assistance and opportunity category was for social services programs. The largest piece was for administration which was

less than budget by about \$1,775,000. An additional \$1,425,000 was within the child care category. Safety net, temporary assistance for needy families (TANF), Medicaid and direct services to citizens were each under budget between \$400,000 and \$500,000.

- The County's focus on reducing costs facilitates maintenance of budgetary control.

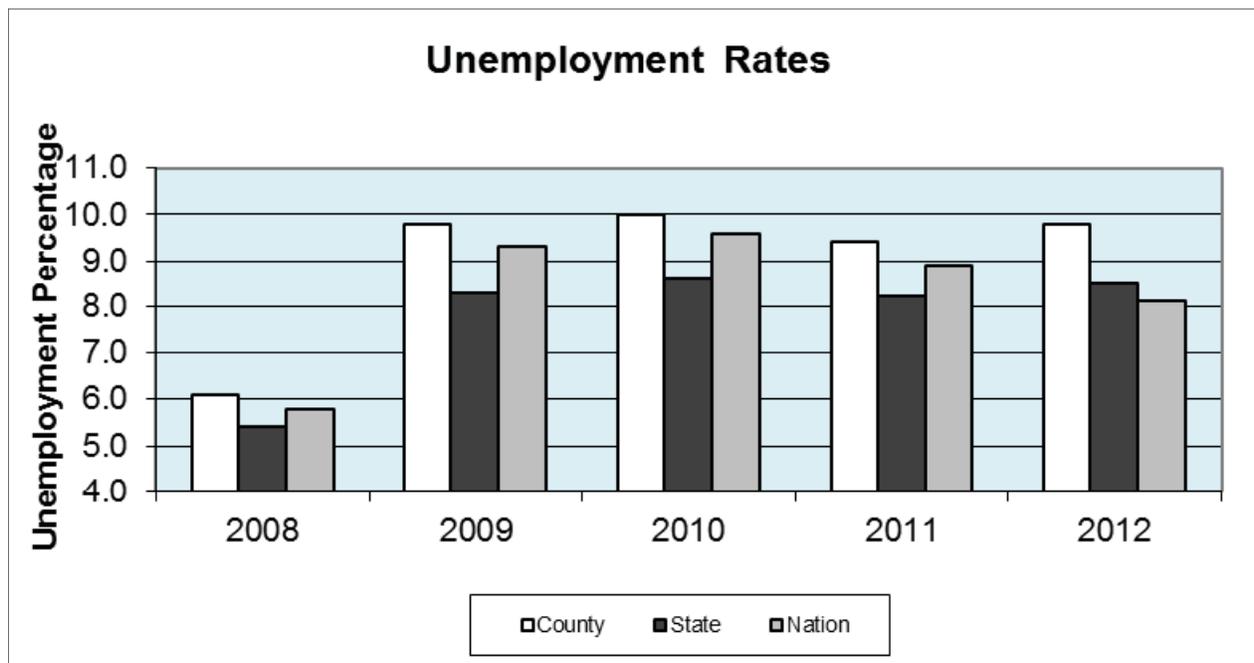
### Capital Asset and Debt Administration

**Capital Assets** - The County's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of December 31, 2012 totaled \$133,477,495 compared to \$135,374,854 in 2011. This investment in capital assets includes land, land improvements, buildings, machinery and equipment, infrastructure (highways and bridges), and construction in progress. The major investments in capital assets in 2012 were for additional investments in infrastructure, road equipment and vehicles. Depreciation expense exceeded the investment in capital asset additions, therefore the net investment in capital assets declined during 2012. Please refer to Note III C in the Notes to the Basic Financial Statements in this report for additional information on the County's capital assets.

**Long-Term Debt** – At December 31, 2012, excluding the STASC, the County had total debt obligations of \$21,530,000 compared to \$23,575,000 at the end of 2011. The STASC had debt (net of discount) of \$30,507,790 (\$29,955,786 in 2011) which is securitized by future tobacco settlement payments. A Bond Anticipation Note for \$75,000 was issued in 2012 related to the 2010 repair and upgrade of ditching and piping within the Upper Five Mile Creek watershed district. A new equipment note for \$350,000 was issued in 2012 for a road grinder. Please Refer to Note III I of the Notes to the Basic Financial Statements in this report for additional information on the County's debt.

### Economic Outlook and Budgets

The annual average unemployment rate in Steuben County continues to exceed that of New York State as well as the national average.



For the several years preceding the great recession in 2009, the difference between the state average unemployment rate and the County unemployment rate was about .7%. In 2009 and each year since, the difference has been in excess of 1%. In December 2012, Phillips Lighting announced that it would be closing its Bath, New York facility putting an additional 280 people out of work in Steuben County. Having an unemployment rate close to 10% has created challenges for Steuben County residents as well as the demand for County services. There is no anticipation that this trend will reverse anytime soon.

Since 2008 the County has decreased its workforce by over 10% from about 1090 full-time equivalents at the end of 2008 to about 980 at the end of 2012. This labor force reduction has allowed the County to keep its wage costs relatively constant since 2008 with only a .1% growth in salary dollars. Unfortunately, due to the funding mechanism of the New York State Employees' Retirement System, the cost of fringe benefits has grown significantly over the same time period. The County average fringe rate on salary dollars was 43% in 2008 and over 57% in both 2011 and 2012. Retirement costs alone have increased by 135% over the same time period from \$3.3 million in 2008 to \$7.9 million in 2012. It is anticipated that the retirement rates will increase for 2013 and 2014 and then begin to decline in 2015. Until that time, budgeting and funding for the retirement system costs will continue to pose a challenge to the County.

Another area of concern for the County is the financial drain created by the Steuben County Health Care Facility. The cumulative loss for the facility since 2008 is approximately \$7.7 million. There is no prospect of these results improving. Salary and fringe costs, as well as total operating costs, have increased 20% while net resident service revenue has remained absolutely flat. Given the expectation of continued increases in retirement, health insurance and workers' compensation costs with the anticipation of rate decreases based on the understanding of the regionalized fee structure under consideration by New York State, the County can look forward to ongoing losses of significant magnitude from the HCF. Because of this outlook, during 2012 the County solicited proposals to sell the facility. Subsequent to an extensive review of the proposals that were received, the County has entered into agreements with Centers for Specialty Care Group, LLC for the sale of the Health Care Facility, its Certificate of Need, Operating Certificates and any and all associated real property of the Steuben County Health Care Facility for \$10,750,000. In addition, the former Health Care Facility building will be sold to the same entity for \$250,000. Negotiations between the two parties are ongoing.

### 2013 Budget

The total proposed budget for 2013 is \$187,328,352 representing an increase of \$1.193 million or .64% in total expenditures. The increase in the retirement rate for 2013 represents about \$1 million of this increase. From a departmental perspective, the areas of increase include public safety up 5.69%; social services up 1.69%; health services up 29.12%; culture and recreation up 4.88%; general government up 8.77%; public works up 1.59%; home and community services up 2.98% and capital projects up 21.95%.

The tax levy increased by \$1,256,624 (2.7%) to \$47,995,574 compared to 2011. The tax rate per thousand of taxable value increased 23 cents or 2.7%. To maintain this level of

tax levy, an additional \$1 million of sales tax revenue was budgeted and the appropriation from reserves and fund balance increased \$871,681.

The 2013 budget summary is presented below with a comparison to 2012.

## 2013 BUDGET SUMMARY

	<u>2013 Budget</u>	<u>2012 Budget</u>
<u>EXPENDITURES</u>		
GENERAL GOVT SUPPORT	\$25,836,270	\$25,200,597
EDUCATION	9,158,000	9,293,000
PUBLIC SAFETY	18,932,392	18,163,475
HEALTH	30,372,066	30,758,124
TRANSPORTATION	24,844,564	24,602,725
ECONOMIC ASST/OPPORTUNITY	67,730,853	67,687,111
CULTURE & RECREATION	618,565	618,633
HOME & COMMUNITY SERVICES	7,278,392	7,228,175
DEBT SERVICE	2,167,250	2,163,451
INTERFUND TRANSFERS	390,000	420,000
<b>TOTAL</b>	<b><u>\$187,328,352</u></b>	<b><u>\$186,135,291</u></b>
<u>REVENUES</u>		
REAL PROPERTY TAXES & RELATED ITEMS	\$51,789,863	\$50,774,485
NON PROPERTY TAXES	38,193,261	36,995,250
DEPARTMENTAL INCOME	34,152,774	34,971,116
INTERGOVERNMENTAL CHARGES	2,848,068	3,106,250
USE OF MONEY & PROPERTY	2,498,755	2,572,961
MISCELLANEOUS	1,510,544	1,879,382
INTERFUND REVENUES	4,342,013	4,539,485
STATE AID	21,917,575	21,506,980
FEDERAL AID	21,187,763	21,773,327
APPROPRIATED SURPLUS	8,801,606	7,892,155
APPROPRIATED RESERVES	86,130	123,900
<b>TOTAL</b>	<b><u>\$187,328,352</u></b>	<b><u>\$186,135,291</u></b>

### REQUEST FOR INFORMATION

This financial report is designed to provide a general overview for all those with an interest in the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Steuben County Treasurer's Office at 3 East Pulteney Square, Bath, NY 14810. The County's Internet address is [www.steubencony.org](http://www.steubencony.org).

The County's component units and the Steuben County Health Care Facility issue separate financial statements. These statements may be obtained by contacting the individual agencies directly. Please refer to the Notes to the Basic Financial Statements for contact information.

# Financial Section

## **Basic Financial Statements**

**STEUBEN COUNTY, NY**  
**STATEMENT OF NET POSITION**  
As of December 31, 2012

	Primary Government			Component Units	
	Governmental	Business-type	Total	IDA	Soil & Water
	Activities	Activities		Business-type	Business-type
<b>Assets</b>					
<b>Current assets:</b>					
Cash, cash equivalents and investments	\$ 76,229,102	\$ 12,043,259	\$ 88,272,361	\$ 1,726,680	\$ 407,941
Taxes receivable and tax deeds, net	11,151,230	-	11,151,230	-	-
Other receivables, net	7,663,621	4,382,050	12,045,671	65,321	15,229
Assets whose use is limited	1,755,747	46,786	1,802,533	944,662	391,110
Internal balances	6,900,311	(6,900,311)	-	-	-
State and federal receivables	10,779,794	1,593,789	12,373,583	-	-
Due from other governments	1,399,939	7,972	1,407,911	-	-
Prepaid items	2,325,460	-	2,325,460	19,302	-
Inventory of supplies	523,350	35,547	558,897	-	-
<b>Total current assets</b>	<b>118,728,554</b>	<b>11,209,092</b>	<b>129,937,646</b>	<b>2,755,965</b>	<b>814,280</b>
<b>Noncurrent assets:</b>					
Amounts due from third-party payors, net	-	754,152	754,152	-	-
Non-depreciable capital assets	1,643,327	940,179	2,583,506	-	-
Net depreciable capital assets	101,675,071	29,218,918	130,893,989	1,073,127	220,969
<b>Total noncurrent assets</b>	<b>103,318,398</b>	<b>30,913,249</b>	<b>134,231,647</b>	<b>1,073,127</b>	<b>220,969</b>
<b>Total Assets</b>	<b>222,046,952</b>	<b>42,122,341</b>	<b>264,169,293</b>	<b>3,829,092</b>	<b>1,035,249</b>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	12,065,709	569,474	12,635,183	-	-
Accrued liabilities	7,091,983	401,627	7,493,610	2,949	-
Current portion of compensated absences	2,171,408	542,198	2,713,606	-	4,835
Bond Anticipation Note Payable	75,000	-	75,000	-	-
Due to other governments	6,385,485	-	6,385,485	-	-
Accrued Interest Payable	3,899,642	237,529	4,137,171	-	-
Current portion of bonds payable	870,000	2,025,700	2,895,700	-	-
Unearned Revenues	5,126,329	150,000	5,276,329	-	-
Other liabilities	895,444	-	895,444	98,818	-
<b>Total current liabilities</b>	<b>38,581,000</b>	<b>3,926,528</b>	<b>42,507,528</b>	<b>101,767</b>	<b>4,835</b>
<b>Noncurrent Liabilities</b>					
Compensated absences, net of current portion	2,906,607	220,393	3,127,000	-	14,507
Other post-employment benefits	14,509,651	2,367,252	16,876,903	-	-
Estimated arbitrage liability	-	73,287	73,287	-	-
Accrued landfill closure/post closure care costs	-	10,710,193	10,710,193	-	-
Bonds payable, net of current portion	34,744,392	13,738,400	48,482,792	-	-
<b>Total noncurrent liabilities</b>	<b>52,160,650</b>	<b>27,109,525</b>	<b>79,270,175</b>	<b>-</b>	<b>14,507</b>
<b>Total Liabilities</b>	<b>90,741,650</b>	<b>31,036,053</b>	<b>121,777,703</b>	<b>101,767</b>	<b>19,342</b>
<b>Net Position</b>					
Net investment in capital assets	97,618,399	14,348,211	111,966,610	1,073,127	220,969
Restricted for:					
Capital improvements	4,310,625	46,786	4,357,411	-	-
Debt service	1,755,747	-	1,755,747	-	-
Other Restrictions	8,740,478	-	8,740,478	845,844	391,110
Unrestricted	18,880,053	(3,308,709)	15,571,344	1,808,354	403,828
<b>Total Net Position</b>	<b>\$ 131,305,302</b>	<b>\$ 11,086,288</b>	<b>\$ 142,391,590</b>	<b>\$ 3,727,325</b>	<b>\$ 1,015,907</b>

The accompanying notes are an integral part of these financial statements.

**Steuben County, NY  
Statement of Activities**

For the Year Ended December 31, 2012

Functions/Programs	Program Revenues						Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating		Capital Grants and Contributions	Governmental Activities	Primary Government		IDA Business-type	Soil & Water Gov't-type	
			Grants and Contributions	Contributions			Business-type Activities	Total			
<b>Primary government:</b>											
Governmental activities:											
General	\$ 27,763,366	\$ 7,400,994	\$ 743,001	\$ -	\$ -	\$ (19,619,371)	\$ -	\$ -	\$ -	\$ (19,619,371)	
Education	8,176,948	-	2,037,730	-	-	(6,139,218)	-	-	-	(6,139,218)	
Public safety	20,206,355	2,289,848	1,779,519	833,383	-	(15,297,605)	-	-	-	(15,297,605)	
Health	15,693,884	9,749,664	4,353,556	-	-	(1,590,664)	-	-	-	(1,590,664)	
Transportation	23,516,973	3,998,359	4,084,895	136,767	-	(15,296,952)	-	-	-	(15,296,952)	
Economic assistance and opportunity	62,030,906	2,668,697	25,714,175	-	-	(33,648,034)	-	-	-	(33,648,034)	
Culture and recreation	613,811	31,239	76,447	-	-	(506,125)	-	-	-	(506,125)	
Home and community	1,276,642	1,350	-	-	-	(1,275,292)	-	-	-	(1,275,292)	
Interest and amortization expense	2,248,050	-	-	-	-	(2,248,050)	-	-	-	(2,248,050)	
Total governmental activities	161,526,935	26,140,151	38,789,323	976,150	-	(95,621,311)	-	-	-	(95,621,311)	
<b>Business-type activities:</b>											
Health Care Facility	13,960,347	8,545,563	2,028,032	-	-	(3,386,752)	(3,386,752)	-	-	(3,386,752)	
Solid Waste Operations	5,682,960	6,288,508	14,274	-	-	619,822	619,822	-	-	619,822	
Total business-type activities	19,643,307	14,834,071	2,042,306	-	-	(2,766,930)	(2,766,930)	-	-	(2,766,930)	
Total primary government	\$ 181,170,242	\$ 40,974,222	\$ 40,831,629	\$ 976,150	\$ -	\$ (95,621,311)	\$ (2,766,930)	\$ -	\$ -	\$ (98,388,241)	
<b>Component Units</b>											
Industrial Development Agency	\$ 447,983	\$ 321,070	\$ 108,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (18,913)	\$ -	\$ -
Soil and Water Conservation District	1,175,378	204,336	747,960	-	-	-	-	-	-	(223,082)	-
	\$ 1,623,361	\$ 525,406	\$ 855,960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (18,913)	\$ (223,082)	\$ -
General Revenues:											
Real property taxes						39,148,766	-	-	-	39,148,766	-
Real property tax items						3,702,322	-	-	-	3,702,322	-
Sales and use tax						30,170,580	-	-	-	30,170,580	-
Nonproperty tax items						19,497,690	-	-	-	19,497,690	-
Interest and earnings						218,071	15,748	-	14,005	233,819	1,398
Gain on disposition of assets						518,568	-	-	-	518,568	80,230
Miscellaneous						5,457,329	614,378	-	2,743	6,071,707	18,264
Total general revenues						98,713,326	630,126	-	16,748	99,343,452	99,892
Change in net position						3,092,015	(2,136,804)	-	(2,165)	955,211	(123,190)
Net Position, Beginning of year						128,213,287	13,223,092	-	3,729,490	141,436,379	1,139,097
Net Position, End of year						\$ 131,305,302	\$ 11,086,288	\$ -	\$ 3,727,325	\$ 142,391,590	\$ 1,015,907

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Balance Sheet**  
**Governmental Funds**  
**As of December 31, 2012**

	<u>General Fund</u>	<u>County Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$ 61,844,203	\$ 3,323,301	\$ 7,378,233	\$ 72,545,737
Taxes receivable and tax deeds, net	11,151,230	-	-	11,151,230
Other receivables	6,175,508	-	1,488,113	7,663,621
Due from other funds	6,237,335	-	-	6,237,335
State and federal receivables	9,751,436	166,327	862,031	10,779,794
Due from other governments	298,969	27,582	100,002	426,553
Prepaid items	2,165,338	-	-	2,165,338
Inventory of supplies	21,583	-	-	21,583
Assets whose use is limited	-	-	1,755,747	1,755,747
<b>Total assets</b>	<u>\$ 97,645,602</u>	<u>\$ 3,517,210</u>	<u>\$ 11,584,126</u>	<u>\$ 112,746,938</u>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 11,228,303	\$ 80,614	\$ 269,506	\$ 11,578,423
Accrued liabilities	2,348,319	348,899	35,452	2,732,670
Bond anticipation note payable	75,000	-	-	75,000
Due to other governments	6,385,485	-	-	6,385,485
Due to other funds	715,548	568,668	32,808	1,317,024
Unearned revenues	5,668,693	-	1,488,094	7,156,787
Other liabilities	895,444	-	-	895,444
<b>Total liabilities</b>	<u>27,316,792</u>	<u>998,181</u>	<u>1,825,860</u>	<u>30,140,833</u>
<b>Deferred Inflows</b>				
Unearned taxes	6,127,801	-	-	6,127,801
<b>Total Deferred Inflows</b>	<u>6,127,801</u>	<u>-</u>	<u>-</u>	<u>6,127,801</u>
<b>Fund Balances:</b>				
Nonspendable	2,186,921	-	-	2,186,921
Restricted	8,461,850	-	6,132,369	14,594,219
Assigned	5,946,257	2,519,029	3,625,897	12,091,183
Unassigned	47,605,981	-	-	47,605,981
<b>Total Fund Balances</b>	<u>64,201,009</u>	<u>2,519,029</u>	<u>9,758,266</u>	<u>76,478,304</u>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<u>\$ 97,645,602</u>	<u>\$ 3,517,210</u>	<u>\$ 11,584,126</u>	<u>\$ 112,746,938</u>

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**As of December 31, 2012**

**Total fund balances - governmental funds** **\$76,478,304**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The assets consist of:

Land	\$ 1,112,856	
Buildings and improvements	45,077,414	
Improvements other than buildings	501,336	
Equipment	26,760,121	
Infrastructure	140,645,389	
Construction in progress	530,471	
Accumulated depreciation	<u>(111,309,189)</u>	
Total capital assets		103,318,398

Unearned property tax revenues are not available to pay for current-period expenditures and are therefore deferred in the funds. 6,127,801

Unearned tobacco settlement revenues are not available to pay for current-period expenditures and are therefore deferred in the funds. 2,030,458

Certain items are not available within sixty days of the year end, hence are not considered assets on the fund statements. These consist of:  
 Inventory type items for materials and supplies 501,767

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued bond interest payable		(3,899,642)
Accrued compensated absences		(5,078,015)
Bonds and capital notes payable		(35,614,392)
Other post employment benefits liability		(14,509,651)

Internal service funds are used by management to charge costs of insurance to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position. 1,950,274

**Total Net Position - End of Year** **\$ 131,305,302**

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended December 31, 2012**

	<u>General Fund</u>	<u>County Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
Real property taxes	\$ 23,379,095	\$ 15,108,691	\$ 676,798	\$ 39,164,584
Real property tax items	3,702,322	-	-	3,702,322
Non-property taxes	49,668,270	-	-	49,668,270
Departmental Income	16,454,035	-	-	16,454,035
Participants' Share	-	-	537,255	537,255
Intergovernmental services revenue	1,921,346	470,247	22,974	2,414,567
Use of money and property	2,005,400	7,770	12,804	2,025,974
Licenses and permits	1,350	-	-	1,350
Fines and forfeitures	262,502	-	-	262,502
Sale of property and compensation for losses	86,992	435,561	6,739	529,292
Tobacco settlement revenues	-	-	1,480,773	1,480,773
Interfund revenues	1,551,773	-	2,969,338	4,521,111
State aid	15,981,547	3,694,439	917,719	20,593,705
Federal aid	18,933,748	36,281	201,739	19,171,768
Miscellaneous	3,039,276	248,816	127,785	3,415,877
<b>Total revenues</b>	<u>136,987,656</u>	<u>20,001,805</u>	<u>6,953,924</u>	<u>163,943,385</u>
<b>Expenditures:</b>				
Current:				
General government	24,482,557	-	30,547	24,513,104
Education	8,176,948	-	-	8,176,948
Public safety	17,786,892	-	-	17,786,892
Health	15,398,781	-	-	15,398,781
Transportation	367,227	20,154,772	3,754,696	24,276,695
Economic assistance and opportunity	61,537,657	-	-	61,537,657
Culture and recreation	586,264	-	-	586,264
Home and community services	1,204,538	-	25,000	1,229,538
Capital outlays:				
General government	-	-	1,872,016	1,872,016
Public safety	-	-	1,228,617	1,228,617
Transportation	-	-	182,973	182,973
Culture and recreation	-	-	10,359	10,359
Debt service:				
Principal	480,000	-	75,000	555,000
Interest	218,625	-	1,369,750	1,588,375
<b>Total expenditures</b>	<u>130,239,489</u>	<u>20,154,772</u>	<u>8,548,958</u>	<u>158,943,219</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>6,748,167</u>	<u>(152,967)</u>	<u>(1,595,034)</u>	<u>5,000,166</u>
<b>Other financing sources (uses):</b>				
Issuance of Debt	-	-	350,000	350,000
Transfers in	1,000	616,681	995,485	1,613,166
Transfers out	(557,400)	(438,085)	(617,681)	(1,613,166)
<b>Total other financing sources (uses)</b>	<u>(556,400)</u>	<u>178,596</u>	<u>727,804</u>	<u>350,000</u>
<b>Net change in fund balance</b>	6,191,767	25,629	(867,230)	5,350,166
<b>Fund balance - Beginning of year</b>	<u>58,009,242</u>	<u>2,493,400</u>	<u>10,625,496</u>	<u>71,128,138</u>
<b>Fund balance - End of year</b>	<u>\$ 64,201,009</u>	<u>\$ 2,519,029</u>	<u>\$ 9,758,266</u>	<u>\$ 76,478,304</u>

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances - Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended December 31, 2012**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 5,350,166**

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

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital outlays	\$ 8,646,811	
Depreciation	<u>(8,839,477)</u>	
Excess of capital outlays over depreciation expense		(192,666)

Property tax and STASC revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.		104,029
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Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the Statement of Activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of capital assets with no cash proceeds.		(98,536)
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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 governmental funds.

Increase/decrease:

Compensated absences		(65,208)
Inventory of supplies		1,814
Accrued interest on bonds		(626,069)
Amortization of bond discount		(33,606)
OPEB - annual required contribution		(1,862,616)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position		555,000
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Proceeds from the issuance of long term debt is revenue in the governmental funds, but increases long-term liabilities in the Statement of Net Position		(350,000)
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Internal service funds are used by management to charge the costs of insurance to individual funds. The net position of the internal service fund is reported with the governmental activities.		<u>309,707</u>
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**Change in Net Position of Governmental Activities** **\$ 3,092,015**

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Statement of Net Position**  
**Proprietary Funds**  
**As of December 31, 2012**

	<b>Enterprise Funds</b>			<b>Internal Service</b>
	<b>Health Care</b>	<b>Solid Waste</b>	<b>Total</b>	
	<b>Facility</b>	<b>(Landfill)</b>		
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash, cash equivalents and investments	\$ 3,050	\$ 12,040,209	\$ 12,043,259	\$ 3,683,365
Accounts receivable	3,795,938	517,254	4,313,192	-
Other receivables	68,858	-	68,858	-
Current portion of assets whose use is limited	-	46,786	46,786	-
State and federal receivables	1,592,169	1,620	1,593,789	-
Due from other governments	-	7,972	7,972	973,386
Due from other funds	-	-	-	1,980,000
Prepaid expenses	-	-	-	160,122
Inventories	35,547	-	35,547	-
<b>Total current assets</b>	<b>5,495,562</b>	<b>12,613,841</b>	<b>18,109,403</b>	<b>6,796,873</b>
<b>Noncurrent Assets:</b>				
Amounts due from third-party payors, net	754,152	-	754,152	-
Non-depreciable capital assets	-	940,179	940,179	-
Capital assets, net	16,070,803	13,148,115	29,218,918	-
<b>Total noncurrent assets</b>	<b>16,824,955</b>	<b>14,088,294</b>	<b>30,913,249</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>22,320,517</b>	<b>26,702,135</b>	<b>49,022,652</b>	<b>6,796,873</b>
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Accounts payable	317,484	251,990	569,474	487,286
Accrued liabilities	296,849	104,778	401,627	4,359,313
Current portion of accrued compensated absences	471,750	70,448	542,198	-
Current portion of bonds payable	865,700	1,160,000	2,025,700	-
Unearned revenue	150,000	-	150,000	-
Accrued interest payable	225,610	11,919	237,529	-
Due to other funds	6,900,311	-	6,900,311	-
<b>Total current liabilities</b>	<b>9,227,704</b>	<b>1,599,135</b>	<b>10,826,839</b>	<b>4,846,599</b>
<b>Noncurrent liabilities:</b>				
Accrued compensated absences, net of current portion	-	220,393	220,393	-
Accrued other post-employment benefits, net of current portion	1,812,763	554,489	2,367,252	-
Estimated arbitrage liability	73,287	-	73,287	-
Accrued landfill closure/postclosure care costs	-	10,710,193	10,710,193	-
Bonds payable, net of current portion	13,738,400	-	13,738,400	-
<b>Total noncurrent liabilities</b>	<b>15,624,450</b>	<b>11,485,075</b>	<b>27,109,525</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>24,852,154</b>	<b>13,084,210</b>	<b>37,936,364</b>	<b>4,846,599</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,466,703	12,881,508	14,348,211	-
Restricted for capital improvements	-	46,786	46,786	-
Unrestricted	(3,998,340)	689,631	(3,308,709)	1,950,274
<b>TOTAL NET POSITION</b>	<b>\$ (2,531,637)</b>	<b>\$ 13,617,925</b>	<b>\$ 11,086,288</b>	<b>\$ 1,950,274</b>

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Enterprise Funds			Internal Service
	Health Care Facility	Solid Waste (Landfill)	TOTAL	
<b>Operating revenues:</b>				
Charges for services	\$ 8,545,563	\$ 6,288,508	\$14,834,071	\$ 3,275,097
Intergovernmental transfer	1,592,169	-	1,592,169	-
Adjustment of prior years' revenue, net	189,262	-	189,262	229,577
Other revenue	129,656	53,442	183,098	87,813
<b>Total operating revenue</b>	<b>10,456,650</b>	<b>6,341,950</b>	<b>16,798,600</b>	<b>3,592,487</b>
<b>Operating expenses:</b>				
Personal services	5,759,122	1,151,377	6,910,499	53,451
Employee benefits	3,622,735	716,721	4,339,456	26,892
Contractual expense	2,676,622	1,517,210	4,193,832	988,484
Depreciation and amortization	848,213	1,908,777	2,756,990	454
Indirect expense	431,280	106,668	537,948	-
Closure and postclosure costs	-	269,699	269,699	-
Workers' compensation benefits	-	-	-	2,217,471
<b>Total operating expenses</b>	<b>13,337,972</b>	<b>5,670,452</b>	<b>19,008,424</b>	<b>3,286,752</b>
<b>Operating income (loss)</b>	<b>(2,881,322)</b>	<b>671,498</b>	<b>(2,209,824)</b>	<b>305,735</b>
<b>Non-operating revenue (expenses):</b>				
County subsidy	431,280	-	431,280	-
State and federal aid	-	14,274	14,274	-
Adjustment of prior years' expense, net	246,601	-	246,601	-
Investment income	-	15,748	15,748	3,972
Gain on disposition of assets	-	9,080	9,080	-
Interest expense	(622,375)	(21,588)	(643,963)	-
<b>Total non-operating revenue</b>	<b>55,506</b>	<b>17,514</b>	<b>73,020</b>	<b>3,972</b>
<b>Change in net position</b>	<b>(2,825,816)</b>	<b>689,012</b>	<b>(2,136,804)</b>	<b>309,707</b>
Total net position - Beginning of year	294,179	12,928,913	13,223,092	1,640,567
<b>Total net position - End of year</b>	<b>\$ (2,531,637)</b>	<b>\$ 13,617,925</b>	<b>\$ 11,086,288</b>	<b>\$ 1,950,274</b>

The accompanying notes are an integral part of these financial statements.

**STEBEN COUNTY, NY**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2012**

	Enterprise Funds			Internal Service
	Health Care Facility	Solid Waste (Landfill)	Total	
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Receipts from services	\$ 6,775,217	\$ 6,456,704	\$ 13,231,921	\$ 3,800,960
Payments to suppliers for goods and services	(2,575,411)	(1,649,180)	(4,224,591)	(293,226)
Payments to employees for services	(8,873,689)	(1,757,326)	(10,631,015)	(80,343)
Payments for workers compensation benefits	-	-	-	(2,377,593)
<b>Net cash provided by (used in) operating activities</b>	<b>(4,673,883)</b>	<b>3,050,198</b>	<b>(1,623,685)</b>	<b>1,049,798</b>
<b>NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES</b>				
Cash overdraft - due to county	5,474,956	-	5,474,956	-
Adjustment of prior years' expense	246,601	-	246,601	-
County subsidies of indirect costs	431,280	-	431,280	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>6,152,837</b>	<b>-</b>	<b>6,152,837</b>	<b>-</b>
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Transfer, purchase and construction of capital assets	(13,429)	(1,137,859)	(1,151,288)	-
Amounts due from other funds	-	-	-	(660,000)
Changes in assets whose use is limited	-	252,785	252,785	-
Receipts from state and federal agencies	-	14,286	14,286	-
Proceeds on sale of equipment	-	9,080	9,080	-
Payments on bond interest expense	(634,825)	(33,507)	(668,332)	-
Principal repayment of bonds	(830,700)	(1,160,000)	(1,990,700)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(1,478,954)</b>	<b>(2,055,215)</b>	<b>(3,534,169)</b>	<b>(660,000)</b>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>				
Investment income received	-	15,748	15,748	3,972
<b>Net cash provided by investing activities</b>	<b>-</b>	<b>15,748</b>	<b>15,748</b>	<b>3,972</b>
Net increase (decrease) in cash, cash equivalents and investments	-	1,010,731	1,010,731	393,770
Cash, cash equivalents and investments, beginning of year	3,050	11,029,478	11,032,528	3,289,595
<b>Cash, cash equivalents and investments, end of year</b>	<b>\$ 3,050</b>	<b>\$ 12,040,209</b>	<b>\$ 12,043,259</b>	<b>\$ 3,683,365</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (2,881,322)	\$ 671,498	\$ (2,209,824)	\$ 305,735
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:				
Depreciation and amortization	848,213	1,908,777	2,756,990	454
Bad debt expense	653,753	-	653,753	-
Changes in:				
Accounts receivable	(4,053,822)	114,754	(3,939,068)	208,473
Inventories and prepaids	1,920	-	1,920	(160,122)
Accounts payable and accrued expenses	101,223	136,399	237,622	695,258
Unearned revenue	150,000	-	150,000	-
Accrued landfill closure/postclosure care costs	-	131,574	131,574	-
Accrued items	506,152	87,196	593,348	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (4,673,883)</b>	<b>\$ 3,050,198</b>	<b>\$ (1,623,685)</b>	<b>\$ 1,049,798</b>
<b>Supplemental Information:</b>				
Non-cash indirect expenses and revenue provided by County	\$ 431,280	\$ -		

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Balance Sheet**  
**Fiduciary Funds**  
As of December 31, 2012

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,684,082	\$ 149,084
<b>TOTAL ASSETS</b>	<b><u>\$ 1,684,082</u></b>	<b><u>\$ 149,084</u></b>
 <b>LIABILITIES</b>		
Agency liabilities	\$ 1,684,082	\$ 803
<b>TOTAL LIABILITIES</b>	<b><u>1,684,082</u></b>	<b><u>803</u></b>
 <b>NET POSITION</b>		
Held in trust for other purposes	-	148,281
<b>TOTAL NET POSITION</b>	<b><u>-</u></b>	<b><u>148,281</u></b>
 <b>TOTAL LIABILITIES AND NET POSITION</b>	 <b><u>\$ 1,684,082</u></b>	 <b><u>\$ 149,084</u></b>

**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
Year Ended December 31, 2012

	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS:</b>	
Interest earnings	\$ 5
Miscellaneous local sources	31,219
<b>TOTAL ADDITIONS</b>	<b><u>31,224</u></b>
 <b>DEDUCTIONS:</b>	
Home and community services	5
Public safety	31,738
<b>TOTAL DEDUCTIONS</b>	<b><u>31,743</u></b>
 <b>CHANGE IN NET POSITION</b>	 <b>(519)</b>
 Net position - Beginning of year	 148,800
<b>Net position - End of year</b>	<b><u>\$ 148,281</u></b>

The accompanying notes are an integral part of these financial statements.

**STEBEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2012**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. FINANCIAL REPORTING ENTITY**

The County of Steuben (the County), which was incorporated in 1796, is governed by County Law and other general laws of the State of New York (the State) and various local laws. The County Legislature is responsible for the overall operations. The Legislative Board consists of seventeen members with each member's vote weighted on the basis of population in the district represented. The Chairman of the Legislature serves as chief executive officer and the County Treasurer serves as chief fiscal officer.

The County provides the following basic services: educational assistance, economic assistance, highway construction and maintenance, law enforcement, traffic safety, emergency management services, parks, youth and aging services, mental health, public health, and environmental control. All governmental activities and functions performed for the County are its direct responsibility.

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 financial statements to be misleading or incomplete as set forth in Governmental Accounting Standards Board (GASB) statements.

The decision to include a potential component unit in the County's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. A component unit is included in the County's reporting entity if it is both fiscally dependent on the County and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the County reporting entity.

**Discretely Presented:**

**Steuben County Industrial Development Agency** (the Agency) is a Public Benefit Corporation created by State legislation to promote the economic welfare, recreational opportunities, and prosperity of the County inhabitants. Board members of the Agency are appointed by the Steuben County Legislature. The County provided no operating subsidy to the Agency for 2012. The Agency is considered a component unit and is discretely presented as a business-type component unit. The Agency uses proprietary fund accounting.

**Steuben County Soil & Water Conservation District** (the District) was established in accordance with the Soil and Water Conservation Districts Law, to provide for the conservation of the soil and water resources. Members of District's Board of Directors are appointed by the Steuben County Legislature. An annual operating subsidy is provided by the County. The County's subsidy for 2012 was \$224,676 (21% of the District's revenue). The District is considered a governmental component unit and is discretely presented. The District uses proprietary fund accounting.

**Blended Presentation:**

**Steuben Tobacco Asset Securitization Corporation (STASC)** is a local development corporation created in October 2000 under section 1411 of the New York State Not-For-Profit Corporation Law. In January 1997, the State of New York filed a lawsuit against the tobacco industry, seeking to recover the costs that the State and local governments had incurred in treating smoking related illnesses. Under an agreement reached with the tobacco industry, referred to as the Master Settlement Agreement (MSA), the State and local governments are entitled to receive annual payments. The STASC was formed to raise funds by issuing bonds, use those funds to acquire the rights to future proceeds from the MSA payable to the County, and remain in existence during the term of the bonds to collect the tobacco settlement proceeds and service the debt.

During 2000, the County sold its rights to receive payments under the MSA to the STASC. This sale was funded through the issuance of bonds by the STASC. The net proceeds were \$18,910,406. These bonds were then advance-refunded in August 2005, as part of New York Counties Tobacco Trust IV, Tobacco Settlement pass-through bonds. The STASC also became part of the New York Counties Tobacco Trust V by issuing capital appreciation bonds in November 2005. The STASC is considered a component unit and is blended with the other governmental activities of the County. The STASC uses the current financial resources measurement focus and modified accrual accounting.

Complete financial statements of individual component units can be obtained from their respective administrative offices:

Steuben County Industrial Development Agency  
7234 Rte 54 N – PO Box 393  
Bath, NY 14810-0393

Steuben County Soil & Water Conservation District  
415 W. Morris Street  
Bath, NY 14810

Steuben Tobacco Asset Securitization Corporation  
3 East Pulteney Square  
Bath, NY 14810

**B. BASIS OF PRESENTATION - FUND ACCOUNTING**

The financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The County's enterprise funds and business-type activities are prepared in conformity with accounting principles generally accepted in the United States as set forth by the GASB for proprietary funds. The more significant of the government's accounting policies are described in the following notes.

The County's basic financial statements consist of government-wide financial statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of information.

## **Government-Wide Financial Statements**

The Statement of Net Position and Statement of Activities display information about the County as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities.

The Statement of Net Position represents the financial condition of the governmental and business-type activities at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business-type activity is self-financing or draws from the general revenues of the County.

Internal service activity within and between the governmental funds has been eliminated for presentation on the Statement of Net Position and the Statement of Activities. Interfund services provided and used are not eliminated in the process of consolidation to the government-wide statement of activities. Internal service activity between the internal service fund and the government has been eliminated and the remaining amounts shown as governmental type activities on the Statement of Net Position and the Statement of Activities.

## **Fund Financial Statements**

The County uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**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 upon determination of financial position and changes in financial position. Reporting is based on the modified accrual basis of accounting and “current financial resources” measurement focus. The following are the County's major governmental fund types:

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

County Road Fund - is required by Highway Law #114. Charges to this fund include salaries and expenditures of the County highway superintendent and the superintendent's office, engineering, maintenance of County roads and bridges, snow removal, and construction and reconstruction of County roads.

**Proprietary Funds** – are used to account for ongoing organizations or activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and changes in financial position. Reporting is on the accrual basis of accounting with an economic resource measurement focus. Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities. The following are the major proprietary funds:

Enterprise Funds – are used to account for the following operations:

The Steuben County Health Care Facility – is used to account for the 105-bed nursing home.

The Steuben County Solid Waste Operations – is used to account for receiving and managing waste at the County landfills.

Internal Service Fund – is used to account for the Self-Insurance (Workers' Compensation) Fund that records the assessments charged to, and benefits paid on behalf of, participating governments for workers' compensation coverage.

**Fiduciary Funds** – are used to account for assets held by the County in a trustee or custodial capacity. The following are fiduciary-type funds:

Agency Funds - The County's Agency Fund accounts for money (and/or property) received and held in the capacity of trustee, custodian or agent. The accounts do not involve measurement of results of operations; therefore, there are no operating statements. This fund accounts for moneys held for such things as payroll deductions, bail and court ordered deposits, undistributed mortgage tax, and deposits held for Social Service and Health Care Facility clients.

Private Purpose Trust Funds - The County's Private-Purpose Trust Funds account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments. The County has two Private-Purpose Trusts: Jail Commissary and Fairview Cemetery. The Jail Commissary benefits inmates at the Steuben County Jail. The Fairview Cemetery trust was established in September 1964 when the County received a bequest of \$1,000 from the Estate of Marjorie More Benham for the perpetual care and maintenance of a lot in the Fairview Cemetery located in the Town of Lindley. The County is designated as the trustee of the bequest in accordance with section 553 of the County Law.

### C. **MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured, whereas basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements and fund financial statements for proprietary funds are prepared using the economic resources measurement focus and

the accrual basis of accounting. The economic resources measurement focus means all assets and all liabilities associated with the operation (whether current or non-current) of the County are included on the Statement of Net Position and the Statement of Activities presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred, regardless of when the cash is received or paid.

The governmental funds financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County considers amounts received within sixty days of year-end to be current. Expenditures are recorded when the related fund liability is incurred. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental-fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user fees. In 2011 the County had no long-term sales contracts, notes, leases receivable, or special assessment levies. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made and the resources are available. Expenditures are recorded when incurred except for the following exceptions:

- a. The County maintains an inventory for office supplies; expenditures for such items are recorded upon withdrawal from the inventory. An inventory is also established to account for snow & ice abrasives (salt), and bridge materials purchased and stockpiled at year-end.
- b. Principal and interest and amortization of bond indebtedness are not recognized as expenditures until due.
- c. Compensated absences, such as vacation and sick leave which vests or accumulates, and other post-employment benefits are charged as expenditures when paid.

**D. ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**E. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The County's investment policies are governed by State statutes. In addition, the County has its own written investment policy. County monies must be deposited in FDIC insured commercial banks or trust companies located within the State. The County Treasurer is authorized to use demand accounts and certificates of deposits. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities. Investments are stated at cost, which approximates fair value.

Collateral is required for demand deposits and certificates of deposit not covered by federal depository insurance. The fair value of the collateral is required at all times to equal or exceed the principal amount. 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.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal Government. Underlying securities must have a fair value of at least 105 percent of the cost of the repurchase agreement.

For purposes of reporting, cash equivalents are defined as short-term, highly liquid investments with a maturity of twelve months or less when purchased.

Deposits and investments at year-end were covered by federal depository insurance, by collateral held by a third party custodial bank, with securities held by the entity or its agent in the County's name, and/or Federal securities.

**F. CAPITAL ASSETS**

General capital assets are capital assets which are associated with, and generally arise from, governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental-activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The County maintains a capitalization threshold of \$5,000 for all governmental funds, and \$500 for all enterprise funds. The County's infrastructure consists of roads and bridges. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Useful lives for infrastructure were estimated based on the County's historical records of necessary improvements and replacement. Depreciation and amortization are computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25 – 50 years
Improvements other than buildings	10 – 35 years
Machinery and equipment	3 – 16 years
Fixed and moveable equipment	3 – 16 years
Infrastructure	4 – 50 years

All infrastructure placed in service each year since 2001 is included in the Statement of Net Position and depreciation expense is included in the Statement of Activities. The County has reported infrastructure assets for the period 1980 to 2001.

**G. INTERFUND RECEIVABLES/PAYABLES**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide Statement of Net Position. The only interfund balances which remain on the government-wide Statement of Net Position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances" if present at year end.

**H. INVENTORY AND PREPAID ITEMS**

Inventory is valued at cost utilizing the first-in, first-out method for all funds. Inventory in the General Fund and government activities consist of expendable supplies held for consumption. The costs are recorded as expenditures under the purchase method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The consumption method is used to account for these prepaid costs.

**I. PROPERTY TAXES**

Real property taxes are levied annually and become a lien on January 1. Taxes for County purposes are levied together with taxes for town and special district purposes as a single bill. The towns and special districts receive the full amount of their levies annually out of the first amounts collected on the combined bills. Taxes are generally collected during the period January 1 to March 31 by the Municipal Tax Collectors. Authorization is granted to requesting municipalities to collect in April to the settlement date. A 5% County penalty is added when the local collector settles with the County. Interest is calculated at a rate of 1% per month from February on the total amount due. The County assumes enforcement responsibility for all taxes levied in the towns after the settlement date.

Unpaid village and central school district taxes are turned over to the County for enforcement and any such taxes remaining unpaid at year-end are re-levied as County taxes in the subsequent year. The County also enforces city and city school district taxes. Tax enforcement procedures are in accordance with Article 11 of the

New York State Real Property Tax Law, known as the "Uniform Delinquent Tax Enforcement Act." The redemption period for the payment of taxes generally expires two years after the lien date. Taxpayers may enter into an installment contract with the County to pay delinquent taxes. The term of the installment contract may be for a period up to 24 months.

**J. NON-PROPERTY TAX ITEMS**

Non-property tax items consist primarily of sales and use taxes, hotel occupancy tax, and automobile use tax.

**K. 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.

**L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are also reported on the enterprise fund financial statements.

In general, governmental-fund payables and accrued liabilities are recognized as fund liabilities when incurred. However, compensated absences, post-employment benefits and contractually required pension contributions that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the fund financial statements when due.

**M. COMPENSATED ABSENCES**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the County will compensate the employees for the benefits through paid time off or some other means. The County records a liability in the government-wide Statement of Net Position, not in the fund statements, for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and also those that the County has identified as probable of receiving payment in the future. The amount is based on the accumulated sick leave and employee wage rates at year-end.

In the event of termination, an employee is entitled to payment of accumulated vacation leave to a maximum of forty-five days and one-half of unused sick leave to a maximum of ninety days after ten years of service. The compensated absences liability is reported on the government-wide financial statements.

On governmental-fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

**N. NET POSITION**

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

The County's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**O. GOVERNMENTAL FUND BALANCE**

Accounting principles generally accepted in the United States provide clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the County itself, using its highest level of decision-making authority (i.e., County Legislature). To be reported as committed, amounts cannot be used for any other purpose unless the County takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the County intends to use for a specific purpose. Intent can be expressed by the County Legislature or by the Finance Committee in consultation with the County Administrator and County Treasurer.
- Unassigned fund balance—amounts that are available for any purpose.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the County Legislature has provided otherwise in its commitment or assignment actions.

**P. OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the County, these revenues are charges for services for the landfill and resident revenues at the health care facility. Receivables are recorded at the time of service and an allowance for doubtful accounts is estimated at the end of each year. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the funds. Revenues and expenses not meeting these definitions are reported as non-operating.

**Q. INTERFUND TRANSACTIONS**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in the governmental funds and after non-operating revenues/expenses in the enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information

Budgets are adopted annually for the General Fund, County Road Fund, Economic Development Fund, and Road Machinery Fund. The Capital Projects Fund is budgeted on a project basis and therefore, these budgets do not lapse at year-end. Budgets are prepared for proprietary funds to establish the estimated contributions required from other funds and to control expenses. The Internal Service Fund budget is adopted by separate resolution.

Each Department head shall submit annually to the Budget Officer/County Administrator an estimate of revenues and expenditures of such Department for the ensuing fiscal year. The Budget Officer/County Administrator will conduct a review of the preliminary budget. Recommendations for budget adjustments shall be forwarded to the Finance Committee, along with the preliminary budget by October 1 for their review and revision. No later than November 15, the Budget Officer/County Administrator submits a tentative budget to the County Legislature for the fiscal year commencing the following January 1. The tentative budget includes the proposed expenditures and the means of financing for all budgeted funds. After public hearings are conducted to obtain taxpayer comments and no later than December 20, the County Legislature adopts the annual budget.

Departments may not exceed the budget unless a formal revision is authorized as outlined in the County Administrative Code. A separately issued detailed budget report is available upon request. In 2012, the County budgeted \$1,400,000 in a "contingency account" to be appropriated by the County Legislature as needed to cover unanticipated costs. During the year, \$994,550 of this amount was re-appropriated.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of the formal budgetary system. Encumbrances outstanding at year-end are carried forward to the next year's budget and can be reported as committed or assigned fund balance in the financial statements since they do not constitute actual expenditures or liabilities.

Actual results of operations presented in accordance with GAAP and the County's accounting policies do not recognize encumbrances as expenditures until the period in which the actual goods or services are received and a liability is incurred. It is necessary to include budgetary encumbrances to reflect actual revenues and expenditures on a basis consistent with the County's legally adopted budget. The basis of budgeting is the same as GAAP except that outstanding encumbrances are treated as expenditures using the budgetary basis, but are not included under GAAP.

Steuben Tobacco Asset Securitization Corporation

The net position deficit of the Tobacco Asset Securitization Corporation at the end of 2012 was (\$30,347,932) compared to (\$29,642,999) in 2011. This deficit results from the full accrual accounting for the STASC. Full accrual accounting requires the recording of the full amount of the bonds payable at the time the bonds are issued, while the revenue is recognized each year as it becomes available to pay the bond debt. It is expected that the deficit will decline as the revenues related to the tobacco settlements are received and the outstanding debt obligations are repaid.

**III. DETAIL NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

Cash and investments at December 31, 2012, are classified in the accompanying financial statements as follows:

Statement of Net Position cash and equivalents	\$ 88,272,361
Statement of Net Position current portion of assets whose use is limited	1,802,533
Fiduciary Funds cash and equivalents	1,833,166
<b>Total Deposits and Investments</b>	<b><u>\$ 91,908,060</u></b>

Cash and investments at December 31, 2012, consist of the following:

Cash on hand	\$ 50,845
Demand deposits with financial institutions	83,600,468
Total Cash	<u>83,651,313</u>
Certificates of deposits with financial institutions	6,501,000
Total cash and time deposits	<u>90,152,313</u>
Investments held by STASC trustee	1,755,747
Total Investments	<u>1,755,747</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 91,908,060</u></b>

**Credit Risk** – It is the County's policy that all financial institutions with which the County conducts business must be credit worthy. Banks shall provide their most recent

Consolidated Report of Condition (Call Report) at the request of the County. Security dealers not affiliated with a bank, shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve Bank, as primary dealers. As authorized by General Municipal Law, §11, the County authorizes the County Treasurer to invest moneys not required for immediate expenditure for terms not to exceed projected cash flow needs in the following types of investments:

Special time deposit accounts;

Certificates of Deposit issued by a bank or trust company located and authorized to do business in New York State;

Obligations of the United States of America;

Obligations guaranteed by agencies of the United States of America, where the payment of principal and interest are guaranteed by the United States of America;

Obligation of the State of New York;

Obligations issued pursuant to Local Finance Law §24 or §25 (with approval of the State Comptroller) by any municipality, school district or district corporation other than the County of Steuben.

Obligations of public authorities, public housing authorities, urban renewal agencies and industrial development agencies where the general state statutes governing such entities or whose specific enabling legislation authorizes such investments.

Certificates of Participation (COPs) issued pursuant to General Municipal Law §109-b.

Obligations of the County of Steuben, but only with any moneys in a reserve fund established pursuant to GML & General Municipal Law §6-c, 6-d, 6-e, 6-g, 6-h, 6-j, 6-k, 6-l, 6-m or 6-n.

All investment obligations shall be payable or redeemable at the option of the County within such time frames as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided.

**Custodial Credit Risk** – is the risk that in the event of a bank failure, the County's deposits may not be returned to it. To mitigate this risk, bank institutions are required to provide collateral in excess of the FDIC limit. At year-end, the carrying amount of the County's deposits was \$90,101,468 and the bank balance was \$90,836,874. Of the bank balance, \$3,250,000 was covered by federal depository insurance. Amounts uninsured, but collateralized by securities being held by 3rd party financial institutions in the County's name were \$108,066,817.

In accordance with the provisions of General Municipal Law, §10, all deposits of the County, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured:

1. By a pledge of "eligible securities" with an aggregate "market value" as provided by General Municipal Law, §10, equal to the aggregate amount of deposits from the categories designated in Appendix A to the policy.

2. By an eligible "irrevocable letter of credit" issued by a qualified bank, other than the bank with the deposits, in favor of the County for a term not to exceed 90 days with an aggregate value equal to 140% of the aggregate amount of deposits and the agreed upon interest, if any. A qualified bank is one whose commercial paper and other unsecured short-term debt obligations are rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization or by a bank that is in compliance with applicable federal minimum risk-based capital requirements.
3. By an eligible surety bond payable to the County for an amount at least equal to 100% of the aggregate amount of deposits and the agreed upon interest, if any, executed by an insurance company authorized to do business in New York State, whose claims-paying ability is rated in the highest rating category by at least two nationally recognized statistical rating organizations.
4. An "irrevocable letter of credit" issued in favor of the County by a federal home loan bank whose commercial paper and other unsecured short-term debt obligations are rated in the highest rating category by at least one nationally recognized statistical rating organization, for the payment of 100 percent of the aggregate amount of public deposits and investments from the County and agreed-upon interest, if any.

Eligible securities used for collateralization of deposits, shall be held by a third party trust company and/or the trust department of the specific bank or trust company, subject to security and custodial agreements.

The security agreement shall provide that eligible securities are being pledged to secure the County's deposits together with agreed upon interest, if any, and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities may be sold, presented for payment, substituted or released and the events, which will enable the County to exercise its rights against the pledged securities. In the event that the securities are not registered or inscribed in the name of the County, such securities shall be delivered in a form suitable for transfer or with an assignment in blank to the County or its custodial bank.

The custodial agreement shall provide the securities held by the bank or trust company, or agent of and custodian for the County, will be kept separate and apart from the general assets of the custodial bank or trust company and will not, in any circumstances, be commingled with, or become part of the backing for any other deposit or other liabilities. The agreement will also describe that the custodian shall confirm the receipt, substitution or release of the securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the local government a perfected interest in the securities.

**Concentration of Credit Risk** – The County's investment policy defines the maximum percentage of the total investments that may be invested in any one issuer to a range between ten and thirty-five percent. The maximum percentage defined for each bank is dependent on the evaluation of the individual institution. The County Treasurer is responsible for evaluating the financial position and maintaining a listing of proposed depositories, trading partners and custodians. Such listing shall be evaluated at least annually. The list of authorized financial institutions for both deposits and investments

along with any restrictions and/or limits relative to authorized maximum amounts are designated below:

	Maximum Percentage (Of Total Cash & Investments)
Bank of America	25%
Five Star Bank	25%
Steuben Trust Company	35%
Community Bank, NA	35%
First State Bank	25%
Chemung Canal Trust	35%
M&T Bank & Trust	25%
J.P. Morgan Chase	35%
North Fork Bank – Mattituck, NY	15%
Key Bank	15%
HSBC	15%
Cooperative Liquid Assets Securities	10%
Morgan-Stanley/Dean Witter	10%

**Interest Rate Risk** – is the risk that arises from the exposure to fair value losses that result from interest rate variability. The County's investment policy requires the diversification of deposits and investments by financial institution, by investment instrument and by maturity scheduling. At year-end, the County held the following investments:

<b>Investment Type</b>	<b>Amount</b>	<b>Maturity</b>
Certificates of Deposit	\$ 5,000,000	04/17/13
Certificates of Deposit	1,500,000	12/27/13
Certificates of Deposit	1,000	12/27/13
Investments held in Trust	1,755,747	Not Applicable
	<u>\$ 8,256,747</u>	

**B. RECEIVABLES AND PREPAID ITEMS**

At December 31, 2012, government-wide total real property tax receivables of \$11,151,230 are net of an allowance for uncollectible taxes of \$295,631. Included in the total real property tax receivables are returned city, village and school taxes of \$6,385,485, which are offset by liabilities to the cities, villages and school districts, which were paid by May 31, 2013.

On the fund financial statements, total real property tax receivables of \$11,151,230 are offset by an allowance for uncollectible taxes of \$295,631. The remaining amount of the taxes receivable is partially offset by unearned tax revenue of \$6,127,801 and represents an estimate of the tax liens, which will not be collected within the first sixty (60) days of the subsequent year.

On the government-wide Statement of Net Position, State and federal receivables of \$12,373,583 consist primarily of the following items:

Office of Temporary and Disability Assistance	\$4,523,408
Department of Health	2,562,405
State Education Department	2,199,454
State Office for the Aging	979,395
Office of Homeland Security and Emergency Services	862,031
7th Judicial District Courts	375,015
Department of Transportation	293,881
United States Marshall	118,233
Other	<u>459,761</u>
	\$12,373,583

On the government-wide Statement of Net Position, Other receivables of \$11,976,813 consist primarily of receivables due from participants in various program services, approximately \$1.5 million related to the Tobacco Asset Securitization Corporation and the year-end sales tax receivable of approximately \$3,800,000.

On the government-wide Statement of Net Position, prepaid items of \$2,325,460 consist primarily of the amount paid to the NYS Retirement System as an estimate of the amount due on wages to be paid between January 1, 2013 and March 31, 2013 and amounts prepaid to third party administrators for health and workers' compensation claims.

**C. CAPITAL ASSETS** - Capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u>				<u>Balance</u>
	<u>12/31/2011</u>	<u>Transfers</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2012</u>
<b>Government Activities:</b>					
Nondepreciable Capital Assets:					
Land	\$ 1,112,856	\$ -	\$ -	\$ -	\$ 1,112,856
Construction in Progress	<u>6,396,830</u>	<u>(6,403,267)</u>	<u>536,908</u>	<u>-</u>	<u>530,471</u>
Total Nondepreciable Capital Assets	<u>7,509,686</u>	<u>(6,403,267)</u>	<u>536,908</u>	<u>-</u>	<u>1,643,327</u>
Depreciable Capital Assets:					
Buildings & Improvements	44,941,419	-	135,995	-	45,077,414
Improvements other than Buildings	501,336	-	-	-	501,336
Machinery & Equipment	25,189,909	-	1,944,932	(367,873)	26,766,968
Infrastructure	<u>128,619,559</u>	<u>6,403,267</u>	<u>6,028,976</u>	<u>(406,413)</u>	<u>140,645,389</u>
Total Depreciable Capital Assets	<u>199,252,223</u>	<u>6,403,267</u>	<u>8,109,903</u>	<u>(774,286)</u>	<u>212,991,107</u>
Less: Accumulated Depreciation For:					
Buildings & Improvements	(24,313,882)	-	(1,795,748)	-	(26,109,630)
Improvements other than Buildings	(232,881)	-	(23,188)	-	(256,069)
Machinery & Equipment	(17,551,775)	-	(1,743,816)	388,887	(18,906,704)
Infrastructure	<u>(61,053,317)</u>	<u>-</u>	<u>(5,277,179)</u>	<u>286,863</u>	<u>(66,043,633)</u>
Total Accumulated Depreciation	<u>(103,151,855)</u>	<u>-</u>	<u>(8,839,931)</u>	<u>675,750</u>	<u>(111,316,036)</u>
Total Depreciable Capital Assets, Net	<u>96,100,368</u>	<u>6,403,267</u>	<u>(730,028)</u>	<u>(98,536)</u>	<u>101,675,071</u>
Governmental Activities Capital Assets, Net	<u>\$ 103,610,054</u>	<u>\$ -</u>	<u>\$ (193,120)</u>	<u>\$ (98,536)</u>	<u>\$ 103,318,398</u>

**CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>12/31/2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>12/31/2012</u>
<b>Business-Type Activities:</b>				
Nondepreciable Capital Assets:				
Land	\$ 406,301	\$ 150,809	\$ -	\$ 557,110
Construction in Progress	-	383,069	-	383,069
Total Nondepreciable Capital Assets	<u>406,301</u>	<u>533,878</u>	<u>-</u>	<u>940,179</u>
Depreciable Capital Assets:				
Buildings & Improvements	21,591,123	7,375	-	21,598,498
Improvements other than Buildings	19,508,094	206,332	-	19,714,426
Fixed Equipment	7,103,076	6,620	-	7,109,696
Moveable Equipment	1,855,086	2,688	(12,248)	1,845,526
Machinery & Equipment	7,092,021	394,394	(60,484)	7,425,931
Total Depreciable Capital Assets	<u>57,149,400</u>	<u>617,409</u>	<u>(72,732)</u>	<u>57,694,077</u>
Less: Accumulated Depreciation For:				
Buildings & Improvements	(5,056,726)	(616,019)	-	(5,672,745)
Improvements other than Buildings	(13,821,899)	(1,101,205)	-	(14,923,104)
Fixed Equipment	(1,392,156)	(399,114)	-	(1,791,270)
Moveable Equipment	(809,324)	(152,109)	12,248	(949,185)
Machinery & Equipment	(4,710,796)	(488,543)	60,484	(5,138,855)
Total Accumulated Depreciation	<u>(25,790,901)</u>	<u>(2,756,990)</u>	<u>72,732</u>	<u>(28,475,159)</u>
Total Depreciable Capital Assets, Net	<u>31,358,499</u>	<u>(2,139,581)</u>	<u>-</u>	<u>29,218,918</u>
Business-type Activities Capital Assets, Net	<u>\$ 31,764,800</u>	<u>\$ (1,605,703)</u>	<u>\$ -</u>	<u>\$ 30,159,097</u>

Depreciation expense was charged to the governmental functions as follows:

Governmental Activities:	
General government	\$ 755,174
Public safety	1,738,271
Health	27,656
Transportation	6,210,640
Economic assistance and opportunity	52,882
Culture and recreation	7,445
Home and community	47,863
Total depreciation expense – Governmental activities	<u>\$ 8,839,931</u>
Business-type Activities:	
Health Care Facility	\$ 848,213
Solid Waste (Landfill)	1,908,777
Total depreciation expense – Business-type activities	<u>\$2,756,990</u>

**D. PENSION PLANS**

Plan Description – The County participates in the New York State and Local Employees' Retirement System (ERS) and New York State and Local Police and Fire Retirement System (collectively, the Systems). These are cost sharing multiple employer systems that 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 NYRSSL, the Comptroller of the State of New York 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 12236.

Funding Policy – The Systems are noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. Employees who joined NYSERS after January 1, 2010 and prior to April 1, 2012, contribute 3.0% of their salary throughout their active membership. For employees who joined after April 1, 2012, employees in NYSERS contribute 3% of their salary until April 1, 2013 and then contribute 3%-6% of their salary throughout their active membership. Under the authority of the NYRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The County is required to contribute at an actuarially determined rate. The County's contribution to the Systems was equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

2012	\$7,889,663
2011	\$7,858,869
2010	\$5,167,125

The Health Care Facility's portion of the County's required contribution for the current year and each of the preceding two years was approximately \$942,300, \$839,900, and \$629,200, respectively, and is included in employee benefits on the statements of revenues, expenses and change in net position.

**E. COMPENSATED ABSENCES**

Vested vacation and sick leave and the respective FICA liability is recorded in proprietary funds as a liability and expensed when earned. In governmental funds it is recorded as a fund liability and expenditure, if payable from current financial resources. At the end of 2012, the liability in the proprietary funds for compensated absences totaled \$762,591 and amounted to \$5,078,015 in the governmental activities. For the governmental activities, compensated absences are liquidated by all governmental funds incurring payroll-related costs, typically, the General, County Road and Road Machinery funds.

## F. OTHER POST-EMPLOYMENT BENEFITS

### Plan Description

The County provides certain health care benefits for retired employees. The County administers the Retirement Benefits Plan (the "Retirement Plan") as a single-employer defined benefit Other Post-employment Benefit (OPEB) Plan.

In general, the County provides health care benefits for those retired personnel who are eligible for a pension through the New York State Employees' Retirement System (ERS). The Retirement Plan can be amended by action of the County subject to applicable collective bargaining and employment agreements. The number of retired employees currently eligible to receive benefits at December 31, 2012 was 345. The Retirement Plan does not issue a stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

### Funding Policy

The obligations of the Retirement Plan are established by action of the County pursuant to applicable collective bargaining and employment agreements. Healthcare benefits for non-union employees are similar to those of union employees. The retiree's share of the calculated premium cost ranges from 0% to 100%, depending on the retirement date and length of service. Based on collective bargaining agreements, the retiree and his or her beneficiaries receive this coverage for the remainder of their life. In most plans, actual medical claims paid are self-funded by the County. The costs of administering the Retirement Plan are paid by the County. The County currently contributes enough money to the Retirement Plan to satisfy current obligations on a pay-as-you-go basis to cover annual premiums.

### Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the County's net OPEB obligation:

	<u>HCF</u>	<u>County</u>	<u>Total</u>
2012 amortization of UAAL	\$ 165,168	\$ 1,581,817	\$ 1,746,985
Normal Cost	258,851	1,634,917	1,893,768
2012 Annual Required Contribution	424,019	3,216,734	3,640,753
Interest	57,632	525,796	583,428
Adjustment to ARC	(55,590)	(507,175)	(562,765)
2012 Annual OPEB Cost	426,061	3,235,355	3,661,416
2012 Contributions made	(54,086)	(1,316,127)	(1,370,213)
Increase in Net OPEB Obligation	371,975	1,919,228	2,291,203
Net OPEB obligation at 12/31/2011	1,440,788	13,144,912	14,585,700
Net OPEB obligation at 12/31/2012	<u>\$ 1,812,763</u>	<u>\$ 15,064,140</u>	<u>\$ 16,876,903</u>

The following table provides trend information for the Retirement Plan:

**Trend Information**

	<u>Annual OPEB</u>		<u>Actual</u>	<u>Percentage</u>	<u>Net OPEB</u>
	<u>cost</u>		<u>Contribution</u>	<u>Contributed</u>	<u>Obligation</u>
2008	\$ 3,576,600	\$	1,440,000	40.3%	\$ 3,479,800
2009	3,687,300		815,000	22.1%	6,352,100
2010	4,064,700		544,000	13.4%	9,872,800
2011	5,632,900		920,000	16.3%	14,585,700
2012	3,661,416		1,370,213	37.4%	16,876,903

**Funded Status and Funding Progress**

The projection of future benefits for an ongoing plan involves 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 the funded status of the Retirement Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Retirement Plan is currently not funded.

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

**Schedule of Funding Progress for the County's Plan**

<u>Actuarial</u>	<u>Actuarial Value</u>	<u>Actuarial Accrued</u>	<u>Unfunded Accrued</u>		<u>UAL as a %</u>	
<u>Date</u>	<u>of Plan Assets</u>	<u>Liability (AAL)</u>	<u>Liability (UAL)</u>	<u>Funded Ratio</u>	<u>Covered</u>	
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>Payroll</u>	
					<u>of Covered</u>	
					<u>Payroll</u>	
					<u>((b-a)/c)</u>	
01/01/2009	\$0	\$39,489,000	\$39,489,000	0.0%	\$45,738,000	86.3%
01/01/2009	\$0	\$45,956,900	\$45,956,900	0.0%	\$46,797,815	98.2%
01/01/2011	\$0	\$65,517,000	\$65,517,000	0.0%	\$44,489,000	147.3%
01/01/2012	\$0	\$45,717,717	\$45,717,717	0.0%	\$44,480,859	102.8%

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the County and plan members and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the County 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 January 1, 2012 actuarial valuation, the following methods and assumptions were used:

Actuarial Cost Method	Projected Unit Credit Cost Method
Discount Rate*	4%
Medical Care Cost Trend Rate	2012 4.2%, 2012 5.7%, 2014 10.8%, 2015 6.1%. The rate is subsequently reduced by decrements each year to an ultimate rate of 4.2%.
Dental Care Cost Trend Rate	5% each year

Unfunded Actuarial Accrued Liability:

Amortization Period	30 years
Amortization Method	Projected Unit Credit Cost Method
Amortization Basis	Open

\*As the Retirement Plan is unfunded, the discount rate is based on the expected earnings of the County's General Fund.

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

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws are expected to have a financial impact on employers who sponsor postretirement health care benefit plans and therefore may affect the valuation of the plan. As of the date of this statement, the County could not reasonably conclude which provisions would impact the financial accounting of the Plan. Upon release of further regulatory guidance, the impact of PPACA and HCERA will be appropriately reflected in the valuation.

**G. RISK RETENTION**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County has elected to be self-insured for workers' compensation claims, and accounts for this activity in an internal service fund. Other local municipalities, towns and villages within the County are permitted to participate in this self-insured workers' compensation plan and are liable for their share of the plan's claims. Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

At December 31, 2012, the amount of these liabilities was \$4,357,254. The liability is the County's best estimate based on available information provided by the third party administrators, Corvel Claim Services and PERMA Inc.

The following represents changes in those aggregate liabilities for the fund for the past three fiscal years ended December 31:

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims & Changes <u>in Estimates (Net)</u>	Balance at Fiscal <u>Year-End</u>
2012	\$3,821,107	\$ 536,147	\$4,357,254
2011	\$3,652,794	\$ 168,313	\$ 3,821,107
2010	\$3,769,808	\$ ( 117,014)	\$ 3,652,794

At December 31, 2012, to satisfy the estimated liability, the internal service fund had available \$3,683,365 of cash and investments, a \$1,980,000 receivable from other County funds, plus a receivable of \$973,386 due from other local municipalities which participate in the County's Workers' Compensation Plan.

The County is also self-insured for unemployment insurance claims. This activity is accounted for in individual funds based on actual claims made. Claims totaled \$93,530 in 2012. General Fund includes a restriction of fund balance for unemployment claims of \$335,038.

The County is also self-insured for medical and prescriptions for active employees and retirees under the age of 65. This activity is expensed to individual funds based on a calculated equivalent premium per employee. Accounts payable in the General Fund includes a liability for such unpaid claims in the amount of \$1,125,848 as of December 31, 2012. In addition, an assignment of fund balance of \$1,000,000 was created in 2012 with the purpose to pay for large health care claims.

The County accounts for tort claims in the General Fund. Accrued liabilities in the General Fund include a liability for such claims in the amount of \$661,100 as of December 31, 2012. For the past three fiscal years insurance losses have not exceeded commercial insurance coverage.

The General Fund includes a fund balance restriction of \$2,078,884 for self-insurance for claims.

#### **H. SHORT-TERM DEBT**

Liabilities for bond anticipation notes (BANS) are generally accounted for in the General Fund, Capital Projects Fund, and the Enterprise Fund. The notes, or renewal thereof, may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter.

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 periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

A BAN was issued on March 29, 2012 for repairs to the equipment and ditches of the Upper Five Mile Creek watershed special district and carries an interest rate of 1.25%.

This BAN matured on March 29, 2013 with interest of \$938. A liability of \$75,000 is recorded in the General fund at December 31, 2012.

## I. LONG-TERM DEBT

A summary of government-wide long-term debt is detailed in the following schedule:

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/12</u>	<u>Amount Due</u> <u>Within One Year</u>
<b><u>Governmental Activities:</u></b>					
Compensated Absences	\$ 5,012,807	\$ 3,302,621	(3,237,413)	\$ 5,078,015	\$ 2,171,408
Bonds Payable	5,830,000	350,000	(480,000)	5,700,000	675,000
Bonds Payable - STASC	30,582,790	-	(75,000)	30,507,790	195,000
Bond Discount - STASC	(627,004)	-	33,606	(593,398)	-
Other Post Empl. Benefits	12,647,035	3,128,680	(1,266,064)	14,509,651	-
Gov't Activities Total Long-Term Debt	<u>\$ 53,445,628</u>	<u>\$ 6,781,301</u>	<u>\$ (5,024,871)</u>	<u>\$ 55,202,058</u>	<u>\$ 3,041,408</u>
<b><u>Business-Type Activities:</u></b>					
Landfill Closure / Postclosure	\$ 10,578,619	\$ 269,699	\$ (138,125)	\$ 10,710,193	\$ -
Compensated Absences	778,943	556,981	(573,333)	762,591	542,198
Bonds Payable	17,745,000	-	(1,990,000)	15,755,000	2,025,000
Bond Premiums Payable	9,800	-	(700)	9,100	700
Bond Interest Arbitrage	73,287	-	-	73,287	-
Other Post Empl. Benefits	1,938,665	532,736	(104,149)	2,367,252	-
Bus. Type Activities Total Long-Term Debt	<u>\$ 31,124,314</u>	<u>\$ 1,359,416</u>	<u>\$ (2,806,307)</u>	<u>\$ 29,677,423</u>	<u>\$ 2,567,898</u>

Internal service funds predominantly serve the governmental funds, and accordingly, long-term liabilities for the internal service fund are included as part of the above totals for governmental activities.

The following is a summary of debt outstanding at the end of the year.

<u>Description</u>	<u>Purpose</u>	<u>Date Issued</u>	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Final Maturity</u>	<u>Outstanding</u> <u>12/31/12</u>
Correctional Facility	Jail Expansion	01/15/2006	\$ 7,820,000	3.75%	07/15/2021	\$ 5,350,000
Landfill	Bath Cell 2 Expansion	05/15/2008	5,800,000	2.74%	02/15/2013	1,160,000
Health Care Facility	New Facility	08/16/2005	19,710,000	4.00%	08/16/2025	14,595,000
Highway Machinery	Capital Note	07/12/2012	350,000	1.95%	07/11/2014	350,000
STASC	Tobacco Settlement	2005	31,947,790	Various	2060	30,507,790
<b>TOTAL DEBT</b>			<u><b>\$ 65,627,790</b></u>			<u><b>\$ 51,962,790</b></u>

Future Debt Service – The following table summarizes the County's future debt service requirements:

Year	<u>Full Faith and Credit of County Pledged</u>			<u>Tobacco Asset Securitization Corp</u>		
	Principal	Interest	Total	Term Bonds	Interest / Accretion	Total
2013	2,525,000	818,142	3,343,142	195,000	2,068,685	2,263,685
2014	1,425,000	748,900	2,173,900	215,000	2,104,652	2,319,652
2015	1,485,000	693,213	2,178,213	220,000	2,046,012	2,266,012
2016	1,550,000	635,175	2,185,175	220,000	2,189,972	2,409,972
2017	1,615,000	574,600	2,189,600	225,000	2,234,971	2,459,971
2018-2022	8,415,000	1,865,363	10,280,363	1,175,000	12,083,989	13,258,989
2023-2027	4,090,000	352,538	4,442,538	2,700,000	13,960,116	16,660,116
2028-2032	-	-	-	3,600,000	16,457,074	20,057,074
2033-2037	-	-	-	5,055,000	20,200,982	25,255,982
2038-2042	-	-	-	6,575,000	26,080,479	32,655,479
2043-2047	-	-	-	4,725,000	35,043,574	39,768,574
2048-2052	-	-	-	1,090,190	47,818,576	48,908,766
2053-2057	-	-	-	1,188,760	62,174,516	63,363,276
2058-2060	-	-	-	3,323,840	38,699,310	42,023,150
	<u>\$ 21,105,000</u>	<u>\$ 5,687,931</u>	<u>\$ 26,792,931</u>	<u>\$ 30,507,790</u>	<u>\$ 283,162,908</u>	<u>\$ 313,670,698</u>

The STASC future debt service schedule includes amounts for the capital appreciation bonds.

At December 31, 2012, the total outstanding indebtedness of the County, excluding the STASC, aggregated \$21,105,000. Of this amount, all was subject to the constitutional debt limit and represented approximately 5.8% of the County's statutory debt limit.

1. **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 backed by the full faith and credit debt of the County, are recorded in the Schedule of Non-Current Governmental Liabilities for governmental funds or in the enterprise funds for proprietary type funds. The provision to be made in future budgets for indebtedness represents the amount exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. Enterprise fund debt is liquidated with enterprise income.
2. **Steuben Tobacco Asset Securitization Corporation – Bonds Payable and Defeasance of Debt** - See Note V.

3. **Prior-Year Defeasement of Debt** - In 2000, the County defeased certain general obligations and other bonds by placing the proceeds from the Series 2000 Tobacco Securitization in an irrevocable trust held in escrow by Manufacturers and Traders Trust Company to provide for all future debt service payments on the old bonds. Accordingly, the bonds are considered defeased and the liability of these bonds have been removed from the County's financial statements. See Note V, D for more information.

**J. INTERFUND BALANCES**

The County reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The sum of all balances presented in the table agrees with the sum of interfund balances presented in the balance sheet for governmental funds and the Statement of Net Position for proprietary funds. All interfund balances are considered to be short-term.

Interfund balances at December 31, 2012 consisted of the following:

	<b>Due To:</b>		
	<b>Due To General Fund</b>	<b>Due To Internal Service</b>	<b>Total</b>
<b>Due From:</b>			
General	\$ -	\$ 715,548	\$ 715,548
County Road	-	568,668	568,668
Non-Major Gov't	-	32,808	32,808
Health Care Fac.	6,237,335	662,976	6,900,311
Total	<b>\$ 6,237,335</b>	<b>\$ 1,980,000</b>	<b>\$ 8,217,335</b>

Interfund balances are used:

- (1) To move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them primarily;
- (2) To move expenditures from chargeable funds to a single fund for disbursement, and;
- (3) To compensate for the time lag between the dates that interfund goods and services are provided or reimbursable and the payments are actually made between the funds.

**K. INTERFUND TRANSFERS**

The County reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single column or row. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements.

Interfund transfers for the year ended December 31, 2012, consisted of the following:

	<b>Transfer From:</b>				Total
	General	County Road	Capital Projects	Road Machinery	
<b>Transfer To:</b>					
General	\$ -	\$ -	\$ 1,000	\$ -	\$ 1,000
County Road	-	-	-	616,681	\$ 616,681
Road Machinery	-	223,085	-	-	\$ 223,085
Capital Projects	557,400	215,000	-	-	\$ 772,400
	<u>\$ 557,400</u>	<u>\$ 438,085</u>	<u>\$ 1,000</u>	<u>\$ 616,681</u>	<u>\$ 1,613,166</u>

Interfund Transfers are used:

- (1) to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them,
- (2) to fund capital projects from operating funds.

**L. LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS – Enterprise Fund**

The total capacity of the Bath Landfill was increased by 569,000 tons in 2005 when a 7.7 acre cell was completed and became operable. This cell is referred to as Cell #1 and is an overlay that ties into the south side of the existing Bath Landfill. In January 2010, an additional cell (Cell #2) was put into operation. The combined design capacity of the landfill is 2,492,900 tons. Based on a survey completed in December 2012 by Barton & Loguidice, the remaining air space capacity of the combined Bath Landfill was approximately 398,000 tons which represents an estimated remaining useful life of approximately 4.3 years. The Bath Landfill is estimated to be at 84% of the available capacity at December 31, 2012. In 2003, the Bath Landfill was re-permitted and the current permit expires in the year 2014.

State and federal laws and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as a liability in each period based on used landfill capacity as of each balance sheet date. Landfill activity is reported in an Enterprise Fund. The County has a liability recorded of \$10,710,193 that represents the landfill closure and post-closure care costs liability at December 31, 2012. The cumulative amounts reported to date are \$6,554,223 for the Bath Landfill and \$4,155,970 for the other closed landfills maintained by the County. Actual capital costs contributed to covering the landfills reduce the total liability. The liability for the Bath Landfill was increased by \$269,699 in 2012 as post-closure cost estimates were updated. The liability related to landfills that have already been closed was decreased by \$138,125 as post-closure maintenance and testing for these closed sites was incurred.

The total estimated cost for closure and post-closure care costs at the combined Bath Landfill is \$7,798,630. The County will recognize the remaining estimated cost as the remaining capacity of the landfill is utilized. These amounts are based on what it would cost to perform all closure and post-closure care during the current fiscal year. Actual

costs may be different due to inflation, changes in technology, and/or changes in regulations.

**M. FUND BALANCES**

Generally accepted accounting principles require fund balance to be properly reported within one of the fund balance categories listed below.

Nonspendable-Amount of assets that cannot be spent in the current period because of their form or because they must be maintained intact. As of December 31, 2012, the County's General Fund has \$2,165,338 of prepaid expenses and \$21,583 of inventories that were classified as nonspendable amounts.

Restricted-Amounts that are subject to externally enforceable legal purposes, restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments; or through constitutional provisions or enabling legislation. As of December 31, 2012 the County had the following restricted amounts:

	<u>General</u>	<u>Road Machinery</u>	<u>Capital Projects</u>	<u>Tobacco Asset Securitization</u>
Restricted				
Unemployment insurance	\$ 335,038			
Liability Insurance	2,078,884			
Health Insurance	1,093,000			
Building Repair & Renovation	3,266,939			
Public Safety Building	75,105			
Communication System	710,844			
Forfeitures - D.A. & Sheriff	44,691			
Stop D.W.I.	179,079			
Occupancy Tax	607,375			
Special Districts	70,273			
Equipment Repair & Maintenance		\$ 65,997		
Capital Projects			\$ 4,310,625	
Debt Service				\$ 1,755,747
Miscellaneous	622			
Total Restricted	<u>\$ 8,461,850</u>	<u>\$ 65,997</u>	<u>\$ 4,310,625</u>	<u>\$ 1,755,747</u>

Committed-Amounts that are subject to a purpose constraint imposed by a formal action of the Steuben County Legislature (the County's highest level of decision-making authority). As of December 31, 2012 the County did not have any balances considered to be committed.

Assigned-Amounts that are subject to a purpose constraint that represents an intended use established by the County's Board of Legislators, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2012, the balances below were considered to be assigned:

	<u>General</u>	<u>County Road</u>	<u>Economic Development</u>	<u>Road Machinery</u>	<u>Tobacco Asset Securitization</u>
Assigned					
For Highway Equipment	\$ -	\$ -	\$ -	\$ 433,897	\$ -
For Road and Bridge Supplies	-	232,360	-	-	-
For Public Safety Equipment and Supplies	105,041	-	-	-	-
For General Government Equipment and Supplies	82,589	-	-	-	-
Appropriated for 2013 budget	4,758,627	1,230,000	160,000	620,000	-
Other spendable amounts	1,000,000	1,056,669	589,015	1,695,940	127,045
Total Assigned	\$ 5,946,257	\$ 2,519,029	\$ 749,015	\$ 2,749,837	\$ 127,045

Significant encumbrances are amounts encumbered in excess of \$100,000. As of December 31, 2012, there were two encumbrances in excess of this amount. Both encumbrances in excess of \$100,000 were within the Road Machinery Fund. The first was \$172,000 and was to purchase a rubber tired excavator. The second was \$228,545 and was to purchase a tandem dump truck.

Unassigned-Represents the residual classification of the government's General Fund, and could report a surplus or deficit. As of December 31, 2012, the unassigned fund balance was \$47,605,981.

Order of Fund Balance Spending Policy-The County's policy does not address the order of spending fund balances. The default would expend fund balances in the following order if all categories of fund balance were available: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

#### IV. STEBEN COUNTY HEALTH CARE FACILITY- Enterprise Fund

##### A. Organization and Summary of Significant Accounting Policies:

**The Reporting Entity** - Steuben County Health Care Facility (the Facility) is a public, 105-bed skilled nursing facility. The Home is owned by, operated as, and presented as an enterprise fund of the County of Steuben, New York (the County), a political sub-division of the State of New York. An enterprise fund is a proprietary type fund that uses the accrual basis of accounting and is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation), of providing goods or services are to be financed or recovered primarily through user charges.

In accordance with generally accepted accounting principles, the Facility's financial statements are included in the County's audited financial statements. The Facility was audited by Bonadio & Co., LLP and a copy of the complete audited financial may be obtained from the Steuben County Health Care Facility, Route 113, Bath, NY 14810. A copy of the County audit report can be obtained by writing The Steuben County Treasurer, 3 East Pulteney Square, Bath, New York 14810.

An enterprise fund is accounted for as an operation that is financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs or expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Indirect costs from other County departments attributable to shared services have been provided for based on allocations from the most recent allocation plan for the County.

A summary of the Facility's significant accounting policies follows:

**Basis of Accounting** - As an enterprise fund, the Facility uses the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The Facility financial statements are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board for proprietary funds.

#### **Basis of Presentation**

GASB requires the classification of net position into three components - invested in capital assets, net of related debt, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. At December 31, 2012 the Facility had \$14,829,710 recorded as a reduction of its net position.

- Restricted - This component of net position consists of amounts which have external constraints placed on its use imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. At December 31, 2012 the Facility had no restricted net position.

- Unrestricted - This component of net position consists of net position that do not meet the definition of "net investment in capital assets" or "restricted."

When both restricted and unrestricted resources are available for use for the same purpose, the Facility uses restricted resources first and then unrestricted resources, as needed.

**Operating Revenue and Expense** - The Facility's statements of revenue, expenses, and change in net position distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Facility's principal ongoing operations. Operating expenses include the cost of services provided, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

#### **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, bank demand deposit accounts, money market accounts, and all highly liquid investments with an original maturity of

three months or less which, at times, may exceed federally insured limits. The Facility has not experienced any losses in such accounts. As a fund of the County, the Facility's cash balances are covered by depository insurance at year-end or collateralized with securities held by the pledging financial institution, or its trust department or agent.

### **Resident Accounts Receivable and Revenue**

The Facility provides services to residents under agreements with third-party payors (primarily Medicare and Medicaid), whereby it is reimbursed under provisions of their respective reimbursement formulas. Final determination of the amounts earned is subject to review by third-party payors or their agents.

Net resident service revenue is reported at estimated net realizable amounts from residents, Medicaid, Medicare, and other third-party payors for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and appeals. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and appeals. It is not possible to determine the extent of additional liabilities (or receivables) resulting from governmental audits conducted in subsequent years.

Resident accounts receivable are stated net of an allowance for doubtful accounts. Accounts for which no payments have been received for several months are considered delinquent. The Facility records an allowance for doubtful accounts in anticipation of future write-offs. The allowance for doubtful accounts is based on the Facility's historical collection experience and a review of outstanding accounts.

Laws and regulations governing reimbursement are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

### **Income Taxes**

The Facility is an enterprise fund of the County and is consequently exempt from Federal and state income taxes.

### **Inventory**

Inventory consists of dietary, medical, office and maintenance supplies. Inventory is stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis or market.

### **Capital Assets**

Capital assets are stated at cost if purchased or at fair market value at date of donation. Major renewals and betterments greater than \$500 are capitalized at cost, while replacements and maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Depreciation and amortization is provided using the straight-line method over the estimated useful lives as established by the American Hospital Association, ranging from five (5) to forty (40) years.

The cost of capital assets retired or otherwise disposed of and their related accumulated depreciation are removed from the accounts.

### **Resident Funds Held in Trust**

The Facility acts as a custodian for resident funds. The funds are expended at the direction of the residents for personal items. Transactions involving receipt and disbursement of resident funds are not included in the operating results of the Facility.

**Compensated Absences**

Liabilities for compensated absences such as vacation are recorded when vested and earned by the employees and payment is not dependent upon a future event. The liabilities are recorded based on employees' rates of pay as of December 31 and include all payroll related liabilities.

**County Cost Allocation**

The County incurs the costs of certain overhead services for the benefit of the Facility. The value of these services is allocated to the Facility based upon the County's Cost Allocation Plan. These costs are included in operating expenses on the statements of revenues, expenses, and change in net position.

**Inventory**

Inventory is stated at the lower of cost or market, determined on a first-in, first-out (FIFO) basis or market. Inventories consist of dietary, medical, office and maintenance supplies.

**Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. The Facility's policy is to record as a liability the estimated amount owed. The Facility estimated arbitrage liability was approximately \$73,000 at December 31, 2012.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**Risk Management**

The Facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. The Facility participates in the County's commercial and self-insurance programs. The County's settled claims have not exceeded its commercial coverage in any of the three preceding years.

**Reclassifications**

Certain reclassifications have been made to the prior year information to conform of the current year presentation.

**Going Concern**

The Facility has losses from operations amounting to \$3,257,096 in 2012 that has resulted in an unrestricted net deficit of \$2,531,637 at December 31, 2012. These losses and deficits have also resulted in the Facility having significant working capital deficits, and significant negative operating cash flows in 2012. At December 31, 2012, the Facility has a cash overdraft of approximately \$6.2 million as a result of the County paying its obligations. Additionally, the County contributed the matching share of \$768,699 for

2012 related to the Upper Payment Limit Intergovernmental Transfer revenue of \$1,592,169 recorded by the Facility for 2012. These conditions have raised substantial doubt about the Facility's ability to continue as a going concern without the on-going support of the County.

The ability of the Facility to continue in existence depends upon whether the County continues to support the Facility through infusion of both operating capital and cash with which to meet the Facility's obligations. The County is currently in negotiations with a potential private buyer for the sale of the Facility.

The financial statements do not include any adjustments related to recoverability and classification of recorded assets nor to the amounts and classifications of liabilities or any other adjustments that might be necessary should the Facility be unable to continue as a going concern.

**RESIDENT ACCOUNTS RECEIVABLE**

Resident accounts receivable consisted of the following at December 31, 2012:

Resident accounts receivable	\$ 5,295,938
Allowance for doubtful accounts	<u>(1,500,000)</u>
	<u>\$ 3,795,938</u>

**B. NET RESIDENT SERVICE REVENUE**

**Concentrations**

For the year ended December 31, 2012, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 70% and 16%, respectively, of net resident service revenue.

For the year ended December 31, 2012, aggregate accounts receivable due from Medicaid and Medicare programs accounted for approximately 37% and 10%, respectively, of gross accounts receivable.

**Contractual Allowances**

Net resident service revenue is measured at established rates adjusted for third-party contractual allowances as follows at December 31:

	<u>2012</u>
Gross resident service revenue	\$ 10,604,421
Less: Contractual allowances	<u>(1,459,980)</u>
	<u>\$ 9,144,441</u>

**Intergovernmental Transfers**

County-sponsored nursing homes in New York State receive additional Medicaid reimbursement known as Intergovernmental Transfer payments (IGT). Payments for this program are funded principally with local and federal funds. This provision results in a statewide rate enhancement to non-state operated public residential health care facilities for services provided. When estimable, IGT revenue is recorded when the Facility is entitled to receive it; otherwise, it is recorded on a cash basis. The Facility has recorded IGT revenue for the year ended December 31, 2012 of \$1,592,169.

### **New York State Cash Receipts Assessment**

In April 2002, the State of New York approved a 6% assessment on nursing facilities' cash receipts, with the exception of Medicare cash receipts, to provide funding for workforce recruitment and retention awards authorized pursuant to Chapter 1 and subsequently amended by Chapter 82 of the Laws of 2002. Effective April 2012, the State of New York implemented an assessment decrease on nursing facilities' cash receipts from 7.2% to 7.0% and effective November 2012 this assessment further decreased to 6.8%.

A significant portion of this assessment is reimbursed to the Facility, at varying rates depending on payer, and is included in net resident service revenue. Total assessment expense for the year ended December 31, 2012 was approximately \$361,000 and is included in the accompanying statements of revenue, expenses and change in net position.

### **Adjustment of Prior Years' Revenue, Net**

Net resident service revenue is reported at estimated net realizable amounts from residents, Medicaid, Medicare, and other third-party payors for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and appeals. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, reviews, or appeals. For 2012, adjustments to previously recognized Medicaid revenue amounted to approximately \$198,000. The prior years' revenue amounts are related to Medicaid reimbursement system overhaul and miscellaneous adjustments.

## **C. GOVERNMENTAL PAYERS**

### **Estimated Third-Party Settlements**

The Facility has recorded an estimated net receivable due from third-party payors of \$754,152 at December 31, 2012, primarily for amounts due from Medicaid for projected increases in the Medicaid reimbursement rates resulting from the filing of a base year cost report, Medicaid reimbursement system overhaul, as well cash receipts assessment reconciliations. It is at least reasonably possible that the amount recorded will differ materially from the actual amount to be paid in the near term.

The U.S. healthcare industry has become the subject of increased scrutiny by both federal and state governmental payers with respect to reimbursements providers have received for service provisions. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulatory compliance, etc. The stated purpose for these reviews is to recover reimbursements which the payers believe may have been inappropriate. While no outstanding regulatory inquiries exist at December 31, 2012 and 2011 for the Facility that in the opinion of management would be material to its financial position or results of operations, compliance with these laws and regulations is subject to future interpretation, or actions.

Medicaid and Medicare reimbursed rates are subject to audit and retroactive rate adjustments by the New York State DOH and CMS. Estimated third-party settlements are included in the financial statements based upon the information available at year end. However, as described above, it is at least reasonably possible that those estimates will change during 2013 and future years as more information becomes

available. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term.

The Facility is required to prepare and file various reports of actual and allowable costs annually. Provisions have been made in the financial statements for prior and current years' estimated final settlements. The difference between the amount provided and the actual final settlement is recorded as an adjustment of prior years' revenue in the year the final settlement is determined.

### Regulatory Environment

The Facility is responsible to report to various third-parties/regulators, including the Center for Medicare and Medicaid Services, the New York State Department of Health (DOH), the New York State Office of Attorney General and the Internal Revenue Service.

Each of these third-parties has the ability to conduct audits, reviews, surveys and/or other investigations related to financial, operating and compliance matters. The Facility is subject to operational and compliance surveys by the DOH on a regular basis. Each of these third-parties has the ability to conduct audits, reviews, surveys and/or other investigations related to financial, operating and compliance matters. The Facility is subject to operational and compliance surveys by the DOH on a regular basis.

### D. CAPITAL ASSETS

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

	<b>Balance</b>			<b>Balance</b>
	<b>12/31/2011</b>	<b>Increase</b>	<b>Decrease</b>	<b>12/31/2012</b>
<b>Health Care Facility</b>				
Depreciable Capital Assets:				
Buildings & Improvements	10,130,094	-	-	10,130,094
Improvements other than Buildings	1,056,160	4,120	-	1,060,280
Fixed Equipment	7,103,076	6,620	-	7,109,696
Moveable Equipment	1,855,086	2,688	(12,248)	1,845,526
Machinery & Equipment	-	-	-	-
Total Depreciable Capital Assets	<u>20,144,416</u>	<u>13,428</u>	<u>(12,248)</u>	<u>20,145,596</u>
Less: Accumulated Depreciation For:				
Buildings & Improvements	(889,404)	(254,250)	-	(1,143,654)
Improvements other than Buildings	(147,944)	(42,740)	-	(190,684)
Fixed Equipment	(1,392,156)	(399,114)	-	(1,791,270)
Moveable Equipment	(809,324)	(152,109)	12,248	(949,185)
Total Accumulated Depreciation	<u>(3,238,828)</u>	<u>(848,213)</u>	<u>12,248</u>	<u>(4,074,793)</u>
Total Depreciable Capital Assets, Net	<u>16,905,588</u>	<u>(834,785)</u>	<u>-</u>	<u>16,070,803</u>
Health Care Facility				
Capital Assets, Net	<u>\$ 16,905,588</u>	<u>\$ (834,785)</u>	<u>\$ -</u>	<u>\$ 16,070,803</u>

Depreciation expense was \$848,213 for the year ended December 31, 2012.

### E. BONDS PAYABLE

In 2004 the Facility received authorization from the New York State Department of Health to construct a new health care facility. On August 15, 2005, the County, on behalf of the Facility, issued \$19,710,000 public improvement serial bonds to finance the

construction of the new facility. The Facility's bonds payable consist of Public Improvement Serial Bonds, payable in annual principal installments through August 15, 2025. Interest is payable in semi-annual installments through August 15, 2025. Interest is charged at 4% through 2019, 4.125% for the year 2020 and 4.250% for the years 2021 through 2025. Bonds payable totaled \$14,604,100 at December 31, 2012.

The bonds are general obligations of the County collateralized by all taxable real property within the County subject to ad valorem taxes to pay the bonds and interest thereon, without limitation as to the rate or amount.

The repayment of these obligations is estimated as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 865,700	\$ 601,625
2014	900,700	567,025
2015	940,700	531,025
2016	980,700	493,425
2017	1,025,700	454,225
2018 – 2022	5,798,500	1,615,613
2023 – 2025	<u>4,092,100</u>	<u>352,537</u>
	<u>\$ 14,604,100</u>	<u>\$ 4,615,475</u>

#### **F. RELATED PARTY TRANSACTIONS**

The Facility's cash is combined and deposited with the County's cash and invested in accordance with the provisions of applicable New York State (the State) statutes. The County also has its own written investment policy. The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC insured commercial banks or trust companies located within the State. Permissible investments include obligations of the U.S. Treasury and its agencies, repurchase agreements, and obligations of the State. In accordance with existing policies, repurchase agreements are only entered into with banks or trust companies located within the State or with registered and primary reporting dealers in government securities. Underlying securities for repurchase transactions must be only obligations fully insured and guaranteed by the federal government.

Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. 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.

Cash recorded by the Facility is combined with cash recorded by the County in determining amounts covered by Federal Depository Insurance or by collateral held by the County's agent in the County's name. The County Treasurer is responsible for ensuring the deposits are properly collateralized. As of December 31, 2012 the County has reported that its deposits were adequately collateralized.

The County incurs the cost of certain services for the benefit of the Facility. Accordingly, the amounts are reflected as costs of the Facility with a subsidy from the County to cover the related costs. These costs are as follows for the year ended December 31, 2012:

	<u>2012</u>
Clerk of the Board, purchasing, risk management and accounting departments	\$ 97,060
Data processing	132,856
Personnel	74,751
County Treasurer	81,251
County Administrator	<u>45,362</u>
	<u>\$ 431,280</u>

**V. STEBEN TOBACCO ASSET SECURITIZATION CORPORATION**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization -

The Steuben Tobacco Asset Securitization Corporation (the Corporation) is a special purpose, bankruptcy remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the State). The Corporation was established on October 10, 2000. The Corporation is an instrumentality of, but separate and apart from the County of Steuben, New York (the County). The Corporation will have not less than three nor more than five directors, consisting of Ex-Officio Directors during the tenure of their respective offices in the County, and Appointed Directors who will serve 1-year terms. Although legally separate from the County, the Corporation is a component unit of the County and, accordingly, is included in the County's basic financial statements as a blended component unit.

On October 15, 2000, pursuant to a Purchase and Sale Agreement with the County, the County sold to the Corporation all of its future rights, title and interest in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement (MSA) and the Decree and Final Judgment (the Decree). The MSA resolved cigarette smoking related litigation between the settling states and the Participating Manufacturers (PMs), released the PMs from past and present smoking related claims, and provided for a continuing release of future smoking related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The Decree, which was entered into by the Supreme Court of the State, allocated to the County a share of the TSRs under the MSA. The future rights, title and interest of the County's share were sold to the Corporation.

The Corporation's purchase of the County's future rights, title and interest in the TSRs was financed by the original Series 2000 bond issuance. A Residual Certificate exists which represents the entitlement to receive all amounts required to be distributed after payment of debt service, operating expenses and certain other costs of the Corporation as set forth in the indenture. Payments on the Residual Certificate from TSR collections are subordinate to payments on the bonds and payment of certain other costs specified in the indenture. Excess TSRs not required by the Corporation to pay various expenses, debt service or required reserves with respect to the bonds are transferred to the Steuben TASC Residual Trust (the Trust), as owner of the Residual Certificate. The County is the beneficial owner of the Trust and thus the funds received by the Trust will ultimately transfer to the County.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Corporation's financial statements are prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental

Accounting Standards Board (GASB). The Corporation's government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Corporation's fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

The major governmental fund, currently the Corporation's only fund, is the Debt Service Fund. The Debt Service Fund accounts for the resources accumulated and payments made for operations and principal debt service on long-term general obligation debt.

#### Net Position

Generally accepted accounting principles require that resources be classified for accounting purposes into applicable net position categories.

Unrestricted net position is the residual net position that is not restricted, but which may be internally designated by the Board of Directors. At December 31, 2012, the amount of unrestricted net position was (\$32.1) million, of which none was internally designated.

Net position is reported as restricted when constraints placed on its use are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net position of the Corporation are restricted based on externally imposed conditions and include amounts restricted for debt service and bond issuance costs.

The Corporation has adopted a practice of utilizing its restricted net position when available, prior to unrestricted net position.

#### Fund Balance

GASB requires more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balances** - These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted Fund Balances** - These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The Corporation has \$1,755,747 of restricted fund balance for debt service at December 31, 2012.
- **Committed Fund Balances** - These are amounts that can be used only for specific purposes determined by a formal action of the Board of Directors prior to year-end. The Board of Directors is the highest level of decision-making authority for the

Corporation. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Directors.

- **Assigned Fund Balances** - These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board of Directors makes a determination of the assigned amounts of fund balance.
- **Unassigned Fund Balances** - These are all other spendable amounts.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Corporation considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

#### Cash and Cash Equivalents

The Corporation considers bank deposit accounts and all highly liquid debt instruments with remaining maturities, when purchased, of 12 months or less to be cash equivalents and these are stated at cost, which approximates fair value. The Corporation maintains a liquidity reserve account, which was initially funded from the Series 2000 bond proceeds and has been increased by funds from the Series 2005 bonds. This account must be maintained at a minimum of \$1,725,625 until such time that all bonds, other than subordinated bonds, are paid. All amounts withdrawn from this account are replenished, as needed, and amounts in excess of the required amount are transferred out. This account is included in restricted cash and cash equivalents on the balance sheet. At December 31, 2012, the balance in the liquidity reserve account was \$1,725,932.

#### Deferred Bond Issuance Costs and Original Issue Discount

The Corporation recognizes original issue discounts fully in the year of issuance for the governmental fund statements. These costs are amortized over the term of the related bonds for the government-wide financial statements as additional interest expense. The Corporation recognizes all interest paid as interest expenditures on the modified accrual basis for the governmental fund statements and all interest incurred as expenses on the full accrual basis for the government-wide financial statements. Bond discount expense was \$33,606 for the year ended December 31, 2012. Accumulated amortization on bond discounts was \$235,242 for the year ended December 31, 2012.

#### Accounts Receivable

The Corporation records a receivable for Tobacco Settlement Revenues (TSRs) and does not accrue interest on unpaid amounts. The Corporation has not recorded an allowance for doubtful accounts related to the TSRs and does not anticipate future write-offs.

#### Unearned Revenue

Unearned revenue represents amounts earned under the modified accrual basis of accounting used in the Debt Service Fund, but not meeting the definition of available for use.

#### Income Taxes

The Corporation is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation. The Corporation is also exempt from Federal reporting

requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **C. DEPOSITS AND INVESTMENTS**

#### Investment and Deposit Policy

The Corporation follows an investment and deposit policy as outlined in the bond Indenture, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; provide sufficient liquidity of invested funds in order to meet obligations as they become due; and attainment of a market rate of return. Oversight of investment activity is the responsibility of the Treasurer of the Corporation.

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates. The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Credit Risk

The Corporation's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. The Corporation's investment and deposit policy follows the eligible investment defined in the indenture. The Corporation has not established a formal policy, but generally adheres to the following guidelines:

- Obligations of the United States of America;
- Obligations guaranteed by the United States of America where payment of principal and interest are guaranteed by the United States of America;
- Obligations of the State of New York;
- Special time deposit accounts;
- Certificates of Deposit;
- Obligations of public authorities, public housing authorities, urban renewal agencies, and industrial development agencies where the general State statutes governing such entities or whose specific enabling legislation authorizes such investments; and
- Obligations issued pursuant to New York State Local Finance Law Section 24.00 and 25.00 (with approval of the New York State Comptroller) by any municipality, school district or district corporation other than the Corporation.
- Eligible investments, as defined in the indenture between the Corporation and Manufacturers and Traders Trust Company, as trustee, as amended from time to time.

#### Custodial Credit Risk - Deposits

Custodial credit risk - deposits is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the Corporation's investment and deposit policy, all deposits of the Corporation including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIA) shall be secured by a pledge of securities with an aggregate value equal to the aggregate

amount of deposits. The Corporation restricts the securities to the following eligible items:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America, an agency thereof or a United States government sponsored corporation;
- Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank;
- Obligations partially insured or guaranteed by any agency of the United States of America;
- Obligations issued or fully insured or guaranteed by the State of New York;
- Obligations issued by a municipal corporation, school district or district corporation of New York State;
- Obligations of any public benefit corporation, which under a specific State statute may be accepted as security for deposit of public monies;
- Obligations issued by states (other than the State of New York) of the United States rated in one of the two highest rating categories by at least one Nationally Recognized Statistical Rating Organization (NRSRO);
- Obligations of Puerto Rico rated in the highest rating category by at least one NRSRO;
- Obligations of counties, cities and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the two highest categories by at least one NRSRO;
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one NRSRO; and
- Zero coupon obligations of the United States of America marketed as "treasury strips."

As of December 31, 2012, the carrying amount of the Corporation's cash and cash equivalents was \$127,719, and was fully insured under the FDIA.

#### Custodial Credit Risk - Investments

Custodial credit risk - investments is the risk that an entity will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The Corporation's informs investment and deposit policy requires that all custodial investments be registered or insured in the Corporation's name and held in the custody of the bank or the bank's trust department. The Corporation requires that all repurchase agreements be limited to obligations of the United States of America or obligations whose principal and interest are fully guaranteed, or insured by the United States of America. As of December 31, 2012, the Corporation's investments, with maturities of less than one year, were in compliance with the investment and deposit policy as follows:

Money market fund (U.S. Treasuries)	<u>\$ 1,755,747</u>
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### Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2012, all amounts were held by one bank.

The Corporation had the following reserve funds as of December 31, 2012:

<u>Investments</u>	<u>2012</u>
Liquidity reserve	\$ 1,725,932
Collection account	1,149
Debt service reserve	2,107
Turbo redemption account	68
Bond issuance and rebate cost reserve	<u>26,491</u>
Total	<u>\$ 1,755,747</u>

These amounts are restricted by law for debt service.

### **D. BONDS PAYABLE**

The Corporation issued \$28,623,950 of Series 2005 Trust IV Tobacco Asset-Backed bonds in August 2005 and \$3,323,840 in Series 2005 Trust V Tobacco Asset-Backed bonds in November 2005. The Series 2005 bonds are secured by a perfected security interest in, and pledge of, the Trust Estate, as defined in the Indenture, which includes, among other things, the TSRs and all investment earnings on amounts on deposit in the accounts established under the Indenture (collectively, the Collections). Among the accounts so established are the Liquidity Reserve Account and the Debt Service Account. The Corporation retains TSRs in an amount sufficient to service its debt and pay its operating expenses.

The Series 2005 bonds are payable solely from and secured solely by the future right, title and interest of the Corporation in the collection of TSRs previously purchased by the Corporation from the County. This series consists of subordinate turbo capital appreciation bonds that provide long-dated financing for the Corporation and take advantage of current market conditions where interest rates are low, investors have a favorable view of litigation events and where institutional investors are looking for high yield investments. The Corporation is required to covenant not to issue additional bonds or refunding bonds that would extend the term of the capital appreciation bonds or other outstanding bonds.

The Series 2005 Trust IV bonds are composed of the following:

- \$14,755,000 Tobacco Settlement Asset-Backed Bonds, Series 2005A (Tax Exempt Turbo Bonds), maturity date is June 1, 2042, interest rate of 5.00%.
- \$3,290,000 Tobacco Settlement Asset-Backed Bonds, Series 2005B (Taxable Turbo Bonds), maturity date is June 1, 2027, interest rate of 6.00%.
- \$1,090,190 Tobacco Settlement Asset-Backed Bonds, Series 2005D (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2050, interest rate of 0.00%, with an accreted value at maturity of \$14,565,000.
- \$1,188,760 Tobacco Settlement Asset-Backed Bonds, Series 2005E (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2055, interest rate of 0.00%, with an accreted value at maturity of \$27,005,000.

The Series 2005 Trust V bonds are composed of the following:

- \$3,323,840 Tobacco Settlement Asset-Backed Bonds, Series 2005 S4B (Tax Exempt Turbo Capital Appreciation Bonds), maturity date is June 1, 2060, with an accreted value at maturity of \$221,000,000.

In 2005, the Corporation entered into a forward purchase contract for the issuance of Tobacco Settlement Asset-Backed Bonds, Series 2010A Bonds (Tax Exempt Turbo Term Bonds) to be in an amount equal to the amount of Series 2005C Bonds outstanding on the date of issuance of the Series 2010A Bonds. The Series 2005C Bonds were replaced by the Series 2010A Bonds on June 1, 2010 with a maturity date of June 1, 2041 and an interest rate of 6.25%.

The Series 2010 Bonds are composed of the following:

- \$8,300,000 Tobacco Settlement Asset-Backed Bonds, Series 2010A (Taxable Turbo Bonds), maturity date is June 1, 2041, interest rate of 6.25%

Long-term indebtedness for the Corporation's bonds payable consisted of the following:

Balance - beginning of year	\$30,582,790
Repayments of bonds	<u>( 75,000)</u>
Balance - end of year	<u>\$30,507,790</u>
Required payments due within one year	<u>\$ 195,000</u>

Principal and interest payments (including accretion on capital appreciation bonds) based upon the required maturities are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest/ Accretion</u>	<u>Total</u>
2013	\$ 195,000	\$ 2,068,685	\$ 2,263,685
2014	215,000	2,104,652	2,319,652
2015	220,000	2,046,012	2,266,012
2016	220,000	2,189,972	2,409,972
2017	225,000	2,234,971	2,459,971
2018 - 2022	1,175,000	12,083,989	13,258,989
2023 - 2027	2,700,000	13,960,116	16,660,116
2028 - 2032	3,600,000	16,451,074	20,051,074
2033 - 2037	5,055,000	20,200,982	25,255,982
2038 - 2042	6,575,000	26,080,479	32,655,479
2043 - 2047	4,725,000	35,043,574	39,768,574
2048 - 2052	1,090,190	47,818,576	48,908,766
2053 - 2057	1,188,760	62,174,516	63,363,276
2058 - 2060	<u>3,323,840</u>	<u>38,699,310</u>	<u>42,023,150</u>
	<u>\$ 30,507,790</u>	<u>\$ 283,156,908</u>	<u>\$ 313,664,698</u>

Bonds payable as recorded on the Statement of Net Position is the following as of December 31, 2012:

	<u>Bond Principal</u>	<u>Bond Discount</u>	<u>Total</u>
Beginning balance, 1/1/12	\$ 30,582,790	\$ (627,004)	\$ 29,955,786
Principal payment	(75,000)	-	(75,000)
Amortization	<u>-</u>	<u>33,606</u>	<u>33,606</u>
Ending balance, 12/31/12	<u>\$ 30,507,790</u>	<u>\$ (593,398)</u>	<u>\$ 29,914,392</u>

Required maturities for the Series 2005 Bonds represent the minimum amount of principal that the Corporation must pay as of the specific distribution dates in order to avoid a default. Turbo (accelerated) amortization payments are required to be made against outstanding principal providing that the Corporation receives sufficient TSRs to make the Turbo payments. The interest payment requirements shown are based on the required principal maturity schedule and include the accreted value portion of capital appreciation bonds in the year in which they are required to be redeemed.

Under the terms of the Indenture, the Corporation is required to maintain certain deposits to fund debt service payments, if needed. Such deposits are included in investments in the basic financial statements. In addition, the Corporation is subject to various debt covenants, including limitations on expenses/expenditures, and compliance with Indenture agreement requirements. The Corporation was in compliance with all covenants and Indenture agreement requirements at December 31, 2012.

A principal payment in the amount of \$75,000 was made during 2012 in accordance with the Series 2005 bonds.

#### Interest

Interest expense on bonds payable was \$2,001,970 in 2012.

#### **E. CONTINGENCIES**

Future TSRs are subject to adjustment based upon tobacco consumption, inflation and other factors. Pursuant to the Indenture, these adjustments and other events could trigger additional debt service reserve requirements.

#### **F. NET POSITION**

The Corporation has a negative net position as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the negative balance, along with the future revenue streams.

#### **G. RELATED PARTY**

Steuben Tobacco Asset Securitization Corporation is a special purpose local development corporation, and is considered by legal counsel to be bankruptcy-remote from the County. However, the Corporation's board of directors is comprised of a majority of elected or appointed officials of the County and one independent director. For financial reporting purposes, the Organization is considered to be a component unit of the County.

## **VI. JOINT VENTURES**

The following are activities undertaken jointly with other municipalities and are excluded from the financial statements.

Southern Tier Central Regional Planning and Development Board (the Board) – 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 the participants' share of the cost shall be prorated as agreed upon by the member counties. In 2012, the County of Steuben contributed \$95,000. Audited financial statements for the Board may be obtained from the Administrative Offices of the Board located at 8 Denison Parkway East, Suite 310, Corning, NY 14830.

Corning Community College Region (the College) – The County became a co-sponsor of the Corning Community College region pursuant to a resolution of the County Legislature adopted on December 17, 1984. As a result, the County assumed joint sponsorship with the counties of Chemung and Schuyler. The College had formerly been sponsored by the Corning City School District. Three persons appointed by the Steuben County Legislature represent the County on the Regional Board of Trustees. In 2012, Steuben County expended \$3,597,596 in residential tuition, which was based on capital and operating costs. Separate financial statements for the College may be obtained by contacting the administrative office of Corning Community College, 1 Academic Drive, Corning, NY 14830-3297.

## **VII. SUBSEQUENT EVENT**

The \$75,000 Bond Anticipation Note was paid on March 29, 2013. A new note for \$50,000 was issued that same date with an interest rate of 1.23% and a maturity date of March 28, 2014.

The County has entered into agreements with Centers for Specialty Care Group, LLC for the sale of the Health Care Facility, its Certificate of Need, Operating Certificates and any and all associated real property of the Steuben County Health Care Facility for \$10,750,000. In addition, the former Health Care Facility building will be sold to the same entity for \$250,000. Negotiations between the two parties are ongoing. On June 10, 2013 arguments were heard by Steuben County Judge Peter Bradstreet in an article 78 proceeding filed by the Civil Service Employees Association, Inc. Local 1000 challenging the legality of this sale. As of July 1, 2013, no decision had been issued by Judge Bradstreet.

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# Financial Section

## **Required Supplementary Information**

**STEUBEN COUNTY, NY**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual**  
**General Fund**  
**Year Ended December 31, 2012**

	<b>BUDGET</b>		<b>Expenditures Budgetary Basis</b>		<b>Variance with Modified Budget</b>
	<b>Original</b>	<b>Modified</b>	<b>Actual</b>	<b>Encumbrances</b>	<b>Positive (Negative)</b>
<b>REVENUE</b>					
Real property taxes	\$ 23,368,498	\$ 23,368,498	\$ 23,379,095	\$ -	\$ 10,597
Real property tax items	3,909,495	3,909,495	3,702,322	-	(207,173)
Non-property tax items	44,706,252	45,871,252	49,668,270	-	3,797,018
Departmental income	18,029,622	18,034,422	16,454,035	-	(1,580,387)
Intergovernmental services revenue	2,529,250	2,529,550	1,921,346	-	(608,204)
Use of money and property	2,524,960	2,524,960	2,005,400	-	(519,560)
Licenses and permits	2,000	2,000	1,350	-	(650)
Fines and forfeitures	342,922	342,922	262,502	-	(80,420)
Sale of property/compensation for loss	52,312	52,312	86,992	-	34,680
Miscellaneous local sources	523,403	533,052	3,039,276	-	2,506,224
Interfund revenues	1,794,485	1,796,485	1,551,773	-	(244,712)
State aid	17,818,588	17,975,172	15,981,547	-	(1,993,625)
Federal aid	21,773,327	22,836,298	18,933,748	-	(3,902,550)
<b>TOTAL REVENUE</b>	<b>137,375,114</b>	<b>139,776,418</b>	<b>136,987,656</b>	<b>-</b>	<b>(2,788,762)</b>
<b>EXPENDITURES</b>					
General government	25,200,597	26,923,327	24,482,557	46,392	2,394,378
Education	9,293,000	9,293,000	8,176,948	-	1,116,052
Public safety	18,163,474	18,743,688	17,786,892	105,041	851,755
Health	17,938,854	17,978,282	15,398,781	6,455	2,573,046
Transportation	449,844	435,559	367,227	-	68,332
Economic assistance and opportunity	67,687,111	67,826,663	61,537,657	29,667	6,259,339
Culture and recreation	618,633	622,809	586,264	75	36,470
Home and community services	1,341,372	1,333,544	1,204,538	-	129,006
Debt service	698,626	698,626	698,625	-	1
<b>TOTAL EXPENDITURES</b>	<b>141,391,511</b>	<b>143,855,498</b>	<b>130,239,489</b>	<b>187,630</b>	<b>13,428,379</b>
<b>Excess (Deficiency) Revenues Over Expenditures</b>	<b>(4,016,397)</b>	<b>(4,079,080)</b>	<b>6,748,167</b>	<b>(187,630)</b>	<b>10,639,617</b>
Transfers In	-	1,000	1,000	-	-
Transfers Out	(205,000)	(557,400)	(557,400)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(205,000)</b>	<b>(556,400)</b>	<b>(556,400)</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$ (4,221,397)</b>	<b>\$ (4,635,480)</b>	<b>\$ 6,191,767</b>	<b>\$ (187,630)</b>	<b>\$ 10,639,617</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<b>58,009,242</b>		
<b>FUND BALANCE - END OF YEAR</b>			<b>\$ 64,201,009</b>		

The accompanying notes are an integral part of these financial statements.

Note: Budgetary basis is the same as GAAP except that outstanding encumbrances are treated as expenditures on this schedule.

**STEUBEN COUNTY, NY**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget to Actual**  
**COUNTY ROAD FUND**  
**Year Ended December 31, 2012**

	Budget		Expenditures Budgetary Basis		Variance with Modified Budget
	Original	Modified	Actual	Encumbrances	Positive (Negative)
<b>REVENUE</b>					
Real Property Taxes	\$ 15,108,691	\$ 15,108,691	\$ 15,108,691	\$ -	\$ -
Intergovernmental Charges	577,000	577,000	470,247	-	(106,753)
Use of Money & Property	8,000	8,000	7,770	-	(230)
Sale of Property/Compensation for Loss	37,000	213,523	435,561	-	222,038
Miscellaneous Local Sources	8,000	8,000	248,816	-	240,816
State & Federal Aid	3,688,392	3,688,392	3,730,720	-	42,328
<b>TOTAL REVENUE</b>	<b>19,427,083</b>	<b>19,603,606</b>	<b>20,001,805</b>	<b>-</b>	<b>398,199</b>
<b>EXPENDITURES</b>					
Transportation	20,442,083	21,129,014	20,154,772	232,360	741,882
<b>TOTAL EXPENDITURES</b>	<b>20,442,083</b>	<b>21,129,014</b>	<b>20,154,772</b>	<b>232,360</b>	<b>741,882</b>
<b>Excess (Deficiency) Revenues Over Expenditures</b>	<b>(1,015,000)</b>	<b>(1,525,408)</b>	<b>(152,967)</b>	<b>(232,360)</b>	<b>1,140,081</b>
Transfers In	-	616,681	616,681	-	-
Transfers Out	(215,000)	(438,085)	(438,085)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(215,000)</b>	<b>178,596</b>	<b>178,596</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses</b>	<b>\$ (1,230,000)</b>	<b>\$ (1,346,812)</b>	<b>\$ 25,629</b>	<b>\$ (232,360)</b>	<b>\$ 1,140,081</b>
<b>FUND BALANCE-BEGINNING OF YEAR</b>			<b>2,493,400</b>		
<b>FUND BALANCE-END OF YEAR</b>			<b>\$ 2,519,029</b>		

The accompanying notes are an integral part of these financial statements.

Note: Budgetary basis is the same as GAAP except that outstanding encumbrances are treated as expenditures on this schedule.

# Financial Section

## **Combining Fund Statements & Schedules**

**STEUBEN COUNTY, NY**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**As of December 31, 2012**

	<u>Economic Development</u>	<u>Road Machinery</u>	<u>Capital Projects</u>	<u>Steuben Tobacco Asset Securitization</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>					
Cash, Cash Equivalents and Investments	\$ 749,015	\$ 2,937,065	\$ 3,564,434	\$ 127,719	\$ 7,378,233
Accrued Interest Receivable	-	-	-	1,488,113	1,488,113
Due From Other Governments	-	100,002	-	-	100,002
State & Federal Receivables	-	-	862,031	-	862,031
Assets whose use is limited	-	-	-	1,755,747	1,755,747
<b>TOTAL ASSETS</b>	<b><u>\$ 749,015</u></b>	<b><u>\$ 3,037,067</u></b>	<b><u>\$ 4,426,465</u></b>	<b><u>\$ 3,371,579</u></b>	<b><u>\$ 11,584,126</u></b>
<b>LIABILITIES &amp; FUND BALANCES</b>					
Liabilities:					
Accounts Payable	\$ -	\$ 152,973	\$ 115,840	\$ 693	\$ 269,506
Accrued Liabilities	-	35,452	-	-	35,452
Due to Other Funds	-	32,808	-	-	32,808
Unearned Revenues	-	-	-	1,488,094	1,488,094
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>221,233</u></b>	<b><u>115,840</u></b>	<b><u>1,488,787</u></b>	<b><u>1,825,860</u></b>
<b>FUND BALANCES</b>					
Restricted	-	65,997	4,310,625	1,755,747	6,132,369
Assigned	749,015	2,749,837	-	127,045	3,625,897
<b>TOTAL FUND BALANCES</b>	<b><u>749,015</u></b>	<b><u>2,815,834</u></b>	<b><u>4,310,625</u></b>	<b><u>1,882,792</u></b>	<b><u>9,758,266</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b><u>\$ 749,015</u></b>	<b><u>\$ 3,037,067</u></b>	<b><u>\$ 4,426,465</u></b>	<b><u>\$ 3,371,579</u></b>	<b><u>\$ 11,584,126</u></b>

The accompanying notes are an integral part of these financial statements.

**STEBEN COUNTY, NY**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended December 31, 2012**

	<u>Economic Development</u>	<u>Road Machinery</u>	<u>Capital Projects</u>	<u>Steuben Tobacco Asset Securitization</u>	<u>Total Non-Major Governmental Funds</u>
<b>Revenues:</b>					
Real property taxes	\$ -	\$ 676,798	\$ -	\$ -	\$ 676,798
Participants Share	-	-	537,255	-	537,255
Intergovernmental services revenue	-	21,519	1,455	-	22,974
Use of money and property	1,825	391	10,324	264	12,804
Sale of property and compensation for losses	-	6,409	330	-	6,739
Tobacco settlement revenues	-	-	-	1,480,773	1,480,773
Miscellaneous	63,355	28,441	35,989	-	127,785
Interfund revenues	-	2,969,338	-	-	2,969,338
State aid	-	-	917,719	-	917,719
Federal aid	-	-	201,739	-	201,739
<b>Total revenues</b>	<b><u>65,180</u></b>	<b><u>3,702,896</u></b>	<b><u>1,704,811</u></b>	<b><u>1,481,037</u></b>	<b><u>6,953,924</u></b>
<b>Expenditures:</b>					
Current:					
General government	-	-	-	30,547	30,547
Transportation	-	3,754,696	-	-	3,754,696
Home and community services	25,000	-	-	-	25,000
Capital Outlay:					
General government	-	-	1,872,016	-	1,872,016
Public safety	-	-	1,228,617	-	1,228,617
Transportation	-	-	182,973	-	182,973
Culture and recreation	-	-	10,359	-	10,359
Debt Service:					
Principal	-	-	-	75,000	75,000
Interest	-	-	-	1,369,750	1,369,750
<b>Total expenditures</b>	<b><u>25,000</u></b>	<b><u>3,754,696</u></b>	<b><u>3,293,965</u></b>	<b><u>1,475,297</u></b>	<b><u>8,548,958</u></b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b><u>40,180</u></b>	<b><u>(51,800)</u></b>	<b><u>(1,589,154)</u></b>	<b><u>5,740</u></b>	<b><u>(1,595,034)</u></b>
<b>Other financing sources (uses):</b>					
Issuance of Debt	-	350,000	-	-	350,000
Transfers in	-	223,085	772,400	-	995,485
Transfers out	-	(616,681)	(1,000)	-	(617,681)
<b>Total other financing sources (uses)</b>	<b><u>-</u></b>	<b><u>(43,596)</u></b>	<b><u>771,400</u></b>	<b><u>-</u></b>	<b><u>727,804</u></b>
<b>Net change in fund balance</b>	<b><u>40,180</u></b>	<b><u>(95,396)</u></b>	<b><u>(817,754)</u></b>	<b><u>5,740</u></b>	<b><u>(867,230)</u></b>
Fund Balance - Beginning of Year	<u>708,835</u>	<u>2,911,230</u>	<u>5,128,379</u>	<u>1,877,052</u>	<u>10,625,496</u>
<b>Fund Balance - End of Year</b>	<b><u>\$ 749,015</u></b>	<b><u>\$ 2,815,834</u></b>	<b><u>\$ 4,310,625</u></b>	<b><u>\$ 1,882,792</u></b>	<b><u>\$ 9,758,266</u></b>

The accompanying notes are an integral part of these financial statements.

**STEUBEN COUNTY, NY**  
**Combining Balance Sheet**  
**Private Purpose Trust Funds**  
**As of December 31, 2012**

	<u>Fairview Cemetery</u>	<u>County Jail Inmate Fund</u>	<u>Total Private Purpose Trust Funds</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,000	\$ 148,084	\$ 149,084
<b>TOTAL ASSETS</b>	<b>\$ 1,000</b>	<b>\$ 148,084</b>	<b>\$ 149,084</b>
<b>TOTAL LIABILITIES</b>	<b>\$ -</b>	<b>\$ 803</b>	<b>\$ 803</b>
<b>NET POSITION</b>			
Held in trust for other purposes	1,000	147,281	148,281
<b>TOTAL NET POSITION</b>	<b>1,000</b>	<b>147,281</b>	<b>148,281</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 1,000</b>	<b>\$ 148,084</b>	<b>\$ 149,084</b>

The accompanying notes are an integral part of these financial statements.

## Combining Statement of Changes in Fiduciary Net Position

### Private Purpose Trust Funds

For the Year Ended December 31, 2012

	Fairview Cemetery	County Jail Inmate Fund	Total Private Purpose Trust Funds
<b>ADDITIONS:</b>			
Interest earnings	\$ 5	\$ -	\$ 5
Other revenue	-	31,219	31,219
<b>TOTAL ADDITIONS</b>	<b>5</b>	<b>31,219</b>	<b>31,224</b>
<b>DEDUCTIONS:</b>			
Home and community services	5	-	5
Public safety	-	31,738	31,738
<b>TOTAL DEDUCTIONS</b>	<b>5</b>	<b>31,738</b>	<b>31,743</b>
<b>CHANGE IN NET POSITION</b>	<b>-</b>	<b>(519)</b>	<b>(519)</b>
Net Position - Beginning of Year	1,000	147,800	148,800
<b>Net Position - End of Year</b>	<b>\$ 1,000</b>	<b>\$ 147,281</b>	<b>\$ 148,281</b>

The accompanying notes are an integral part of these financial statements.

# Financial Section

**Independent Auditor's Report on Internal Control Over Financial  
and Reporting and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**INDEPENDENT AUDITOR'S REPORT 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**

July 1, 2013

To the Board of Legislators of the  
County of Steuben, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Steuben, New York (the County), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 1, 2013. Our report includes a reference to an other auditor who audited the financial statements of the Steuben County Industrial Development Agency, as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor.

**Internal Control Over Financial Reporting**

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

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

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

(Continued)

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

(Continued)

**Compliance and Other Matters**

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

**Purpose of this Report**

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