

STEUBEN COUNTY

New York



Audited Financial Statements

For Fiscal Year Ended December 31, 2011

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**Steuben County, New York
Audited Financial Statements
December 31, 2011**

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Financial Section

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

July 27, 2012

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the 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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Steuben County Industrial Development Agency, which represent 77% of the net assets of the discretely presented component units of the County. This financial statement was audited by an other auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Steuben County Industrial Development Agency, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our report and the report of the other auditor, the financial statements referred to 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

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INDEPENDENT AUDITORS' REPORT
(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information on pages 3 through 16 and 69 through 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The combining fund statements on pages 71 through 74 are presented for purposes of additional analysis and are not a required part of the financial statements. The combining fund statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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, 2011. 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 assets on the government-wide statements totaled \$141,486,260 at the close of the year compared to \$139,682,179 at the end of 2010.
- Of the total net asset amount, \$14,596,299 or 10% was unrestricted and may be used to meet the County's ongoing obligations compared to \$13,344,815 or 10% at the end of 2010.
- Total net assets increased from the previous year by \$1,804,081 and the unrestricted portion increased by \$1,251,484.
- Governmental activities invested in capital assets, net of related debt decreased \$178,657 for a total of \$97,780,054 at the end of 2011.
- Governmental activities increased the County's net assets by \$1,834,419 or 1.5% compared to the 2010 increase of \$3,855,188 or 3%. The governmental activities net assets value at the end of 2011 was \$128,213,287.
- Operating & Capital Grants/Contributions equaled \$41,116,287 or 26% of the total governmental activities revenue compared to \$47,830,482 or 29% in 2010.
- Business-type activities include the Health Care Facility (HCF) and the Solid Waste Operations. Business-type activities net assets value for 2011 was \$13,272,973 compared to \$13,303,311 at the end of 2010.
- The HCF change in net assets was a decrease of \$1,148,808 or a decrease of 77%. Total net assets at December 2011 were \$336,207 compared to \$1,485,015 for 2010. In 2011 the HCF realized a loss of \$1,007,218 from operating activities compared to a loss of \$3,044,210 in 2010. There was \$3,256,728 Intergovernmental Transfer (IGT) revenue recorded for 2011 compared to \$0 in 2010.
- The Solid Waste Operations experienced a gain of \$1,159,021 from operations compared to a loss of \$826,377 in 2010. Non-Operating Activities generated expense of \$40,551 in 2011. Total Net Assets increased by \$1,118,470 or 9.5% to bring the balance to \$12,936,766 at the end of 2011.

- At December 31, 2011, the County had total debt, excluding the Steuben Tobacco Asset Securitization Corporation (STASC), of \$23,575,000 consisting of:
 - Installment bonds for the expansion of cell#2 of the Bath landfill of \$2,320,000.
 - Bonds for the prior construction of the new health care facility of \$15,425,000.
 - Bonds for the prior construction of an expansion of the jail facility for \$5,830,000.
- At December 31, 2011, STASC had total bonds, net of bond premiums, of \$30,582,790 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 compared to 2.7 at the end of 2010.

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 follow the Notes to the Financial Statements.

Government-wide financial statements consist of the Statement of Net Assets 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 Assets** presents information on all of the County's assets and liabilities, with the difference reported as net assets. Over time, changes in net assets 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 assets changed during the current fiscal year. All changes in net assets 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 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 Assets - Net assets may serve over time as a useful indicator of a government's financial position.

Steuben County, NY - Statement of Net Assets						
As of December 31,						
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 110,637,503	\$ 106,868,814	\$ 13,276,800	\$ 13,834,998	123,914,303	\$ 120,703,812
Restricted assets	1,758,489	-	1,060,512	-	2,819,001	-
Unamortized bond issue costs	-	-	49,881	59,879	49,881	59,879
Capital assets, net	103,610,054	104,248,711	31,764,800	34,131,984	135,374,854	138,380,695
Total assets	216,006,046	211,117,525	46,151,993	48,026,861	262,158,039	259,144,386
Current liabilities	37,115,383	39,109,894	4,104,016	4,284,669	41,219,399	43,394,563
Non-current liabilities	50,677,376	45,628,763	28,775,004	30,438,881	79,452,380	76,067,644
Total Liabilities	87,792,759	84,738,657	32,879,020	34,723,550	120,671,779	119,462,207
Invested in capital assets net of related debt	97,780,054	97,958,711	13,472,369	14,148,950	111,252,423	112,107,661
Restricted net assets	15,337,967	13,957,169	299,571	272,534	15,637,538	14,229,703
Unrestricted net assets	15,095,266	14,462,988	(498,967)	(1,118,173)	14,596,299	13,344,815
Total Net Assets	\$ 128,213,287	\$ 126,378,868	\$ 13,272,973	\$ 13,303,311	\$ 141,486,260	\$ 139,682,179

Net assets total \$141,486,260 in 2011 compared to \$139,682,179 in 2010. Governmental activities comprise 90% of the total net assets with \$128,213,287 in 2011 compared to 90% or \$126,378,868 in 2010. Business-type activities have total net assets of \$13,272,973 in 2011 compared to net assets of \$13,303,311 in 2010. Governmental unrestricted net assets increased to \$15,095,266 in 2011 compared to \$14,462,988 in 2010.

The largest component of the County's net assets, \$111,252,423 or 79% (\$112,107,661 or 80% in 2010) 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 assets comprise \$15,637,538 or 11% of the total net assets compared to \$14,229,703 or 10% of the total net assets in 2010. These assets are subject to constitutional, legal, or external constraints on how they may be used. The increase in governmental restricted net assets is primarily related to additional capital projects that were established during 2011. Business-type restricted net assets increased to \$299,571 in 2011 from \$272,534 in 2010.

The balance of unrestricted net assets of \$14,596,299 (\$13,344,815 in 2010) represents those net assets which may be used to meet the County's ongoing obligations, though certain laws and internally imposed designations of resources may further limit the purposes for which those net assets may be used.

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 assets changed during the fiscal year.

Steuben County, NY - Statement of Activities and Changes in Net Assets						
For the Year Ended December 31:						
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 25,510,707	\$ 25,301,272	\$ 15,086,098	\$ 14,479,063	\$ 40,596,805	\$ 39,780,335
Operating grants & contributions	41,116,287	45,972,119	3,440,724	794,757	44,557,011	46,766,876
Capital grants & contributions	554,695	1,858,363	-	-	554,695	1,858,363
General Revenues:						
Taxes:						
Real property taxes	39,309,225	38,122,963	-	-	39,309,225	38,122,963
Real property tax items	3,111,094	3,684,012	-	-	3,111,094	3,684,012
Sales & Use Tax	29,397,083	26,807,204	-	-	29,397,083	26,807,204
Other Nonproperty tax items	18,227,569	17,526,640	-	-	18,227,569	17,526,640
Interest and earnings	312,055	378,229	16,722	43,614	328,777	421,843
Gain(Loss) on disposition of assets	53,073	141,381	-	-	53,073	141,381
Miscellaneous	3,132,593	3,108,309	1,179,247	985,766	4,311,840	4,094,075
TOTAL REVENUE	160,724,381	162,900,492	19,722,791	16,303,200	180,447,172	179,203,692
Expenses:						
General Government	\$25,412,985	25,788,367	-	-	25,412,985	25,788,367
Education	8,440,942	9,205,295	-	-	8,440,942	9,205,295
Public Safety	19,472,101	18,924,405	-	-	19,472,101	18,924,405
Health	16,072,443	17,061,123	14,396,292	13,365,470	30,468,735	30,426,593
Transportation	23,646,751	23,107,833	-	-	23,646,751	23,107,833
Economic asst & opportunity	61,952,112	60,286,419	-	-	61,952,112	60,286,419
Culture and recreation	574,200	901,224	-	-	574,200	901,224
Home and community	1,093,210	1,547,544	5,356,837	6,704,581	6,450,047	8,252,125
Interest and amortization expense	2,225,218	2,223,094	-	-	2,225,218	2,223,094
TOTAL EXPENSES	158,889,962	159,045,304	19,753,129	20,070,051	178,643,091	179,115,355
Increase (decrease) in Net Assets	1,834,419	3,855,188	(30,338)	(3,766,851)	1,804,081	88,337
Beginning Net Assets	126,378,868	122,523,680	13,303,311	17,070,162	139,682,179	139,593,842
Net Assets, End of year	\$ 128,213,287	\$ 126,378,868	\$ 13,272,973	\$ 13,303,311	\$ 141,486,260	\$ 139,682,179

Governmental Activities: Governmental activities increased the County's net assets by \$1,834,419 or 1.5% in 2011 compared to an increase of \$3,855,188 or 3% in 2010. Total revenue in 2011 was approximately \$161,000,000 which is about \$2,000,000 less than the \$163,000,000 in 2010. Expenses decreased approximately \$155,000 to remain at about \$159,000,000 in both 2011 and 2010.

The \$2,000,000 decrease in total governmental activities revenue is comprised of various increases and decreases in revenue categories. Capital grants declined by about \$1.3 million from 2010. This was the result of less federal bridge construction work in 2011. Operating grants decreased to \$41,116,287 or approximately \$4.9 million from 2010. This decrease was primarily within the economic assistance and opportunity services as both state and federal revenues for social services programs declined about \$3,000,000 in 2011 compared to 2010. State and federal aid also decreased in the special children's area in 2011 by about \$1,800,000. These declines were offset by increases in real property taxes and sales tax. Real property tax revenue increased

approximately \$1,200,000 or 3% over the 2010 amount. Sales tax increased about \$2,600,000 or 10% over the 2010 amount. This increase was realized as the local economy continued to recover slightly from the 2008/2009 downturn.

The very slight decrease in expenses between 2011 and 2010 of \$155,000 is primarily the result of the savings in salary costs resulting from the early retirement incentive programs offered in both 2010 and 2011. Total salary expense declined by approximately \$2.4 million between the two years. Because of the increased costs related to retirement, health insurance and workers' compensation, fringe costs remained relatively flat irrespective of the decrease in actual salary costs. Despite the decrease in salary costs, total expenses remained constant because of an increase in the costs of social service programs and the distribution of sales tax to other municipalities within the County. Expenses in the day care program alone increased by almost \$1.2 million. The increase in sales tax paid to other municipalities increased about \$650,000.

There were no transfers between governmental activities and business-type activities in either 2011 or 2010.

Business-type Activities: Net assets from the business-type activities decreased \$30,338 in 2011 compared to a decrease of \$3,766,851 in 2010.

The HCF had a decrease in net assets of \$1,148,808 in 2011 compared to a decrease of \$3,299,613 in 2010. The HCF had revenue of \$13,247,484 in 2011 compared to \$10,065,857 in 2010 for an increase of about \$3,200,000. This increase was driven primarily by the receipt of the Intergovernmental Transfer (IGT) funding for the 2009 and 2010 years. No IGT revenue was recorded in 2010 while there was \$3,256,728 booked in 2011. The HCF had increased expenses of approximately \$1,000,000 (\$14,396,292 in 2011 compared to \$13,365,470 in 2010). The majority of this difference is comprised of an increase of approximately \$765,000 in wages and fringe benefits, \$122,000 in contracted labor, \$190,000 in depreciation expense and \$107,000 in cash receipts assessments levied by New York State.

The Solid Waste Operations had an increase in net assets of \$1,118,470 in 2011 compared to a decrease of \$467,238 in 2010. The Solid Waste Operations revenue increased by about \$233,000 to approximately \$6,486,000 in 2011 compared to approximately \$6,253,000 in 2010. The revenue improvement was mainly attributable to continued incremental improvement in the economy and a slight recovery of the recycling market. Landfill fees were about \$513,000 more in 2011 than in 2010 while state aid decreased to zero in 2011 from about \$400,000 in 2010 and other operating revenue increased about \$155,000 over 2010. Solid Waste Operations expenses decreased by about \$1,400,000 in 2011 compared to 2010 (\$5,367,686 in 2011 and \$6,720,381 in 2010). This decrease in expense is primarily attributable to a decrease in the closure and post closure cost from \$952,000 in 2010 to (\$29,000) in 2011. Additionally, depreciation expense decreased approximately \$269,000 as some of the improvements at the landfill became fully depreciated in 2010.

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 \$71,128,138, an increase of \$4,596,831 in comparison with the prior year. Approximately 61% of this amount (\$43,268,534) constitutes unassigned fund balance, which is available for spending at the County's discretion. The nonspendable portion of fund balance (\$1,884,467 or 3%) is invested in inventory and prepaid expenses. Restricted fund balance of \$15,337,967 (21%) 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 (\$1,758,489), 2) to pay potential future insurance claims (\$3,506,922), 3) to pay for future facility and equipment repair and renovations (\$9,072,856), and 4) for a variety of other special purposes (\$999,700). Assigned fund balance represents the amounts the County intends to use for specific purposes. The assigned balance of \$10,637,170 (15%) is comprised of; 1) the residual balance in the governmental funds exclusive of the general fund (\$4,154,254), 2) amounts appropriated for the 2012 budget (\$6,101,397) and 3) the value of open purchase orders at year end (\$381,520).

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 34% of expenditures in both 2011 and 2010.

Total fund balance represents 45% of the expenditures in 2011, compared to 42% of the expenditures in 2010.

The general fund unassigned fund balance increased by \$2,632,530 or 6% in 2011 compared to an increase of \$2,366,182 or 6% in 2010. In 2011, the unassigned fund balance equaled 76% of the total fund balance compared to 83% in 2010.

In 2011, \$4,221,397 of the assigned general fund balance was allocated to fund 2012 appropriations compared to \$4,097,497 for 2011 appropriations in 2010.

Total fund balance for the general fund increased by \$4,399,712 or 8% in 2011 compared to an increase of \$3,165,419 or 6% in 2010. Total general fund revenues were greater in 2011 than 2010 by approximately \$877,000 (\$133,654,592 in 2011 and \$132,777,525 in 2010). Real property taxes and other real property tax items increased over the 2010 value by approximately \$2.4 million. This increase was part

of the normal budget process whereby the tax levy is derived based on estimated costs less estimated non-tax revenue. There was an approximate \$3.3 million increase in non-property taxes which is primarily the growth in the sales tax between 2010 and 2011. Combined State and Federal aid decreased about \$4.7 million in 2011 compared to 2010. Much of this decrease (\$2.8 million) was related to Federal funds received under the American Recovery and Reinvestment Act (ARRA) in 2010 that was not received in 2011. In addition, special children's services state aid was \$1.2 million less in 2011 than in 2010. Expenditures also decreased in 2011 over 2010, but only by about \$150,000 overall. Total general fund expenditures were \$128,985,082 in 2011 compared to \$129,134,986 in 2010. Health services expenditures declined about \$1 million. Of this decline, approximately \$300,000 was within public health services and \$400,000 was within mental health services. On the other hand, social services expenses in 2011 were approximately \$1.4 million greater than in 2010. The program with the greatest increase was the day care program that increased from about \$1.7 million in 2010 to about \$2.9 million in 2011.

The **County Road Fund** has a total fund balance of \$2,493,400 representing a 4% decrease from the 2010 fund balance of \$2,603,681. Total revenues were down in 2011 when compared to 2010 by approximately \$415,000. Primarily, this was within the property tax revenue line as the County purposefully appropriated fund balance in 2010 for use in the 2011 budget in an effort to keep the tax levy increase at a reasonable level. Expenditures dropped about \$735,000 to \$19,909,955 compared to \$20,644,601 in 2010. This decline was the net impact of about \$925,000 less being spent on permanent improvements and maintenance to roads and bridges and an increase of about \$368,000 more being spent on snow removal costs. Additionally, net interfund transfer was a net use of \$124,148 in 2011 compared to a net source of \$45,152 in 2010. This was the result of an increase in machinery chargeback costs in 2011 and a contribution to the road machinery fund to fund the increased fuel costs in 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 assets of \$336,207 compared to \$1,485,015 at the end of 2010. In 2011, the Health Care Facility had a negative change in net assets of \$1,148,808 or 77%. The results for the past five consecutive years follow:

2011	(\$ 1,148,808)
2010	(\$ 3,299,613)
2009	(\$ 1,964,400)
2008	\$ 1,535,298
2007	(\$ 917,463)

The **Solid Waste Operations** had net assets of \$12,936,766 at the end of 2011 compared to \$11,818,296 at the end of 2010, representing a increase of \$1,118,470 or 10%. The results for the past five consecutive years follow:

2011	\$ 1,118,470
2010	(\$ 467,238)
2009	(\$ 1,514,078)
2008	(\$ 2,381,436)
2007	\$ 1,180,072

General Fund Budgetary Highlights - Appropriation budget adjustments increased the original budget by \$2,862,617 or 2.1% compared to \$4,328,940 or 3.1% in 2010. 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, 2011							
	Original	Modified	Difference	% change	Expenditures		Variance with Modified Budget
					Budgetary Basis		
					Actual	Encumbrance	
EXPENDITURES							
General Government Support	\$ 24,679,279	\$ 25,893,187	\$ 1,213,908	4.9%	\$ 23,556,504	\$ 38,601	\$ 2,298,082
Education	9,245,000	9,245,000	-	0.0%	8,440,942	-	804,058
Public Safety	17,156,924	17,915,742	758,818	4.4%	17,063,866	168,835	683,041
Health	18,484,931	18,673,165	188,234	1.0%	15,688,156	15,502	2,969,507
Transportation	333,500	683,299	349,799	104.9%	669,125	-	14,174
Economic Assistance and Opportunity	66,455,851	66,606,996	151,145	0.2%	60,999,512	995	5,606,489
Culture and Recreation	629,511	628,269	(1,242)	-0.2%	550,403	-	77,866
Home and Community Services	1,365,499	1,499,849	134,350	9.8%	1,319,178	-	180,671
Debt Service	697,396	697,396	-	0.0%	697,396	-	-
TOTAL APPROPRIATED EXPENDITURES	139,047,891	141,842,903	2,795,012	2.0%	128,985,082	223,934	12,633,887
Transfers Out	165,685	233,290	67,605	40.8%	269,798	-	(36,508)
TOTAL APPROPRIATIONS & TRANSFERS	139,213,576	142,076,193	2,862,617	2.1%	129,254,880	223,934	12,597,379

Explanation of significant budget modifications:

- The current year General Fund budget was increased by \$409,416 to fund encumbrances issued in 2010.
- In 2011, \$300,350 or 22% (\$429,145 or 33% in 2010) of the contingency budget of \$1,400,000 established for unforeseen purposes was allocated. The most significant transfers include \$146,500 to fund the cost of the public defender and assigned counsel services. An additional \$95,000 was provided to the Sheriff to fund fuel costs and the purchase of mobile data terminals for patrol cars.
- The increase in the General Government Support area is primarily driven by an increase of about \$1 million in the distribution of sales tax to municipalities in the County and about \$300,000 appropriated within the central communications department from additional telephone charge backs.
- The increase in the Public Safety area is primarily related to the \$95,000 to the Sheriff budget from the contingency budget and federal grants for the Sheriff and emergency management office.
- The increase in the Transportation budget of approximately \$350,000 from the original amount is comprised primarily of increases from the Federal 5311 funding for new public transportation buses that was not spent in 2010 and was rolled over into 2011.
- The increase in Transfers Out was related to additional capital projects for several building maintenance and improvement projects, to fund the ergonomics capital projects, and equipment for the 911 center.

General Fund Final Budget Compared to Actual Expenditures and Revenues –

- Actual revenues fell short of the final-modified revenue budget by \$3,777,094 or 3% (\$3,046,431 or 2% in 2010). This difference was the net result of about \$3,700,000 more sales tax received than anticipated which was offset by a budget shortage in State Aid revenues of about 3,900,000, departmental income of approximately \$1,400,000, use of money and property of about \$800,000 and federal aid of approximately \$700,000. State aid in several social services programs was short in revenue for a net total of approximately \$2,200,000. Special children's services and early intervention state aid revenue shortage totaled about \$1,300,000. The departmental income shortage was made up almost exclusively of public health home nursing charges. The shortage in use of money and property was the result of being under revenue budget in interest and building rental chargebacks of approximately \$400,000 each. Federal aid was short by approximately \$350,000 each in both the social services and public safety areas, was over budget in the aging services area by about \$170,000 and public transportation federal aid was over budget by about \$130,000.
- The final-appropriation budget exceeded actual expenditures by \$12,633,888 or 9% (\$11,894,783 or 8% in 2010). General County actual costs were less than budgeted by about \$2,300,000. Of this amount, approximately \$1,100,000 was unexpended contingency budget. In addition, about \$159,000 of the budgeted amount for judgments and claims was not needed, about \$298,000 budgeted for buildings and grounds maintenance was not used, and elections had almost \$119,000 of budget unexpended. Expenditures for Health services were about \$3,000,000 less than the modified budget. This is in keeping with the under-realization of revenues in public health, mental health, early intervention, and special children's services. The greatest budgetary difference is within social services program services. Approximately \$5,600,000 of the modified budget for these services was not expended in 2011. This under-spending is also consistent with the revenue shortfall discussed above. The largest category of unspent budget in the social services area is approximately \$1,439,000 for temporary assistance for needy families (TANF) and the administration related to those services. There was also a total of approximately \$1,095,000 in general administration budgeted and not expended. Both child care and services for recipients programs were underspent by about \$906,000 and \$669,000 respectively.
- The County's focus on reducing costs facilitates maintenance of budgetary control.

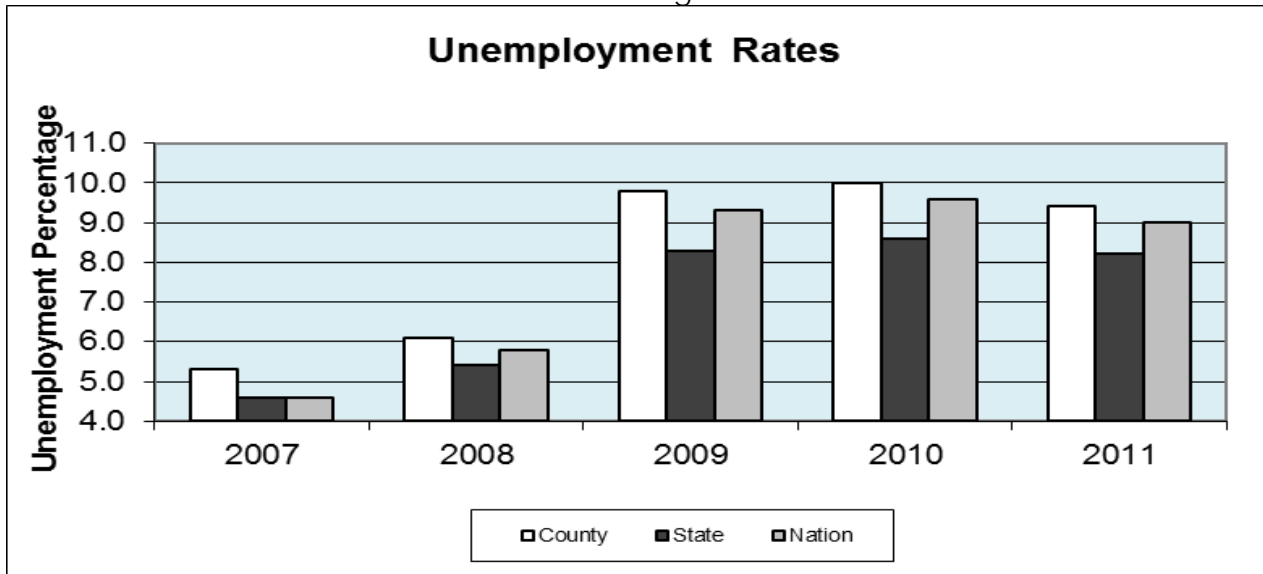
Capital Asset and Debt Administration

Capital Assets - The County's investment in capital assets (net of accumulated depreciation) for governmental and business-type activities as of December 31, 2011 totaled \$135,374,854 compared to \$138,380,695 in 2010. 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 2011 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 2011. 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, 2011, excluding the STASC, the County had total debt obligations of \$23,575,000 compared to \$25,990,000 at the end of 2010. The STASC had debt (net of discount) of \$29,955,786 (\$29,962,180 in 2010) which is securitized by future tobacco settlement payments. A Bond Anticipation Note for \$100,000 was issued in 2011 related to the 2010 repair and upgrade of ditching and piping within the Upper Five Mile Creek watershed district. 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.



During 2010, the County offered both a local retirement incentive and the incentives provided via the New York State Retirement systems. Eighty-three (83) employees took advantage of these incentives and the bulk of these positions were not filled. During 2011, the County again offered a local incentive and fifteen additional employees took advantage of the 2011 offer.

Despite the decreased salary costs associated with these retirements, the ever-increasing cost of employee fringe benefits continues to impact the County budget. New York State retirement contributions increased approximately \$2 million between 2009 and 2010 and by almost \$2.7 million in 2011. This increased the retirement costs from about \$3.2 million in 2009 to almost \$7.9 million in 2011 (well over double the 2009 amount). The County anticipates further increases in retirement, health insurance and workers’ compensation costs in 2012 and 2013. Over the same time period, total fringe benefits have increased from 45% of salaries in 2009 to 56% of salaries in 2011.

Combined with the increasing costs, the County will be experiencing decreasing revenue reimbursements from providing services on behalf of both the Federal and State governments. The Federal Stimulus funding ended in mid-2011. New York State continues to face a budget crisis and state aid for many of the state mandated programs will be significantly reduced during both 2012 and 2013.

2012 Budget

The development of the 2012 budget presented many challenges to the County. Most of these challenges have been created by actions outside of the County.

The loss of the Federal Stimulus funds and the annual 3% increase in Medicaid will result in an increase of \$1.8 million in Medicaid. Additionally, the State's cost-shift in the Safety Net program increases the local costs by \$798,400, while the savings in the Temporary Assistance to Needy Families (TANF) program only amounts to \$712,500. The difference is \$85,000 in cost-shifts from the Governor and State Legislature. This cost-shift will continue to annually grow because the Safety Net program continues to increase while the Federal TANF program decreases. New York State is one of the few states in the nation to have a Safety Net program and rather than assuming responsibility for it, the Governor and State Legislature have now made it primarily a local property tax item thus saving the State tax dollars.

While the Governor and State Legislature have talked about the importance of local property tax reform and have enacted a 2% Property Tax Cap, they have by sleight of hand; mislead the property tax payers in the State. The Governor and State Legislature have failed to cut any of State programs delivered by Counties but have rather just shifted the funding responsibility to the Counties for State bills. Without significant cuts in State programs Counties are required to pay for, there will continually be reductions in non-mandated local services. These services range from Public Health, Sheriff, Transit Services, Soil & Water Conservation, Libraries and Meals on Wheels to name a few. Without appropriate resolution, in a short time, these services may all be gone. Counties will not be able to afford them under the property tax cap.

At the same time, the Counties' bill for Medicaid, Handicapped Children Services, Community College Charge backs, Welfare benefits, Foster Care, and payments for Juvenile Delinquents housed in state facilities will continue to escalate and cost the local property taxpayer even more. Further, Court facility expenses, Indigent Defense costs, Probation, Jail costs and Leandra's Law supervision, will all be paid largely with local property tax dollars. These happen to be the programs growing at double digit rates with no local control and with no one at the State level trying to contain costs, (since they do not foot the bill, they have no incentive to do so).

Health Care Facility

Another concern in the near and longer-term future is the financial status and performance of the HCF. The HCF has had losses ranging from \$1.2 million in 2012, \$3.3 million in 2011 and \$2.0 million in 2009. 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. As of December 31, 2011, the HCF's unrestricted net deficit was already \$896,521 and is being supported by the general fund via tax dollars.

The County is continuing to analyze operations and is making plans to mitigate the losses. Also under consideration and evaluation is the eventual sale of the HCF to another organization.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the 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.

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 ASSETS
As of December 31, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	IDA Business-type	Soil & Water Business-type
ASSETS					
Current assets:					
Cash, cash equivalents and investments	\$ 75,923,955	\$ 11,029,478	\$ 86,953,433	\$ 2,491,606	\$ 367,435
Taxes receivable and tax deeds, net	11,063,460	-	11,063,460	-	-
Other receivables, net	7,991,574	2,690,086	10,681,660	150,805	-
Assets whose use is limited	1,758,489	299,571	2,058,060	66,920	633,548
Internal balances	481,863	(481,863)	-	-	-
State and federal receivables	11,198,577	1,632	11,200,209	-	-
Due from other governments	1,593,655	-	1,593,655	-	37,356
Prepaid items	1,866,128	423	1,866,551	29,373	-
Inventory of supplies	518,291	37,044	555,335	-	-
Total current assets	112,395,992	13,576,371	125,972,363	2,738,704	1,038,339
Noncurrent assets:					
Amounts due from third-party payors, net	-	760,941	760,941	-	-
Bond issuance costs, net	-	49,881	49,881	-	-
Non-depreciable capital assets	7,509,686	406,301	7,915,987	-	-
Net depreciable capital assets	96,100,368	31,358,499	127,458,867	1,075,846	119,862
Total noncurrent assets	103,610,054	32,575,622	136,185,676	1,075,846	119,862
Total Assets	216,006,046	46,151,993	262,158,039	3,814,550	1,158,201
Liabilities					
Current Liabilities					
Cash overdraft	-	759,329	759,329	-	-
Accounts payable	13,481,984	356,395	13,838,379	16,143	-
Accrued liabilities	5,884,240	377,084	6,261,324	1,997	-
Current portion of compensated absences	2,103,252	358,610	2,461,862	-	4,776
Bond Anticipation Notes Payable	100,000	-	100,000	-	-
Due to other governments	5,832,329	-	5,832,329	-	-
Accrued Interest Payable	3,273,572	261,898	3,535,470	-	-
Current portion of bonds payable	665,000	1,990,700	2,655,700	-	-
Deferred Revenues	4,913,417	-	4,913,417	-	-
Other liabilities	861,589	-	861,589	66,920	-
Total current liabilities	37,115,383	4,104,016	41,219,399	85,060	4,776
Noncurrent Liabilities					
Compensated absences, net of current portion	2,909,555	420,333	3,329,888	-	14,328
Other post-employment benefits	12,647,035	1,938,665	14,585,700	-	-
Estimated arbitrage liability	-	73,287	73,287	-	-
Accrued landfill closure/post closure care costs	-	10,578,619	10,578,619	-	-
Bonds payable, net of current portion	35,120,786	15,764,100	50,884,886	-	-
Total noncurrent liabilities	50,677,376	28,775,004	79,452,380	-	14,328
Total Liabilities	87,792,759	32,879,020	120,671,779	85,060	19,104
Net Assets					
Invested in capital assets, net of related debt	97,780,054	13,472,369	111,252,423	1,075,846	119,862
Restricted for:					
Capital improvements	5,128,379	299,571	5,427,950	-	-
Debt service	1,758,489	-	1,758,489	-	-
Other Restrictions	8,451,099	-	8,451,099	739,749	633,548
Unrestricted	15,095,266	(498,967)	14,596,299	1,913,895	385,687
Total Net Assets	\$ 128,213,287	\$ 13,272,973	\$ 141,486,260	\$ 3,729,490	\$ 1,139,097

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

Steuben County, NY
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			IDA Business-type	Soil & Water Gov't-type
					Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental activities:									
General	\$ 25,412,985	\$ 7,476,018	\$ 526,429	\$ -	\$ (17,410,538)	\$ -	\$ (17,410,538)		
Education	8,440,942	-	1,543,114	-	(6,897,828)	-	(6,897,828)		
Public safety	19,472,101	2,611,250	1,502,666	-	(15,358,185)	-	(15,358,185)		
Health	16,072,443	9,113,699	4,591,836	-	(2,366,908)	-	(2,366,908)		
Transportation	23,646,751	3,394,295	4,237,660	554,695	(15,460,101)	-	(15,460,101)		
Economic assistance and opportunity	61,952,112	2,875,330	28,250,800	-	(30,825,982)	-	(30,825,982)		
Culture and recreation	574,200	38,055	127,966	-	(408,179)	-	(408,179)		
Home and community	1,093,210	2,060	335,816	-	(755,334)	-	(755,334)		
Interest and amortization expense	2,225,218	-	-	-	(2,225,218)	-	(2,225,218)		
Total governmental activities	<u>158,889,962</u>	<u>25,510,707</u>	<u>41,116,287</u>	<u>554,695</u>	<u>(91,708,273)</u>	<u>-</u>	<u>(91,708,273)</u>		
Business-type activities:									
Health Care Facility	14,396,292	9,244,863	3,440,724	-	-	(1,710,705)	(1,710,705)		
Solid Waste Operations	5,356,837	5,841,235	-	-	-	484,398	484,398		
Total business-type activities	<u>19,753,129</u>	<u>15,086,098</u>	<u>3,440,724</u>	<u>-</u>	<u>-</u>	<u>(1,226,307)</u>	<u>(1,226,307)</u>		
Total primary government	<u>\$ 178,643,091</u>	<u>\$ 40,596,805</u>	<u>\$ 44,557,011</u>	<u>\$ 554,695</u>	<u>(91,708,273)</u>	<u>(1,226,307)</u>	<u>(92,934,580)</u>		
Component Units									
Industrial Development Agency	\$ 485,246	\$ 204,076	\$ 120,500	\$ -			\$ (160,670)	\$ -	
Soil and Water Conservation District	902,177	158,703	474,336	-			-	(269,138)	
	<u>\$ 1,387,423</u>	<u>\$ 362,779</u>	<u>\$ 594,836</u>	<u>\$ -</u>			<u>(160,670)</u>	<u>(269,138)</u>	
General Revenues:									
					39,309,225	-	39,309,225	-	-
					3,111,094	-	3,111,094	-	-
					29,397,083	-	29,397,083	-	-
					18,227,569	-	18,227,569	-	-
					312,055	16,722	328,777	22,111	3,874
					43,634	-	43,634	-	71,449
					3,142,032	1,179,247	4,321,279	2,185	17,518
					<u>93,542,692</u>	<u>1,195,969</u>	<u>94,738,661</u>	<u>24,296</u>	<u>92,841</u>
					1,834,419	(30,338)	1,804,081	(136,374)	(176,297)
					126,378,868	13,303,311	139,682,179	3,865,864	1,315,394
					<u>\$ 128,213,287</u>	<u>\$ 13,272,973</u>	<u>\$ 141,486,260</u>	<u>\$ 3,729,490</u>	<u>\$ 1,139,097</u>

STEUBEN COUNTY, NY
Balance Sheet
Governmental Funds
As of December 31, 2011

	<u>General Fund</u>	<u>County Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash, cash equivalents and investments	\$ 60,890,902	\$ 2,932,355	\$ 8,811,104	\$ 72,634,361
Taxes receivable and tax deeds, net	11,063,460	-	-	11,063,460
Other receivables	6,383,614	-	1,607,960	7,991,574
State and federal receivables	10,765,305	269,831	163,441	11,198,577
Due from other governments	228,439	82,714	100,643	411,796
Prepaid items	1,866,128	-	-	1,866,128
Inventory of supplies	18,339	-	-	18,339
Assets whose use is limited	-	-	1,758,489	1,758,489
Total assets	<u>\$ 91,216,187</u>	<u>\$ 3,284,900</u>	<u>\$ 12,441,637</u>	<u>\$ 106,942,724</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 12,832,383	\$ 140,968	\$ 180,263	\$ 13,153,614
Accrued liabilities	1,796,075	237,258	27,937	2,061,270
Bond anticipation note payable	100,000	-	-	100,000
Due to other governments	5,832,329	-	-	5,832,329
Due to other funds	424,863	413,274	-	838,137
Deferred revenues	11,359,706	-	1,607,941	12,967,647
Other liabilities	861,589	-	-	861,589
Total liabilities	<u>33,206,945</u>	<u>791,500</u>	<u>1,816,141</u>	<u>35,814,586</u>
Fund Balances:				
Nonspendable	1,884,467	-	-	1,884,467
Restricted	8,410,910	-	6,927,057	15,337,967
Assigned	4,445,331	2,493,400	3,698,439	10,637,170
Unassigned	43,268,534	-	-	43,268,534
Total Fund Balances	<u>58,009,242</u>	<u>2,493,400</u>	<u>10,625,496</u>	<u>71,128,138</u>
Total Liabilities and Fund Balances	<u>\$ 91,216,187</u>	<u>\$ 3,284,900</u>	<u>\$ 12,441,637</u>	<u>\$ 106,942,724</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 Assets
As of December 31, 2011

Total fund balances - governmental funds **\$71,128,138**

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

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

Land	\$ 1,112,856	
Buildings and improvements	44,941,419	
Improvements other than buildings	501,336	
Equipment	25,183,062	
Infrastructure	128,619,559	
Construction in progress	6,396,831	
Accumulated depreciation	<u>(103,145,462)</u>	
Total capital assets		103,609,601

Deferred property tax revenues are not available to pay for current-period expenditures and are therefore deferred in the funds. 6,143,619

Deferred tobacco settlement revenues are not available to pay for current-period expenditures and are therefore deferred in the funds. 1,910,611

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 499,951

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		(3,273,572)
Accrued compensated absences		(5,012,807)
Bonds payable		(35,785,786)
Other post employment benefits liability		(12,647,035)

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 Assets. 1,640,567

Total Net Assets - End of Year **\$ 128,213,287**

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, 2011

	<u>General Fund</u>	<u>County Road</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Real property taxes	\$ 22,259,077	\$ 15,605,341	\$ 1,144,719	\$ 39,009,137
Real property tax items	3,111,094	-	-	3,111,094
Non-property taxes	47,624,652	-	-	47,624,652
Departmental Income	16,122,224	-	-	16,122,224
Intergovernmental services revenue	2,232,619	619,191	32,325	2,884,135
Use of money and property	2,154,318	1,459	26,939	2,182,716
Licenses and permits	2,060	-	-	2,060
Fines and forfeitures	235,771	-	-	235,771
Sale of property and compensation for losses	52,010	-	88,231	140,241
Tobacco settlement revenues	-	-	1,451,998	1,451,998
Interfund revenues	1,587,330	-	2,721,460	4,308,790
State aid	15,160,827	3,688,392	366,659	19,215,878
Federal aid	22,237,445	-	217,659	22,455,104
Miscellaneous	875,165	9,439	1,583	886,187
Total revenues	<u>133,654,592</u>	<u>19,923,822</u>	<u>6,051,573</u>	<u>159,629,988</u>
Expenditures:				
Current:				
General government	23,556,504	-	30,254	23,586,758
Education	8,440,942	-	-	8,440,942
Public safety	17,063,866	-	-	17,063,866
Health	15,688,156	-	-	15,688,156
Transportation	669,125	19,909,955	3,861,697	24,440,777
Economic assistance and opportunity	60,999,512	-	-	60,999,512
Culture and recreation	550,403	-	-	550,403
Home and community services	1,319,178	-	25,000	1,344,178
Capital outlays:				
General government	-	-	322,368	322,368
Public safety	-	-	218,061	218,061
Transportation	-	-	264,024	264,024
Economic assistance and opportunity	-	-	625	625
Culture and recreation	-	-	2,891	2,891
Debt service:				
Principal	460,000	-	40,000	500,000
Interest	237,396	-	1,373,200	1,610,596
Total expenditures	<u>128,985,082</u>	<u>19,909,955</u>	<u>6,138,119</u>	<u>155,033,156</u>
Excess (deficiency) of revenues over expenditures	<u>4,669,510</u>	<u>13,867</u>	<u>(86,546)</u>	<u>4,596,831</u>
Other financing sources (uses):				
Transfers in	-	360,915	754,861	1,115,776
Transfers out	(269,798)	(485,063)	(360,915)	(1,115,776)
Total other financing sources (uses)	<u>(269,798)</u>	<u>(124,148)</u>	<u>393,946</u>	<u>-</u>
Net change in fund balance	4,399,712	(110,281)	307,400	4,596,831
Fund balance - Beginning of year	<u>53,609,530</u>	<u>2,603,681</u>	<u>10,318,096</u>	<u>66,531,307</u>
Fund balance - End of year	<u>\$ 58,009,242</u>	<u>\$ 2,493,400</u>	<u>\$ 10,625,496</u>	<u>\$ 71,128,138</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, 2011

Net Change in Fund Balances - Total Governmental Funds **\$ 4,596,831**

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	\$ 7,873,413	
Depreciation	<u>(8,414,711)</u>	
Excess of capital outlays over depreciation expense		(541,298)

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.		378,060
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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.		(96,607)
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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		(251,229)
Inventory of supplies		202,464
Accrued interest on bonds		(581,016)
Amortization of bond discount		(33,606)
OPEB - annual required contribution		(3,979,083)

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets		500,000
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Internal service funds are used by management to charge the costs of insurance to individual funds. The net expense of the internal service fund is reported with the governmental activities.		<u>1,639,903</u>
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Change in Net Assets of Governmental Activities **\$ 1,834,419**

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

STEUBEN COUNTY, NY
Statement of Net Assets
Proprietary Funds
As of December 31, 2011

	Enterprise Funds			Internal Service
	Health Care Facility	Solid Waste (Landfill)	Total	
ASSETS				
Current Assets:				
Cash, cash equivalents and investments	\$ -	\$ 11,029,478	\$ 11,029,478	\$ 3,289,594
Accounts receivable	1,968,430	639,980	2,608,410	-
Amounts due from third-party payors	81,676	-	81,676	-
Current portion of assets whose use is limited	-	299,571	299,571	-
State and federal receivables	-	1,632	1,632	-
Due from other governments	-	-	-	1,181,860
Due from other funds	-	-	-	1,320,000
Prepaid expenses	423	-	423	-
Inventories	37,044	-	37,044	-
Total current assets	2,087,573	11,970,661	14,058,234	5,791,454
Noncurrent Assets:				
Amounts due from third-party payors, net	760,941	-	760,941	-
Unamortized bond issuance costs, net	42,028	7,853	49,881	-
Non-depreciable capital assets	-	406,301	406,301	-
Capital assets, net	16,905,588	14,452,911	31,358,499	453
Total noncurrent assets	17,708,557	14,867,065	32,575,622	453
TOTAL ASSETS	19,796,130	26,837,726	46,633,856	5,791,907
LIABILITIES				
Current liabilities:				
Cash overdraft	759,329	-	759,329	-
Accounts payable	217,228	139,167	356,395	328,370
Accrued liabilities	295,882	81,202	377,084	3,822,970
Current portion of accrued compensated absences	292,187	66,423	358,610	-
Current portion of bonds payable	830,700	1,160,000	1,990,700	-
Accrued interest payable	238,060	23,838	261,898	-
Due to other funds	481,863	-	481,863	-
Total current liabilities	3,115,249	1,470,630	4,585,879	4,151,340
Noncurrent liabilities:				
Accrued compensated absences, net of current portion	226,499	193,834	420,333	-
Accrued other post-employment benefits, net of current portion	1,440,788	497,877	1,938,665	-
Estimated arbitrage liability	73,287	-	73,287	-
Accrued landfill closure/postclosure care costs	-	10,578,619	10,578,619	-
Bonds payable, net of current portion	14,604,100	1,160,000	15,764,100	-
Total noncurrent liabilities	16,344,674	12,430,330	28,775,004	-
TOTAL LIABILITIES	19,459,923	13,900,960	33,360,883	4,151,340
NET ASSETS				
Investment in capital assets, net of related debt	1,232,728	12,239,641	13,472,369	453
Restricted for capital improvements	-	299,571	299,571	-
Unrestricted	(896,521)	397,554	(498,967)	1,640,114
TOTAL NET ASSETS	\$ 336,207	\$ 12,936,766	\$ 13,272,973	\$ 1,640,567

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

STEBEN COUNTY, NY
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Enterprise Funds		TOTAL	Internal Service
	Health Care Facility	Solid Waste (Landfill)		
Operating revenues:				
Charges for services	\$ 9,244,863	\$ 5,841,235	\$15,086,098	\$ 3,501,073
Intergovernmental transfer	3,256,728	-	3,256,728	-
Adjustment of prior years' revenue, net	183,996	-	183,996	-
Other revenue	48,787	618,019	666,806	261,550
Total operating revenue	12,734,374	6,459,254	19,193,628	3,762,623
Operating expenses:				
Personal services	5,902,896	1,153,645	7,056,541	51,892
Employee benefits	3,793,163	744,139	4,537,302	25,729
Contractual expense	2,677,811	1,415,519	4,093,330	526,198
Depreciation and amortization	855,281	1,864,786	2,720,067	752
Indirect expense	512,441	151,147	663,588	-
Closure and postclosure costs	-	(29,003)	(29,003)	-
Workers' compensation benefits	-	-	-	1,521,656
Total operating expenses	13,741,592	5,300,233	19,041,825	2,126,227
Operating (loss)	(1,007,218)	1,159,021	151,803	1,636,396
Non-operating revenue (expenses):				
County subsidy	512,441	-	512,441	-
Investment income	669	16,053	16,722	3,507
Gain on disposition of assets	-	10,849	10,849	-
Interest expense	(654,700)	(67,453)	(722,153)	-
Total non-operating revenue (expenses)	(141,590)	(40,551)	(182,141)	3,507
Change in net assets	(1,148,808)	1,118,470	(30,338)	1,639,903
Total net assets - Beginning of year	1,485,015	11,818,296	13,303,311	664
Total net assets - End of year	\$ 336,207	\$ 12,936,766	\$ 13,272,973	\$ 1,640,567

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, 2011

	Enterprise Funds			Internal Service
	Health Care Facility	Solid Waste (Landfill)	Total	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Receipts from services	\$ 12,904,259	\$ 6,563,514	\$ 19,467,773	\$ 3,690,676
Payments to suppliers for goods and services	(2,643,921)	(1,748,576)	(4,392,497)	(405,083)
Payments to employees for services	(8,788,522)	(1,715,930)	(10,504,452)	(77,536)
Payments for workers compensation benefits	-	-	-	(1,521,656)
Net cash provided by (used in) operating activities	1,471,816	3,099,008	4,570,824	1,686,401
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES				
Transfer, purchase and construction of capital assets	(10,160)	(340,926)	(351,086)	-
Amounts due from other funds	-	-	-	(660,000)
Changes in assets whose use is limited	-	(27,037)	(27,037)	-
Receipts from state and federal agencies	-	535,728	535,728	-
Proceeds on sale of equipment	-	12,055	12,055	-
Payments on bond interest expense	(666,625)	(79,372)	(745,997)	-
Principal repayment of bonds	(795,700)	(1,160,000)	(1,955,700)	-
Net cash provided by (used in) capital and related financing activities	(1,472,485)	(1,059,552)	(2,532,037)	(660,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES				
Investment income received	669	16,053	16,722	3,507
Net cash provided by investing activities	669	16,053	16,722	3,507
Net increase (decrease) in cash, cash equivalents and investments	-	2,055,509	2,055,509	1,029,908
Cash, cash equivalents and investments, beginning of year	-	8,973,969	8,973,969	2,259,687
Cash, cash equivalents and investments, end of year	\$ -	\$ 11,029,478	\$ 11,029,478	\$ 3,289,595
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,007,218)	\$ 1,159,021	\$ 151,803	\$ 1,636,396
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:				
County indirect charges	512,441	-	512,441	-
Depreciation and amortization	855,281	1,871,782	2,727,063	752
Bad debt expense	45,305	-	45,305	-
Changes in:				
Accounts receivable	(862,337)	104,660	(757,677)	(71,947)
Cash overdraft	(484,882)	-	(484,882)	-
Due from third party payors	1,499,358	-	1,499,358	-
Inventories and prepaids	4,509	-	4,509	-
Accounts payable	1,822	(3,046)	(1,224)	(47,199)
Accrued liabilities	-	1,371	1,371	168,399
Accrued landfill closure/postclosure care costs	-	(214,863)	(214,863)	-
Customer deposits	-	(400)	(400)	-
Accrued items	907,537	180,483	1,088,020	-
Net cash provided by (used in) operating activities	\$ 1,471,816	\$ 3,099,008	\$ 4,570,824	\$ 1,686,401
Supplemental Information:				
Non-cash indirect expenses and revenue provided by County	\$ 512,441	\$ -		

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

STEUBEN COUNTY, NY

Balance Sheet

Fiduciary Funds

As of December 31, 2011

	Agency Funds	Private Purpose Trust Funds
ASSETS		
Cash and cash equivalents	\$ 1,066,517	\$ 149,743
Securities and mortgages	-	-
TOTAL ASSETS	\$ 1,066,517	\$ 149,743
 LIABILITIES		
Agency liabilities	\$ 1,066,517	\$ 943
TOTAL LIABILITIES	1,066,517	943
 NET ASSETS		
Held in trust for other purposes	-	148,800
TOTAL NET ASSETS	-	148,800
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,066,517	 \$ 149,743

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year Ended December 31, 2011

	Private Purpose Trust Funds
ADDITIONS:	
Interest earnings	\$ 6
Miscellaneous local sources	32,285
TOTAL ADDITIONS	32,291
 DEDUCTIONS:	
Home and community services	6
Public safety	10,841
TOTAL DEDUCTIONS	10,847
 CHANGE IN NET ASSETS	 21,444
Net assets - Beginning of year	127,356
Net assets - End of year	\$ 148,800

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

STEBEN COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2011

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. 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 2011. 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 2011 was \$224,426 (31% 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 Master Settlement Agreement (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. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and the proprietary fund financial statements to the extent they do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The County's enterprise funds and business-type activities have elected not to follow subsequent private sector guidance. 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 Assets 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 Assets 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 Assets 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 Assets 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 Assets 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 Assets and the Statement of Activities presents increases (revenues) and decreases (expenses) in net total assets. 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 Assets 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 Assets 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 Assets. The only interfund balances which remain on the government-wide Statement of Net Assets 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 assets, 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 ASSETS

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – 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 Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

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

O. GOVERNMENTAL FUND BALANCE

Beginning with fiscal year 2011, the County implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides 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 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 2011, 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, \$300,350 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 asset deficit of the Tobacco Asset Securitization Corporation at the end of 2011 was (\$29,642,999) compared to (\$28,991,296) in 2010. 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.

III. DETAIL NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Cash and investments at December 31, 2011, are classified in the accompanying financial statements as follows:

Statement of Net Assets cash and equivalents	\$ 86,953,433
Statement of Net Assets current portion of assets whose use is limited	2,058,060
Less Statement of Net Assets cash overdraft	(759,329)
Fiduciary Funds cash and equivalents	1,216,260
Total Deposits and Investments	\$ 89,468,424

Cash and investments at December 31, 2011, consist of the following:

Cash on hand	\$ 27,252
Demand deposits with financial institutions	76,190,094
Total Cash	76,217,346
Certificates of deposits with financial institutions	11,094,000
Other time deposits with financial institutions	398,589
Total cash and time deposits	87,709,935
Investments held by STASC trustee	1,758,489
Total Investments	1,758,489
Total Deposits and Investments	\$ 89,468,424

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 \$87,682,683 and the bank balance was \$89,140,362. Of the bank balance, \$3,325,532 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 \$94,377,806.

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:

Investment Type	Amount	Maturity
Certificates of Deposit	\$ 5,000,000	January 2012
Certificates of Deposit	5,000,000	March 2012
Certificates of Deposit	1,093,000	December 2012
Certificates of Deposit	1,000	December 2012
Other Time Deposits with financial institutions	398,589	
Investments held in Trust	1,758,489	
	\$ 13,251,078	

B. RECEIVABLES AND PREPAID ITEMS

At December 31, 2011, government-wide total real property tax receivables of \$11,063,460 are net of an allowance for uncollectible taxes of \$314,624. Included in the total real property tax receivables are returned city, village and school taxes of \$5,832,329, which are offset by liabilities to the cities, villages and school districts, which were paid by April 1, 2012.

On the fund financial statements, total real property tax receivables of \$11,063,460 are offset by an allowance for uncollectable taxes of \$314,624. The remaining amount of the taxes receivable is partially offset by deferred tax revenue of \$6,143,619 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 Assets, State and federal receivables of \$11,200,209 consist primarily of the following items:

Office of Temporary and Disability Assistance	\$4,315,673
State Education Department	3,039,416
State Office for the Aging	1,304,687
Department of Health	714,120
Department of Transportation	529,230
7th Judicial District Courts	478,379
United States Marshall	133,900
Department of Criminal Justice Services	115,991
Other	<u>568,813</u>
	<u>\$11,200,209</u>

On the government-wide Statement of Net Assets, Other receivables of \$10,681,660 consist primarily of receivables due from participants in various program services and the year-end sales tax receivable of approximately \$3,800,000.

On the government-wide Statement of Net Assets, prepaid items of \$1,866,551 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, 2012 and March 31, 2012.

C. CAPITAL ASSETS - Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance				Balance
	12/31/2010	Transfers	Increase	Decrease	12/31/2011
Government Activities:					
Nondepreciable Capital Assets:					
Land	\$ 1,112,856	\$ -	\$ -	\$ -	\$ 1,112,856
Construction in Progress	7,000,230	(1,933,506)	1,330,106	-	6,396,830
Total Nondepreciable Capital Assets	<u>8,113,086</u>	<u>(1,933,506)</u>	<u>1,330,106</u>	<u>-</u>	<u>7,509,686</u>
Depreciable Capital Assets:					
Buildings & Improvements	44,886,376	-	55,043	-	44,941,419
Improvements other than Buildings	501,336	-	-	-	501,336
Machinery & Equipment	24,434,351	-	1,594,893	(839,335)	25,189,909
Infrastructure	121,998,035	1,933,506	4,893,371	(205,353)	128,619,559
Total Depreciable Capital Assets	<u>191,820,098</u>	<u>1,933,506</u>	<u>6,543,307</u>	<u>(1,044,688)</u>	<u>199,252,223</u>
Less: Accumulated Depreciation For:					
Buildings & Improvements	(22,522,535)	-	(1,791,347)	-	(24,313,882)
Improvements other than Buildings	(209,693)	-	(23,188)	-	(232,881)
Machinery & Equipment	(16,650,917)	-	(1,731,228)	830,370	(17,551,775)
Infrastructure	(56,301,328)	-	(4,869,700)	117,711	(61,053,317)
Total Accumulated Depreciation	<u>(95,684,473)</u>	<u>-</u>	<u>(8,415,463)</u>	<u>948,081</u>	<u>(103,151,855)</u>
Total Depreciable Capital Assets, Net	<u>96,135,625</u>	<u>1,933,506</u>	<u>(1,872,156)</u>	<u>(96,607)</u>	<u>96,100,368</u>
Governmental Activities Capital Assets, Net	<u>\$ 104,248,711</u>	<u>\$ -</u>	<u>\$ (542,050)</u>	<u>\$ (96,607)</u>	<u>\$ 103,610,054</u>

CAPITAL ASSETS (Continued)

	Balance				Balance
	<u>12/31/2010</u>	<u>Transfers</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2011</u>
Business-Type Activities:					
Nondepreciable Capital Assets:					
Land	\$ 406,301	\$ -	\$ -	\$ -	\$ 406,301
Construction in Progress	71,197	(71,197)	-	-	-
Total Nondepreciable Capital Assets	477,498	(71,197)	-	-	406,301
Depreciable Capital Assets:					
Buildings & Improvements	21,478,612	71,197	41,314	-	21,591,123
Improvements other than Buildings	19,492,377	-	15,717	-	19,508,094
Fixed Equipment	7,098,331	-	4,745	-	7,103,076
Moveable Equipment	1,849,671	-	5,415	-	1,855,086
Machinery & Equipment	6,959,680	-	283,896	(151,555)	7,092,021
Total Depreciable Capital Assets	56,878,671	71,197	351,087	(151,555)	57,149,400
Less: Accumulated Depreciation For:					
Buildings & Improvements	(4,641,529)	189,978	(605,175)	-	(5,056,726)
Improvements other than Buildings	(12,717,033)	-	(1,104,867)	-	(13,821,900)
Fixed Equipment	(803,987)	(189,978)	(398,192)	-	(1,392,157)
Moveable Equipment	(651,760)	-	(157,562)	-	(809,322)
Machinery & Equipment	(4,409,876)	-	(451,268)	150,348	(4,710,796)
Total Accumulated Depreciation	(23,224,185)	-	(2,717,064)	150,348	(25,790,901)
Total Depreciable Capital Assets, Net	33,654,486	71,197	(2,365,977)	(1,207)	31,358,499
Business-type Activities Capital Assets, Net	<u>\$ 34,131,984</u>	<u>\$ -</u>	<u>\$ (2,365,977)</u>	<u>\$ (1,207)</u>	<u>\$ 31,764,800</u>

Depreciation expense was charged to the governmental functions as follows:

Governmental Activities:

General government	\$ 706,855
Public safety	1,780,362
Health	35,090
Transportation	5,794,779
Economic assistance and opportunity	50,571
Culture and recreation	9,542
Home and community	<u>38,264</u>
Total depreciation expense – Governmental activities	<u>\$ 8,415,463</u>

Business-type Activities:

Health Care Facility	\$ 852,279
Solid Waste (Landfill)	<u>1,864,785</u>
Total depreciation expense – Business-type activities	<u>\$2,717,064</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 NYSRSSL, 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 except for employees who joined the Systems after July 27, 1976 who contribute 3% of their salary for the first ten years of membership. 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. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership and those in NYSERS contribute 3.5% throughout their active membership. For NYSERS, the Comptroller certifies the rates expressed as proportions of members’ payroll annually which are 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:

2011	\$7,858,869
2010	\$5,167,125
2009	\$3,201,962

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 \$839,900, \$629,200, and \$384,600, respectively, and is included in employee benefits on the statements of revenues, expenses and change in net assets.

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 2011, the liability in the proprietary funds for compensated absences totaled \$778,943 and amounted to \$5,012,807 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, 2011 was 372. 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>
	(rounded)	(rounded)	
2011 amortization of UAAL	\$ 184,400	\$ 2,043,100	\$ 2,227,500
Normal Cost	<u>450,400</u>	<u>2,895,800</u>	<u>3,346,200</u>
2011 Annual Required Contribution	634,800	4,938,900	5,573,700
Interest	34,400	360,500	394,900
Adjustment to ARC	<u>(29,300)</u>	<u>(306,400)</u>	<u>(335,700)</u>
2011 Annual OPEB Cost	639,900	4,993,000	5,632,900
2011 Contributions made	<u>(60,000)</u>	<u>(860,000)</u>	<u>(920,000)</u>
Increase in Net OPEB Obligation	579,900	4,133,000	4,712,900
Net OPEB obligation at 12/31/2010	<u>860,700</u>	<u>9,012,100</u>	<u>9,872,800</u>
Net OPEB obligation at 12/31/2011	<u>\$ 1,440,600</u>	<u>\$ 13,145,100</u>	<u>\$ 14,585,700</u>

The following table provides trend information for the Retirement Plan:

Trend Information

	Annual OPEB cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
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

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

Actuarial Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a % of Covered Payroll ((b-a)/c)
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%

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, 2011 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	10%, 7.8%, or 5% initially, based on age of employees and type of plan chosen. The rate is reduced by decrements each year to an ultimate rate of 4.7%.
Dental Care Cost Trend Rate	5% initially, reduced by decrements each year to an ultimate rate of 4.7%.

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. Termination Benefits

During 2011, the County approved a second year of its own voluntary retirement incentive program (the Retirement Program) on May 23, 2011, which was the commencement of the open period. Employees had to retire on or before October 31, 2011 in order to receive benefits under the Retirement Program. The Retirement Program offered payment of a percentage of the employees' health insurance until age 65 depending on years of service or a one-time cash payment.

Employees with 25 years or more of service were eligible for 50% of health insurance payments until age 65 or were provided a one-time cash payment of \$15,000; employees with 15 years to less than 25 years of service were eligible for 25% of health insurance payments until age 65 or were provided a one-time cash payment of \$6,000;

and employees with less than 15 years of service that were eligible to retire without reduced benefits were eligible for 25% of health insurance payments of a single policy through age 65 or were provided a one-time cash payment of \$2,500.

During the year ended December 31, 2011, fifteen employees took part in the Retirement Program. Seven employees took the one-time cash payment, which resulted in an expenditure of approximately \$62,000 and is included in the accompanying fund financial statements and the government-wide financial statements.

H. 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, 2011, the amount of these liabilities was \$3,821,107. The liability is the County's best estimate based on available information provided by the third party administrator, Eagle Claim Services.

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>
2011	\$3,652,794	\$ 168,313	\$ 3,821,107
2010	\$3,769,808	\$(117,014)	\$ 3,652,794
2009	\$3,354,455	\$ 415,353	\$ 3,769,808

At December 31, 2011, the internal service fund has \$3,289,594 of cash and investments, a \$1,320,000 receivable from other County funds, plus a receivable of \$1,181,860 due from other local municipalities which participate in the County's Workers' Compensation Plan available to satisfy the estimated liability.

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 \$82,829 in 2011. 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 value per employee. Accounts payable in the General Fund includes a liability for such unpaid claims in the amount of \$3,910,000 as of December 31, 2011.

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 \$284,000 as of

December 31, 2011. 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.

I. 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 in 2010 for \$125,000 for repairs to the equipment and ditches of the Upper Five Mile Creek watershed special district. The original BAN was repaid in 2011 and a new BAN was issued for \$100,000. The new BAN carries an interest rate of 1.55% and matured on March 29, 2012 with interest of \$1,550. A liability of \$100,000 is recorded in the General fund at December 31, 2011.

J. LONG-TERM DEBT

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

	<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Within One Year</u>
<u>Governmental Activities:</u>					
Compensated Absences	\$ 4,761,578	\$ 3,411,600	\$ (3,160,371)	\$ 5,012,807	\$ 2,103,252
Bonds Payable	6,290,000	-	(460,000)	5,830,000	480,000
Bonds Payable - STASC	30,622,790	-	(40,000)	30,582,790	185,000
Bond Discount - STASC	(660,610)	-	33,606	(627,004)	-
Other Post Empl. Benefits	<u>8,667,952</u>	<u>4,816,083</u>	<u>(837,000)</u>	<u>12,647,035</u>	<u>-</u>
Gov't Activities Total Long-Term Debt	<u>\$ 49,681,710</u>	<u>\$ 8,227,683</u>	<u>\$ (4,463,765)</u>	<u>\$ 53,445,628</u>	<u>\$ 2,768,252</u>
	<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Within One Year</u>
<u>Business-Type Activities:</u>					
Accrued Landfill					
Closure / Postclosure	\$ 10,793,482	\$ -	\$ (214,863)	\$ 10,578,619	\$ -
Compensated Absences	693,944	653,003	(568,004)	778,943	358,610
Bonds Payable	19,700,000	-	(1,955,000)	17,745,000	1,990,000
Bond Premiums Payable	10,500	-	(700)	9,800	700
Bond Interest Arbitrage	73,287	-	-	73,287	-
Other Post Empl. Benefits	<u>1,204,848</u>	<u>816,817</u>	<u>(83,000)</u>	<u>1,938,665</u>	<u>-</u>
Bus. Type Activities Total Long-Term Debt	<u>\$ 32,476,061</u>	<u>\$ 1,469,820</u>	<u>\$ (2,821,567)</u>	<u>\$ 31,124,314</u>	<u>\$ 2,349,310</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.

Description / Purpose	Date Issued	Original Amount	Interest Rate	Final Maturity	Outstanding 12/31/11
<u>Correctional Facility</u>					
Jail Expansion	01/15/2006	\$ 7,820,000	3.75%	07/15/2021	\$ 5,830,000
<u>Landfill</u>					
Bath Cell 2 Expansion	05/15/2008	5,800,000	2.74%	02/15/2013	2,320,000
<u>Health Care Facility</u>					
New Facility	08/16/2005	19,710,000	4.00%	08/16/2025	15,425,000
<u>STASC</u>					
Tobacco Settlement	2005	31,947,790	Various	2060	30,582,790
TOTAL DEBT		\$ 65,277,790			\$ 54,157,790

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
2012	\$ 2,470,000	\$ 901,126	\$ 3,371,126	\$ 185,000	\$ 2,032,653	\$ 2,217,653
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
2017-2021	8,775,000	2,212,800	10,987,800	890,000	11,749,597	12,639,597
2022-2026	5,345,000	579,700	5,924,700	2,500,000	13,569,346	16,069,346
2027-2031	-	-	-	3,400,000	15,871,506	19,271,506
2032-2036	-	-	-	4,725,000	19,307,339	24,032,339
2037-2041	-	-	-	6,255,000	24,704,456	30,959,456
2042-2046	-	-	-	6,175,000	32,861,487	39,036,487
2047-2051	-	-	-	1,090,190	45,212,170	46,302,360
2052-2056	-	-	-	1,188,760	59,262,646	60,451,406
2057-2061	-	-	-	3,323,840	52,209,039	55,532,879
	\$ 23,575,000	\$ 6,589,056	\$ 30,164,056	\$ 30,582,790	\$ 285,189,560	\$ 315,772,350

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

At December 31, 2011, the total outstanding indebtedness of the County, excluding the STASC, aggregated \$23,575,000. Of this amount, all was subject to the constitutional debt limit and represented approximately 6.6% 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.

K. 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 assets for proprietary funds. All interfund balances are considered to be short-term.

Interfund balances at December 31, 2011, consisted of the following:

Due From:	<u>Due To Internal Service</u>
General	\$ 424,863
County Road	413,274
Health Care Facility	481,863
Total	<u>\$ 1,320,000</u>

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.

L. 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, 2011, consisted of the following:

	Transfer From:			Total
	General	County Road	Road Machinery	
Transfer To:				
County Road	\$ -	\$ -	\$ 360,915	\$ 360,915
Road Machinery	-	465,063	-	465,063
Capital Projects	269,798	20,000	-	289,798
	<u>\$ 269,798</u>	<u>\$ 485,063</u>	<u>\$ 360,915</u>	<u>\$ 1,115,776</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.

M. 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 2011 by Barton & Loguidice, the remaining air space capacity of the combined Bath Landfill was approximately 484,000 tons which represents an estimated remaining useful life of approximately 5.2 years. The Bath Landfill is estimated to be at 81% of the available capacity at December 31, 2011. 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 \$10,578,619 that represents the landfill closure and post-closure care costs liability at December 31, 2011. The cumulative amounts reported to date are \$6,284,524 for the Bath Landfill and \$4,294,095 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 decreased by \$29,003 in 2011 as post-closure cost estimates were updated. The liability related to landfills that have already been closed was decreased by \$185,860 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.

N. FUND BALANCES

For the year ended December 31, 2011, the County implemented Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)*. This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the 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, 2011, the County's General Fund has \$1,866,128 of prepaid expenses and \$18,339 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, 2011 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			
Workers' Compensation				
Building Repair & Renovation	3,118,339			
Public Safety Building	75,105			
Communication System	710,844			
Forfeitures - D.A. & Sheriff	51,821			
Stop D.W.I.	284,705			
Occupancy Tax	597,673			
Special Districts	64,879			
Equipment Repair & Maintenance		\$ 40,189		
Capital Projects			\$ 5,128,379	
Debt Service				\$ 1,758,489
Miscellaneous	622			
Total Restricted	\$ 8,410,910	\$ 40,189	\$ 5,128,379	\$ 1,758,489

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, 2011 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, 2011, 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					
Encumbrances	\$ 223,934	\$ 116,812	\$ -	\$ 40,774	\$ -
Appropriated for 2012 budget	4,221,397	1,230,000	30,000	620,000	-
Other spendable amounts	-	1,146,588	678,835	2,210,267	118,563
Total Assigned	\$ 4,445,331	\$ 2,493,400	\$ 708,835	\$ 2,871,041	\$ 118,563

Significant encumbrances are amounts encumbered in excess of \$100,000. As of December 31, 2011, there were no significant encumbrances.

Unassigned-Represents the residual classification of the government's General Fund, and could report a surplus or deficit. As of December 31, 2011, the unassigned fund balance was \$43,268,534.

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. STEUBEN 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 GASB Statement No. 14, the Financial Reporting Entity, 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 is prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board for proprietary funds. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent they do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds. The Facility has elected not to follow subsequent private sector guidance.

Operating Revenue and Expense - The Facility's statements of revenues, expenses, and change in net assets distinguish between operating and nonoperating 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 nonoperating 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. The Facility estimates the allowance based on its analysis of specific balances, taking

into consideration the age of the past due accounts, the status of the billing process with third-part payers, the value of remaining assets held by residents, and anticipated collections resulting from legal action.

The laws and regulations governing the reimbursement for health care services are complex and subject to interpretation. Governmental review for compliance with these laws and regulations has increased, resulting in fines and penalties for noncompliance by individual health care providers or adjustments to amounts requested and recorded by the provider. While no outstanding regulatory inquiries existed at December 31, 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.

Income Taxes

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

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, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Depreciation expense is recognized over the estimated useful lives of the respective assets using the straight-line method.

Maintenance and repairs are charged to expense. 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 assets and are detailed in note IV, G.

Disadvantaged Facility Funding

In 2010, the Facility received disadvantaged facility funding from New York State in the form of Medicaid rate enhancements. These rate enhancements were determined by the New York State Department of Health under Chapter 58 of the New York State Laws of 2004 and are calculated based on the Facility's prior years' Medicaid cost report data. The Facility recognized revenue in 2010 from these rate enhancements of approximately \$400,000 for years prior to 2010. The Facility reported this funding as a component of net resident service revenue in the accompanying statements of revenues, expenses, and change in net assets in 2010 when such amounts were known and received. In 2010, the Facility did not receive any such funding.

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.

Bond Issuance Costs

Bond issuance costs have been capitalized using straight-line amortization over a period of 20 years, the term of the bond. Bond issuance costs are reported net of accumulated amortization of \$22,223 at December 31, 2011. Amortization expense is expected to be \$3,002 over the next five years.

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, 2011.

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.

B. RESIDENT ACCOUNTS RECEIVABLE

Resident accounts receivable consisted of the following at December 31, 2011:

Resident accounts receivable	\$ 2,841,604
Allowance for doubtful accounts	<u>(873,174)</u>
	<u>\$ 1,968,430</u>

C. NET RESIDENT SERVICE REVENUE**Concentrations**

For the year ended December 31, 2011, aggregate revenue from the Medicaid and Medicare programs accounted for approximately 71% and 14%, respectively, of net resident service revenue.

For the year ended December 31, 2011, aggregate accounts receivable from the Medicaid and Medicare programs accounted for approximately 39% and 9%, 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>2011</u>
Gross resident service revenue	\$ 11,490,919
Less: Contractual allowances	<u>(2,271,246)</u>
	<u>\$ 9,219,673</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 recorded IGT revenue of \$3,256,728 for the year ended December 31, 2011.

Subsequent to year-end the Facility received notification of a potential liability of a potential liability related to an overpayment of prior year IGT distributions. There are ongoing discussions with the Federal and State government and actions have been taken by state agencies to mitigate the potential liability. At the time of the financial statement issuance the potential liability is not clearly measurable.

New York State Cash 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 2011, the State of New York implemented an assessment increase on nursing facilities' cash receipts to 7.2%.

A significant portion of this assessment is reimbursed to the Facility, at varying rates depending on payor, and is included in net resident service revenue. Total assessment expense for the year ended December 31, 2011 was approximately \$668,000 and is included in the accompanying statements of revenues, expenses and change in net assets.

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 2011, adjustments to previously recognized Medicaid amounted to \$183,996. The prior years' revenue amounts are related to Medicaid reimbursement system overhaul and miscellaneous adjustments. These amounts are included in prior years' revenue in the statement of revenues, expenses and change in net assets.

D. GOVERNMENTAL PAYERS

Estimated Third-Party Settlements

The Facility has recorded an estimated net receivable due from third-party payors of \$760,941 at December 31, 2011 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, 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 2012 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.

E. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Buildings	\$ 10,130,094	\$ -	\$ -	\$ 10,130,094
Fixed equipment	7,098,331	4,745	-	7,103,076
Land improvements	1,056,160	-	-	1,056,160
Moveable equipment	<u>1,849,671</u>	<u>5,415</u>	<u>-</u>	<u>1,855,086</u>
Total depreciable capital assets	<u>20,134,256</u>	<u>10,160</u>	<u>-</u>	<u>20,144,416</u>
Total capital assets	<u>20,134,256</u>	<u>10,160</u>	<u>-</u>	<u>20,144,416</u>
Less: Accumulated depreciation:				
Buildings	825,185	254,197	(189,978)	889,404
Fixed equipment	803,986	398,192	189,978	1,392,156
Land improvements	105,616	42,328	-	147,944
Moveable equipment	<u>651,762</u>	<u>157,562</u>	<u>-</u>	<u>809,324</u>
	<u>2,386,549</u>	<u>852,279</u>	<u>-</u>	<u>3,238,828</u>
Capital assets, net	<u>\$ 17,747,707</u>	<u>\$ (842,119)</u>	<u>\$ -</u>	<u>\$ 16,905,588</u>

Depreciation expense was \$852,279 for the year ended December 31, 2011.

F. 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 \$15,434,800 at December 31, 2011.

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:

	Principal	Interest
2012	830,700	634,825
2013	865,700	601,625
2014	900,700	567,025
2015	940,700	531,025
2016	980,700	493,425
2017-2021	5,568,500	1,842,675
2022-2027	<u>5,347,800</u>	<u>579,700</u>
	\$15,434,800	\$5,250,300

G. 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, 2011 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, 2011:

	<u>2011</u>
Clerk of the Board, purchasing, risk management and accounting departments	\$ 114,488
Data processing	171,505
Personnel	96,417
County Treasurer	88,314
County Administrator	<u>41,717</u>
	<u>\$ 512,441</u>

V. STEBEN TOBACCO ASSET SECURITIZATION CORPORATION

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization -

The Steben 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 Steben, 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 Deficit

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

Unrestricted net deficit are net assets that are not restricted, but which may be internally designated by the Board of Directors. At December 31, 2011, there were no internally designated net assets and the unrestricted net deficit was (\$31.4) million.

Net assets are reported as restricted when constraints placed on net asset 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 assets of the Corporation are those net assets that 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 assets when available, prior to unrestricted net assets.

Fund Balance

In the fund financial statements, fund balance is defined as follows:

- Restricted fund balance – includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Unassigned fund balance – includes all other general fund amounts that do not meet the definition above and are deemed to be available for general use by the Corporation.

Beginning fund balances for the Corporation's fund have been restated to reflect the above classification.

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, 2011, the balance in the liquidity reserve account was \$1,725,726.

Deferred Bond Issuance Costs and Original Issue Discount

The Corporation recognizes original issue discount and issuance costs 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, 2011. Accumulated amortization on bond discounts was \$201,636 for the year ended December 31, 2011.

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.

Deferred Revenue

Deferred 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 informs 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, 2011, the carrying amount of the Corporation's cash and cash equivalents was \$119,796, and were 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, 2011, 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) \$ 1,758,489

Concentration of Credit Risk

The Corporation places no limit on the amount that may be invested in any one issuer. At December 31, 2011, all amounts were held by one bank.

The Corporation had the following reserve funds as of December 31, 2011:

<u>Investments</u>	<u>2011</u>
Liquidity reserve	\$ 1,725,726
Collection account	454
Debt service reserve	1,263
Turbo redemption account	4,559
Bond issuance and rebate cost reserve	<u>26,487</u>
Total	<u>\$ 1,758,489</u>

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	\$30,622,790
Repayments of bonds	<u>(40,000)</u>
Balance - end of year	<u>\$30,582,790</u>
Required payments due within one year	<u>\$ 185,000</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>
2012	\$ 185,000	\$ 2,032,653	\$ 2,217,653
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 – 2021	890,000	11,749,597	12,639,597
2022 – 2026	2,500,000	13,569,346	16,069,346
2027 – 2031	3,400,000	15,871,506	19,271,506
2032 – 2036	4,725,000	19,307,339	24,032,339
2037 – 2041	6,255,000	24,704,456	30,959,456
2042 – 2046	6,175,000	32,861,487	39,036,487
2047 – 2051	1,090,190	45,212,170	46,302,361
2052 – 2056	1,188,760	59,262,646	60,451,406
2057 – 2060	<u>3,323,840</u>	<u>52,209,040</u>	<u>55,532,880</u>
	<u>\$ 30,582,790</u>	<u>\$ 285,189,560</u>	<u>\$ 315,772,350</u>

Bonds payable as recorded on the Statement of Net Assets is the following as of December 31, 2011:

	<u>Bond Principal</u>	<u>Bond Discount</u>	<u>Total</u>
Beginning balance, 1/1/11	\$ 30,622,790	\$ (660,610)	\$ 29,962,180
Principal payment	(40,000)	-	(40,000)
Amortization	<u>-</u>	<u>33,606</u>	<u>33,606</u>
Ending balance, 12/31/11	<u>\$ 30,582,790</u>	<u>\$ (627,004)</u>	<u>\$ 29,955,786</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, 2011.

A principal payment in the amount of \$40,000 was made during 2011 in accordance with the Series 2005 bonds.

Interest

Interest expense on bonds payable was \$1,962,104 in 2011. In 2011, cash paid for interest was \$1,373,200.

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 ASSET DEFICIT

The Corporation has a deficit in net assets as a result of the outstanding bonds. As these bonds are repaid, this will help to reduce the deficit, 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 2011, 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 2011, Steuben County expended \$3,788,243 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 \$100,000 Bond Anticipation Note was paid on March 29, 2012. A new note for \$75,000 was issued that same date with an interest rate of 1.25% and a maturity date of March 29, 2013.

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, 2011

	BUDGET		Expenditures Budgetary Basis		Variance with Modified Budget
	Original	Modified	Actual	Encumbrances	Positive (Negative)
REVENUE					
Real property taxes	\$ 22,612,927	\$ 22,612,927	\$ 22,259,077	\$ -	\$ (353,850)
Real property tax items	3,253,250	3,255,005	3,111,094	-	(143,911)
Non-property tax items	42,939,757	43,991,913	47,624,652	-	3,632,739
Departmental income	17,426,179	17,494,396	16,122,224	-	(1,372,172)
Intergovernmental services revenue	2,329,878	2,392,582	2,232,619	-	(159,963)
Use of money and property	2,986,719	2,986,719	2,154,318	-	(832,401)
Licenses and permits	2,000	2,000	2,060	-	60
Fines and forfeitures	336,704	336,704	235,771	-	(100,933)
Sale of property/compensation for loss	51,662	57,755	52,010	-	(5,745)
Miscellaneous local sources	406,493	419,203	875,165	-	455,962
Interfund revenues	1,909,573	1,909,573	1,587,330	-	(322,243)
State aid	18,931,320	19,079,887	15,160,827	-	(3,919,060)
Federal aid	21,882,117	22,893,022	22,237,445	-	(655,577)
TOTAL REVENUE	135,068,579	137,431,686	133,654,592	-	(3,777,094)
EXPENDITURES					
General government	24,679,279	25,893,187	23,556,504	38,601	2,298,082
Education	9,245,000	9,245,000	8,440,942	-	804,058
Public safety	17,156,924	17,915,742	17,063,866	168,835	683,041
Health	18,484,931	18,673,165	15,688,156	15,502	2,969,507
Transportation	333,500	683,299	669,125	-	14,174
Economic assistance and opportunity	66,455,851	66,606,996	60,999,512	995	5,606,489
Culture and recreation	629,511	628,269	550,403	-	77,866
Home and community services	1,365,499	1,499,849	1,319,178	-	180,671
Debt service	697,396	697,396	697,396	-	-
TOTAL EXPENDITURES	139,047,891	141,842,903	128,985,082	223,933	12,633,888
Excess (Deficiency) Revenues Over Expenditures	(3,979,312)	(4,411,217)	4,669,510	(223,933)	8,856,794
Transfers Out	(165,685)	(233,290)	(269,798)	-	(36,508)
Total Other Financing Sources (Uses)	(165,685)	(233,290)	(269,798)	-	(36,508)
Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses	\$ (4,144,997)	\$ (4,644,507)	\$ 4,399,712	\$ (223,933)	\$ 8,820,286
FUND BALANCE - BEGINNING OF YEAR			53,609,530		
FUND BALANCE - END OF YEAR			\$ 58,009,242		

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, 2011

	Budget		Expenditures Budgetary Basis		Variance with Modified Budget
	Original	Modified	Actual	Encumbrances	Positive (Negative)
REVENUE					
Real Property Taxes	\$ 15,605,341	\$ 15,605,341	\$ 15,605,341	\$ -	\$ -
Intergovernmental Charges	553,000	553,000	619,191	-	66,191
Use of Money & Property	21,000	21,000	1,459	-	(19,541)
Sale of Property/Compensation for Loss	23,075	23,075	-	-	(23,075)
Miscellaneous Local Sources	7,585	7,585	9,439	-	1,854
State & Federal Aid	3,688,392	3,688,392	3,688,392	-	-
TOTAL REVENUE	19,898,393	19,898,393	19,923,822	-	25,429
EXPENDITURES					
Transportation	20,478,393	20,643,625	19,909,955	116,812	616,858
TOTAL EXPENDITURES	20,478,393	20,643,625	19,909,955	116,812	616,858
Excess (Deficiency) Revenues Over Expenditures	(580,000)	(745,232)	13,867	(116,812)	642,287
Transfers In	-	360,915	360,915	-	-
Transfers Out	(20,000)	(485,063)	(485,063)	-	-
Total Other Financing Sources (Uses)	(20,000)	(124,148)	(124,148)	-	-
Excess (Deficiency) Revenues and Other Sources Over Expenditures and Other Uses	\$ (600,000)	\$ (869,380)	\$ (110,281)	\$ (116,812)	\$ 642,287
FUND BALANCE-BEGINNING OF YEAR			2,603,681		
FUND BALANCE-END OF YEAR			\$ 2,493,400		

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

STEBEN COUNTY, NY
Combining Balance Sheet
Non-Major Governmental Funds
As of December 31, 2011

	<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>
ASSETS					
Cash, Cash Equivalents and Investments	\$ 708,835	\$ 2,998,415	\$ 4,984,058	\$ 119,796	\$ 8,811,104
Accrued Interest Receivable	-	-	-	1,607,960	1,607,960
Due From Other Governments	-	100,643	-	-	100,643
State & Federal Receivables	-	-	163,441	-	163,441
Assets whose use is limited	-	-	-	1,758,489	1,758,489
TOTAL ASSETS	<u>\$ 708,835</u>	<u>\$ 3,099,058</u>	<u>\$ 5,147,499</u>	<u>\$ 3,486,245</u>	<u>\$ 12,441,637</u>
LIABILITIES & FUND BALANCES					
Liabilities:					
Accounts Payable	\$ -	\$ 159,891	\$ 19,120	\$ 1,252	\$ 180,263
Accrued Liabilities	-	27,937	-	-	27,937
Deferred Revenues	-	-	-	1,607,941	1,607,941
TOTAL LIABILITIES	<u>-</u>	<u>187,828</u>	<u>19,120</u>	<u>1,609,193</u>	<u>1,816,141</u>
FUND BALANCES					
Restricted	-	40,189	5,128,379	1,758,489	6,927,057
Assigned	708,835	2,871,041	-	118,563	3,698,439
TOTAL FUND BALANCES	<u>708,835</u>	<u>2,911,230</u>	<u>5,128,379</u>	<u>1,877,052</u>	<u>10,625,496</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 708,835</u>	<u>\$ 3,099,058</u>	<u>\$ 5,147,499</u>	<u>\$ 3,486,245</u>	<u>\$ 12,441,637</u>

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, 2011

	Economic Development	Road Machinery	Capital Projects	Steuben Tobacco Asset Securitization	Total Non-Major Governmental Funds
Revenues:					
Real property taxes	\$ -	\$ 1,144,719	\$ -	\$ -	\$ 1,144,719
Intergovernmental services revenue	-	21,918	10,407	-	32,325
Use of money and property	2,985	299	23,420	235	26,939
Sale of property and compensation for losses	-	87,889	342	-	88,231
Tobacco settlement revenues	-	-	-	1,451,998	1,451,998
Miscellaneous	-	-	1,583	-	1,583
Interfund revenues	-	2,721,460	-	-	2,721,460
State aid	-	-	366,659	-	366,659
Federal aid	-	-	217,659	-	217,659
Total revenues	2,985	3,976,285	620,070	1,452,233	6,051,573
Expenditures:					
Current:					
General government	-	-	-	30,254	30,254
Transportation	-	3,861,697	-	-	3,861,697
Home and community services	25,000	-	-	-	25,000
Capital Outlay:					
General government	-	-	322,368	-	322,368
Public safety	-	-	218,061	-	218,061
Transportation	-	-	264,024	-	264,024
Economic assistance and opportunity	-	-	625	-	625
Culture and recreation	-	-	2,891	-	2,891
Debt Service:					
Principal	-	-	-	40,000	40,000
Interest	-	-	-	1,373,200	1,373,200
Total expenditures	25,000	3,861,697	807,968	1,443,454	6,138,119
Excess (deficiency) of revenues over expenditures	(22,015)	114,588	(187,898)	8,779	(86,546)
Other financing sources (uses):					
Transfers in	-	465,063	289,798	-	754,861
Transfers out	-	(360,915)	-	-	(360,915)
Total other financing sources (uses)	-	104,148	289,798	-	393,946
Net change in fund balance	(22,015)	218,736	101,900	8,779	307,400
Fund Balance - Beginning of Year	730,850	2,692,494	5,026,479	1,868,273	10,318,096
Fund Balance - End of Year	\$ 708,835	\$ 2,911,230	\$ 5,128,379	\$ 1,877,052	\$ 10,625,496

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, 2011

	Fairview Cemetery	County Jail Inmate Fund	Total Private Purpose Trust Funds
ASSETS:			
Cash and cash equivalents	\$ 1,000	\$ 148,743	\$ 149,743
TOTAL ASSETS	\$ 1,000	\$ 148,743	\$ 149,743
TOTAL LIABILITIES	\$ -	\$ 943	\$ 943
NET ASSETS			
Held in trust for other purposes	1,000	147,800	148,800
TOTAL NET ASSETS	1,000	147,800	148,800
TOTAL LIABILITIES & NET ASSETS	\$ 1,000	\$ 148,743	\$ 149,743

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

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

For the Year Ended December 31, 2011

	Fairview Cemetery	County Jail Inmate Fund	Total Private Purpose Trust Funds
ADDITIONS:			
Interest earnings	\$ 6	\$ -	\$ 6
Other revenue	-	32,285	32,285
TOTAL ADDITIONS	6	32,285	32,291
DEDUCTIONS:			
Home and community services	6	-	6
Public safety	-	10,841	10,841
TOTAL DEDUCTIONS	6	10,841	10,847
CHANGE IN NET ASSETS	-	21,444	21,444
Net Assets - Beginning of Year	1,000	126,356	127,356
Net Assets - End of Year	\$ 1,000	\$ 147,800	\$ 148,800

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

Financial Section

**Report on Internal Control over Financial Reporting
and on Compliance and other Matters
Based on an Audit of the Financial Statements**

**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 27, 2012

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2011, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 27, 2012. Our report includes a reference to an other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The other auditor audited the financial statements of 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

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

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

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

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

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