COUNTY OF JEFFERSON, NEW YORK

Basic Financial Statements, Required Supplementary Information, Supplemental Schedules and Federal Assistance Information for the Year Ended December 31, 2011 and Independent Auditors' Reports

COUNTY OF JEFFERSON, NEW YORK

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FINANCIAL SECTION

Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable County Legislature
County of Jefferson, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of County of Jefferson, 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 Jefferson County Community College and the Jefferson County Industrial Development Agency, which are shown as discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County at December 31, 2011, and the respective changes in financial position and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated July 11, 2012, on our consideration of County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Budgetary Comparison Schedule (Non-GAAP) for the General Fund, as listed in the forgoing table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Combining Balance Sheet – Non-Major Governmental Funds and Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds are presented for purpose of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The County's basic financial statements include the operations of the Jefferson County Community College, which expended $14,653,777 of federal awards, which are not included in the County's Schedule of Expenditures of Federal Awards for the year ended December 31, 2011. Our audit, as described in our report on compliance and internal control over compliance applicable to each major federal award program, did not include the operations of the Jefferson County Community College, as other auditors were engaged to perform such audit in accordance with OMB Circular A-133, as applicable.

Drescher & Malecki LLP

July 11, 2012

As management of the County of Jefferson (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2011. Certain data from the prior year has been reclassified to conform with the current year presentation. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets of the County exceeded its liabilities at December 31, 2011 by $111,018,839 (net assets) compared to $128,772,205 at December 31, 2010. The County anticipates net assets to continue to decrease as a result of recognizing the other postemployment benefits liability.
- The County's net assets decreased by $17,753,366. Governmental Activities decreased the County's net assets by $18,097,918, while the net assets of Business-type Activities increased $344,552.
- As of December 31, 2011, the County's Governmental Funds reported combined fund balances of $52,662,631, a decrease of $2,194,986 in comparison with the prior year.
- The General Fund recorded a decrease of $1,611,097 for the year ended December 31, 2011 and ended the year with a fund balance of $39,814,549. Approximately 22.2% of the General Fund balance, or $8,832,152, is available to meet the County's current and future needs (unassigned fund balance). The remaining portion is considered nonspendable ($3,024,565), restricted ($2,351,114), committed ($5,000,000), and assigned ($20,606,718) for other specified purposes by County management.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of the County's roads, to assess the overall health of the County.

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

In the Statement of Net Assets and the Statement of Activities, we separate the County into three kinds of activities:

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

Business-type Activities. The County charges a fee to customers to help it cover all or most of the cost of certain services it provides. The County's solid waste management facility is reported here.

Component Units. The County includes two separate legal entities in its report - the Jefferson Community College and the Industrial Development Agency. Although legally separate, these "component units" are important because the County is financially accountable for them. Complete financial statements for the component units can be obtained from their administrative offices.

The government-wide financial statements can be found on pages 18-19 of this report.

Fund financial statements. A *fund* is a grouping of related 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 funds of the County can be divided into three categories: governmental funds, proprietary funds, and the fiduciary fund.

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 the Capital Projects Fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-23 of this report.

Proprietary funds. When the County charges customers for the services it provides, whether to outside customers or to other units of the County, these services are generally reported in Proprietary Funds.

Proprietary Funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The County's Enterprise Fund (a component of Proprietary Funds), is the same as the Business-type Activities, reported in the Government-wide financial statements but provides more detail and additional information, such as cash flows for Proprietary Funds.

The basic proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the County's own programs. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County maintains one fiduciary fund, the Agency Fund.

The basic fiduciary fund financial statement can be found on page 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-60 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplemental information* and *supplemental schedules*.

As stated, a budgetary comparison schedule has been included as required supplemental information. This schedule can be found on page 61 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the required supplemental information as supplemental schedules. The additional supplemental schedules can be found on pages 62-64 of this report.

The Federal Awards section presents the County's Schedule of Expenditures of Federal Awards. This section can be found on pages 65-78 of this report.

Government-wide Financial Analysis

The County's combined net assets for fiscal year ended December 31, 2011 decreased from $128,772,205 to $111,018,839. By far, the largest portion of the County's net assets, $124,351,205, reflects its investment in capital assets (e.g. land, buildings, machinery and equipment and infrastructure) net of any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, restricted net assets $3,450,831 (3.1%) represents resources subject to external restrictions on how they may be used and are reported as restricted net assets. The remaining category of total net assets, $16,783,197, represents an unrestricted net deficit.

Our analysis below focuses on the net assets (Table 1), and changes in net assets (Table 2 and Table 5), of the County's Governmental and Business-type Activities.

Table 1—Condensed Statements of Net Assets (Deficits)—December 31, 2011 and December 31, 2010

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Current assets	$ 85,719,934	$ 87,497,539	$ 734,635	$ 1,448,368	$ 86,454,569	$ 88,945,907
Noncurrent assets	2,404,366	3,366,314	-	-	2,404,366	3,366,314
Capital assets	133,742,735	135,156,532	3,436,713	2,744,862	137,179,448	137,901,394
Total assets	221,867,035	226,020,385	4,171,348	4,193,230	226,038,383	230,213,615
Current liabilities	26,001,908	25,309,438	124,725	392,162	26,126,633	25,701,600
Noncurrent liabilities	87,665,641	74,413,543	1,227,270	1,326,267	88,892,911	75,739,810
Total liabilities	113,667,549	99,722,981	1,351,995	1,718,429	115,019,544	101,441,410
Net assets (deficits):						
Invested in capital assets net of related debt	120,914,492	120,957,775	3,436,713	2,744,862	124,351,205	123,702,637
Restricted	3,118,335	3,233,128	332,496	391,808	3,450,831	3,624,936
Unrestricted	(15,833,341)	2,106,501	(949,856)	(661,869)	(16,783,197)	1,444,632
Total net assets (deficits)	$ 108,199,486	$ 126,297,404	$ 2,819,353	$ 2,474,801	$ 111,018,839	$ 128,772,205

The net assets of the County's governmental activities decreased by 14.3%, or $18,097,918. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, changed from a $2,106,501 surplus at December 31, 2010 to a $15,833,341 deficit at December 31, 2011. Contributing to these results were:

- The County realized a decrease in net assets in 2011, primarily due to the accrual of OPEB as required by GASB Statement No. 45, depreciation on fixed assets and premiums associated with a bond refunding.

- Current assets decreased by over $2.5 million. The single largest decrease to current assets was cash and cash equivalents.

- The County's investment in capital assets subsided slightly during 2011 as capital assets decreased by $721,949; most notably due to the completion of infrastructure and major renovations at the airport and the recycling facility which are now being depreciated.

- Current liabilities increased by $0.4 million (1.7%) during the year ended December 31, 2011. This reflects increases in unearned revenues slightly offset by decreases in accounts payable proportionate to decreases in expenditures, as well as the County's timing of significant medical payments.

- Noncurrent liabilities increased by over $13.2 million during the year ended December 31, 2011. Payments made toward outstanding debt service decreased liabilities, and slightly offset the addition of $15.9 million of OPEB liabilities.

- The increase in investment in capital assets, net of related debt, is a combination of investment in infrastructure, equipment and building improvements, netted with scheduled debt payments on related debt. The County did not issue any new debt during the year ended December 31, 2011, but several bond issuances were refunded in order to take advantage of low interest rates.

Net assets of the County's business-type activities increased 13.9%, or $344,552, for the year ended December 31, 2011. The total net assets of $2,819,353 cannot be used to support Governmental Activities. The County can only use these net assets to finance continuing operations of the Solid Waste Management Facility.

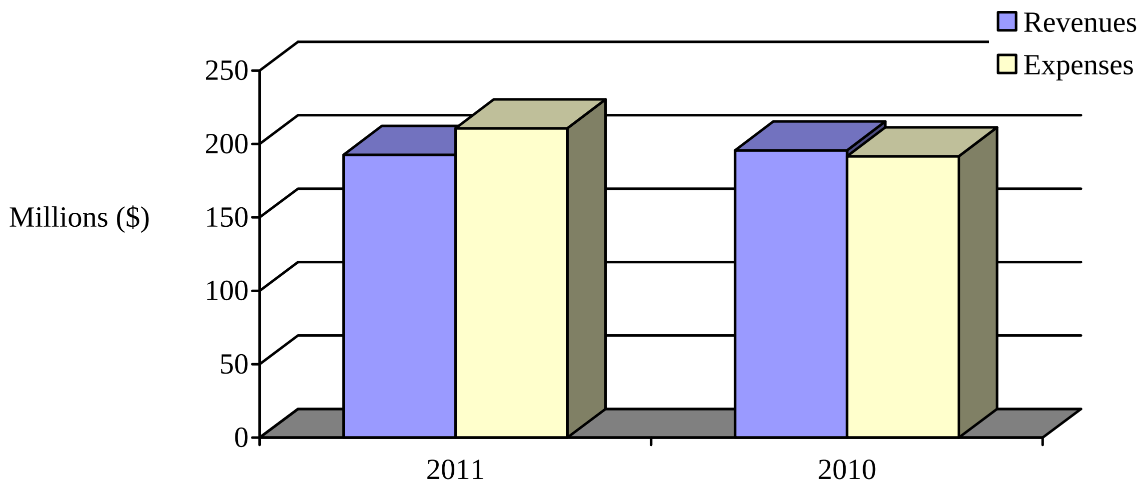
Governmental activities. Governmental activities decreased the County's net assets by $18,097,918. Table 2, as presented below, shows the changes in net assets for the years ending December 31, 2011 and December 31, 2010.

Table 2—Condensed Statement of Revenues, Expenses and Changes in Net Assets—Governmental Activities—Years Ended December 31, 2011 and December 31, 2010

	Governmental activities		Increase/(decrease)	
	2011	2010	Dollars	Percent
Revenues:				
Program revenues:	$ 69,518,037	$ 72,494,767	$ (2,976,730)	(4.1)
General revenues	123,115,147	123,204,972	(89,825)	(0.1)
Total revenues	192,633,184	195,699,739	(3,066,555)	(1.6)
Total expenses	210,731,102	195,834,835	14,896,267	7.6
Change in net assets	(18,097,918)	(135,096)	(17,962,822)	n/a
Net assets—beginning	126,297,404	126,432,500	(135,096)	(0.1)
Net assets—ending	$ 108,199,486	$ 126,297,404	$ (18,097,918)	(14.3)

As shown in Figure 1 on the following page, revenues for the year ended December 31, 2011 decreased by 1.6 percent from the year ended December 31, 2010, while expenses for the year ended December 31, 2011 increased 9.7 percent from the year ended December 31, 2010.

Figure 1—Comparison of Revenues and Expenses – Governmental Activities



Revenues during the year ended December 31, 2011 decreased from the year ended December 31, 2010 largely due to the following:

- Capital grants decreased by 58.9% or $7,069,231. The decrease is due to the completion of a bridge project and the extension to the airport runway project with a resulting decrease of $2.1 million in ARRA funding for the bridge project and $5.1 million in Federal and State funding for the airport runway project.

- Non-property tax revenues increased by 4.3% or $2,847,283 largely due to an increase in sales tax revenue.

A summary of sources of revenues for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 3.

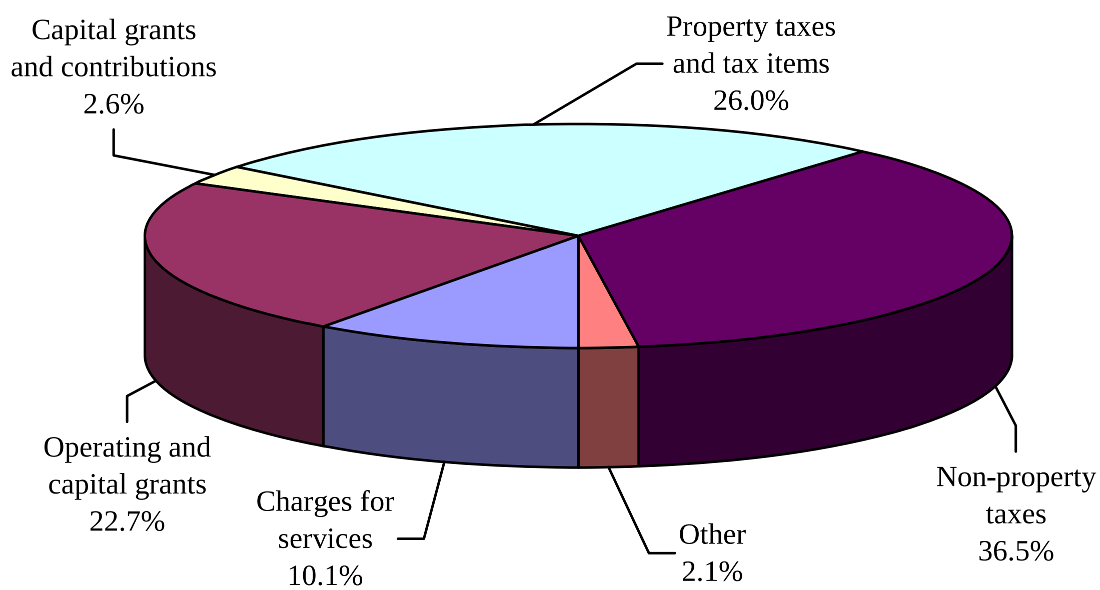
Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Charges for services	$ 19,280,886	$ 17,543,089	$ 1,737,797	9.9
Operating and capital grants	45,308,845	42,954,141	2,354,704	5.5
Capital grants and contributions	4,928,306	11,997,537	(7,069,231)	(58.9)
Property taxes and tax items	49,493,637	50,790,230	(1,296,593)	(2.6)
Non-property taxes	69,502,689	66,655,406	2,847,283	4.3
Other general revenues	4,118,821	5,759,336	(1,640,515)	(28.5)
Total revenues	$ 192,633,184	$ 195,699,739	$ (3,066,555)	(1.6)

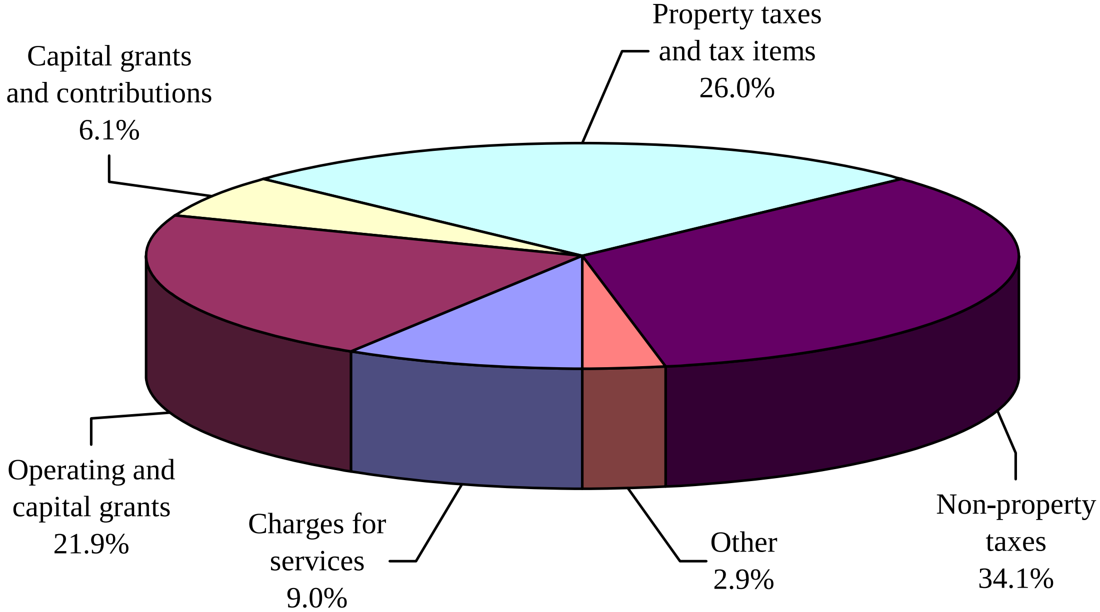
As presented in Figure 2 below, the most significant source of revenues is non-property taxes, which accounts for $69,502,689 or 36.5 percent of total governmental activities revenues, for the year ended December 31, 2011, and $66,655,406 or 34.1 percent of total governmental activities revenues, for the year ended December 31, 2010. The next largest source of revenue is property taxes and items, which comprises 26.0 percent and 26.0 percent of total governmental activities revenues for the years ended December 31, 2011 and 2010, respectively.

Figure 2—Revenues by Source—Governmental Activities

Year Ended December 31, 2011



Year Ended December 31, 2010



A summary of program expenses for the years ended December 31, 2011 and December 31, 2010 is presented below in Table 4.

Table 4—Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2011	2010	Dollars	Percent
General government support	$ 58,341,248	$ 55,086,466	$ 3,254,782	5.9
Education	11,496,670	11,222,095	274,575	2.4
Public safety	29,282,507	26,087,282	3,195,225	12.2
Public health	15,599,040	16,041,784	(442,744)	(2.8)
Transportation	18,006,032	17,289,159	716,873	4.1
Economic assistance and opportunity	72,661,916	65,409,737	7,252,179	11.1
Culture and recreation	463,458	557,665	(94,207)	(16.9)
Home and community services	3,459,781	3,202,729	257,052	8.0
Interest on long-term debt	1,420,450	937,918	482,532	51.4
Total program expenses	$ 210,731,102	$ 195,834,835	$ 14,896,267	7.6

Significant changes in the County's expenses from 2010 to 2011 are identified as follows:

- Cost for general government support increased by $3,254,782 or 5.9% due primarily to an increase in sales tax distributions of $1,569,981 from 2010 to 2011.

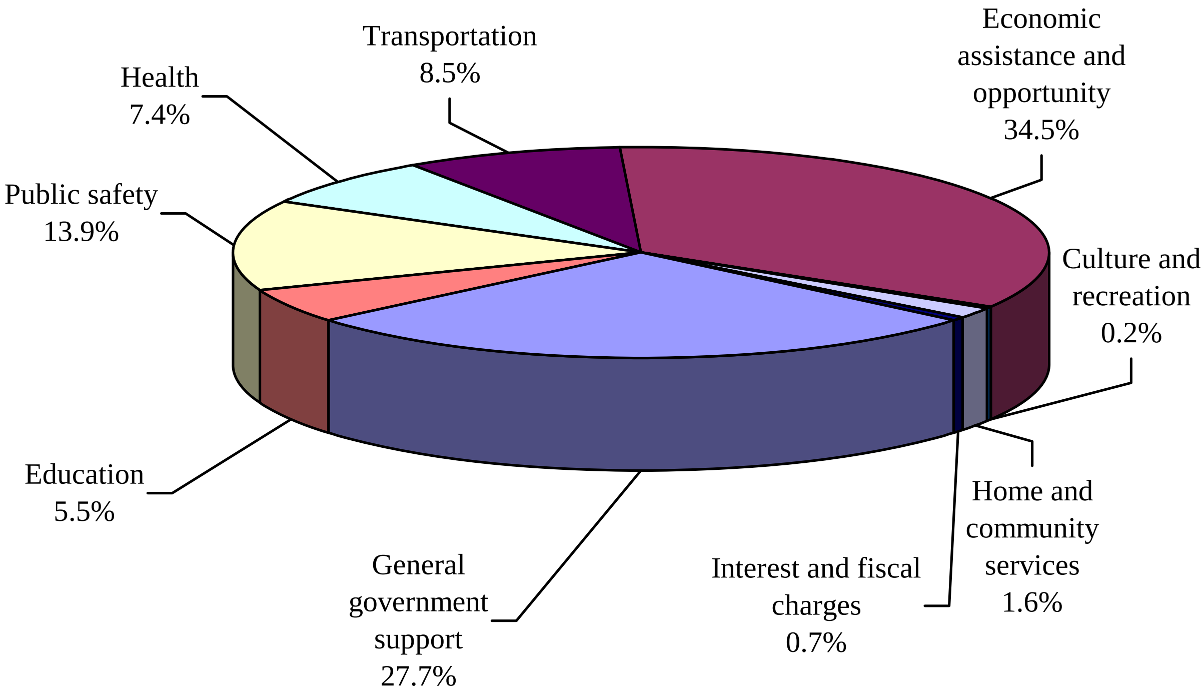
- Expenses for public safety increased by $3,195,225 or 12.2%. Some of the more significant increases were increased personal services due to contractual obligations, settlements and increased expenses for out-boarding of prisoners.

- Expenses for economic assistance and opportunity increased by $7,252,179, due to a significant increase in OPEB expense and rising employee benefits costs.

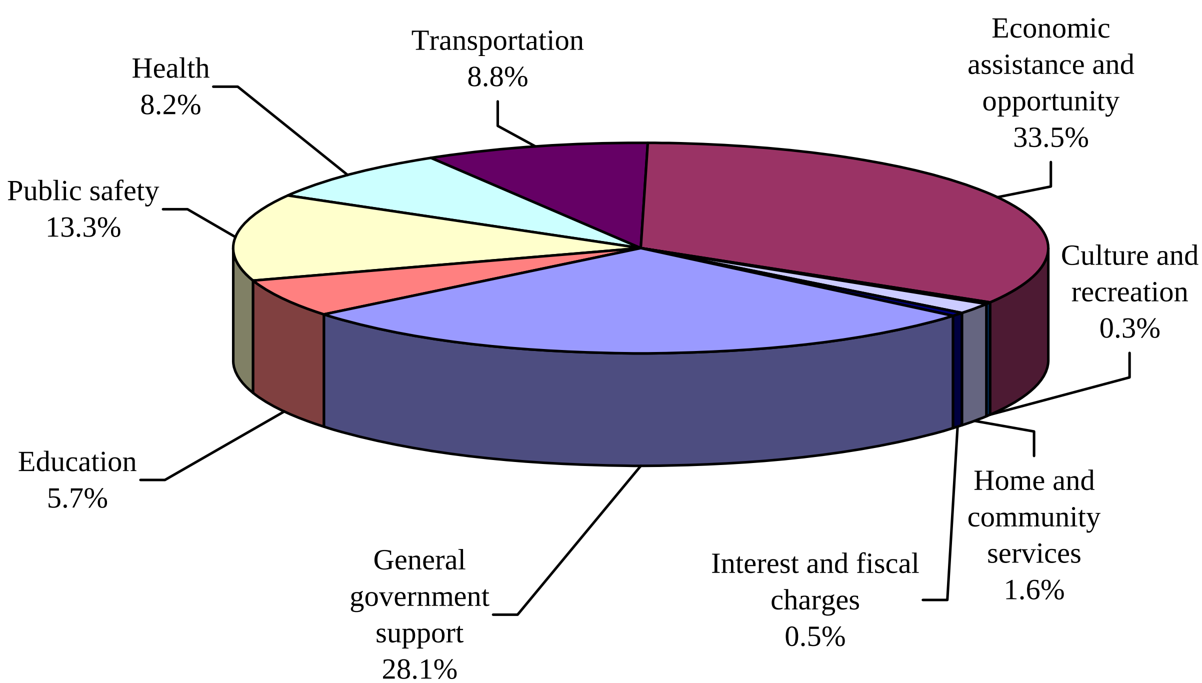
As presented in Figure 3, on the following page, the County's significant expense items for governmental activities were economic assistance and opportunity of $72,661,916 or 34.5 percent of total governmental activities expenses, general government support of $58,341,248 or 27.7 percent of total governmental activities expenses, public safety of $29,282,507 or 13.9 percent of total governmental activities expenses, transportation of $18,006,032 or 8.5 percent of total governmental activities expenses, and public health of $15,599,040 or 7.4 percent of total governmental activities expenses for the year ended December 31, 2011. Similarly, for the year ended December 31, 2010 significant expense items were economic assistance and opportunity of $65,409,737 or 33.5 percent of total governmental activities expenses, general government support of $55,086,466 or 28.1 percent of total governmental activities expenses, public safety of $26,087,282 or 13.3 percent of total governmental activities expenses, transportation of $17,289,159 or 8.8 percent of total governmental activities expenses, and public health of $16,041,784 or 8.2 percent of total governmental activities expenses.

Figure 3—Program Expenses by Source—Governmental Activities

Year Ended December 31, 2011



Year Ended December 31, 2010



Business-type Activities. Business-type activities increased the County's net assets by $344,552. Table 5, as presented below, shows the changes in net assets for the years ending December 31, 2011 and December 31, 2010.

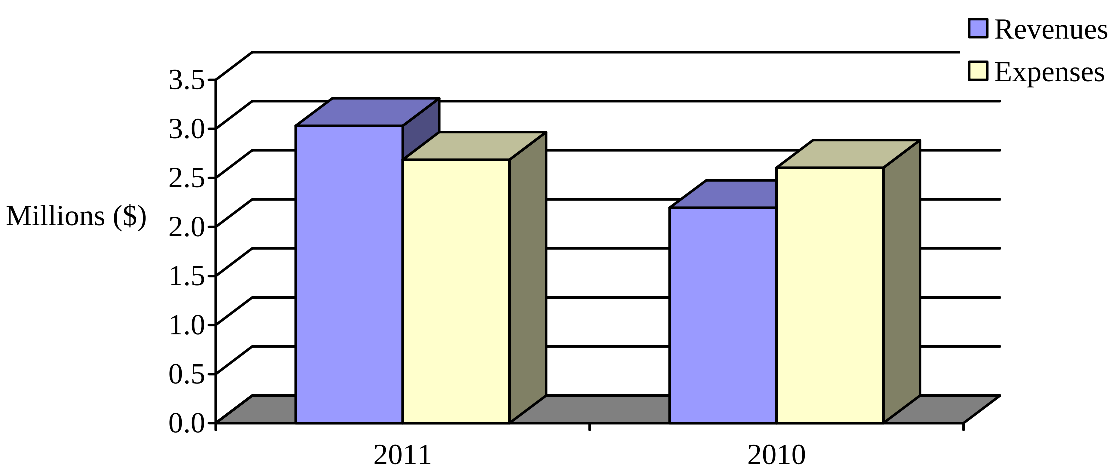
Table 5—Condensed Statement of Revenues, Expenses and Changes in Net Assets—Business-type Activities—Years Ended December 31, 2011 and December 31, 2010

	Business-type activities		Increase/(decrease)	
	2011	2010	Dollars	Percent
Revenues:				
Program revenues:	$ 2,972,221	$ 2,752,252	$ 219,969	8.0
General revenues (expenses)	58,082	(557,484)	615,566	(110.4)
Total revenues	3,030,303	2,194,768	835,535	38.1
Total expenses	2,685,751	2,604,052	81,699	3.1
Change in net assets	344,552	(409,284)	753,836	(184.2)
Net assets—beginning	2,474,801	2,884,085	(409,284)	(14.2)
Net assets—ending	$ 2,819,353	$ 2,474,801	$ 344,552	13.9

The increase of the net assets of $344,552 is primarily due normal operations. The County completed construction a new transfer station at the solid waste management facility to replace a building that was disposed of in the prior year. The charge off of the building in the prior year accounted for the loss in that year.

As shown below in Figure 4, revenues increased by 38.1 percent and expenses increased 3.1 percent for the year ended December 31, 2011, from the year ended December 31, 2010.

Figure 4—Comparison of Revenues and Expenses—Business-type Activities



A summary of sources of revenues and expenses for the County's business-type activities for the years ended December 31, 2011 and December 31, 2010 is presented on the following page in Table 6.

Table 6—Summary of Sources of Revenues and Expenditures—Business-type Activities

	Year Ended December 31,		Increase/(decrease)	
	2011	2010	Dollars	Percent
Charges for services	$ 2,888,481	$ 2,752,252	$ 136,229	4.9
Operating grants and contributions	83,740	-	83,740	-
General revenues (expenses)	58,082	(557,484)	615,566	(110.4)
Total program revenues	$ 3,030,303	$ 2,194,768	$ 835,535	38.1
Solid waste management expenses	$ 2,685,751	$ 2,604,052	$ 81,699	3.1

Financial Analysis of the Government's Funds

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

Table 7—Summary of Fund Balances (Deficits)—Governmental Funds

	Year Ended December 31,		Increase/(decrease)	
	2011	2010	Dollars	Percent
General Fund	$ 39,814,549	$ 41,425,646	$ (1,611,097)	(3.89)
Capital Projects Fund	9,511,472	10,405,449	(893,977)	(8.59)
County Road Fund	2,570,471	2,236,134	334,337	14.95
Road Machinery Fund	839,227	740,019	99,208	13.41
Special Grant Fund	(170,238)	(146,676)	(23,562)	(16.06)
Debt Service Fund	97,150	197,045	(99,895)	(50.70)
Totals	$ 52,662,631	$ 54,857,617	$ (2,194,986)	(4.00)

General Fund fund balance decreased by $1,611,097. Contributing factors include the settlement of union contracts and increased health costs.

Fund balance in the Capital Fund decreased by $893,977, due to the completion of various projects that were transferred into fixed assets. Completed projects include the County's airport improvements and recycling facility.

The County Road Fund fund balance increased $334,337. During 2011, the County transferred fewer funds to the Capital Projects Fund for roads and bridges.

The Road Machinery Fund fund balance increased $99,208 in the current year due to transfers from the General Fund that had not been expended by the end of the year.

The Special Grant Fund fund balance deficit grew by $23,562. Amounts due to other funds increased due to increased pending reimbursements at year-end.

The Debt Service Fund decreased by $99,895 due to use of fund balance for payments on debt.

Proprietary fund. The County's proprietary fund provides the same type of information found in the governmental-wide financial statements, but in more detail.

Net assets of Solid Waste management increased from $2,474,801 at December 31, 2010 to $2,819,353 at December 31, 2011. The unrestricted net deficit at the end of December 31, 2011 amounted to $949,856. The increase of $287,987 in the net deficit is primarily due to depreciation of capital assets.

General Fund Budgetary Highlights

- Non-property tax items were substantially more than budgeted due primarily to an increase in sales tax receipts. Revenues were conservatively budgeted in 2011 because of shortfalls in prior years. Sales tax revenues began to rise again during 2011 resulting in a significant positive variance.

- Use of money and property fell short of budget due to declining interest rates on investment balances.

- Miscellaneous local sources and interfund revenues were different from prior years due to a change in accounting methods that changed the recording of health benefits for the component units.

- Transportation costs were increased in the budget due to the pending purchase of the Fixed Base Operation at the Airport that was anticipated to close prior to year-end but did not close until May 2012.

- Home and community services expenditures were less than the final budget due to fewer grant expenditures than budgeted for in 2011 for a contribution for affordable housing.

- Employee benefits were $4,167,089 under the final budgeted amount due to fewer health and workers' compensation claims than forecasted with the budget.

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to $137,179,445 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and infrastructure assets.

Major capital asset events during the current fiscal year included the following:

- ♦ Construction in progress as of December 31, 2011 was $2,368,036 due mainly to ongoing projects at the airport.

- ♦ Certain construction projects were completed during the current fiscal year, including upgrades to the County-wide telephone system for governmental activities and the construction of a new transfer station for business-type activities.

- ♦ Significant additions to infrastructure at a cost of $3,271,628 due primarily to improvements to airport facilities and bridge and road investments.

- ♦ Various machinery and equipment additions as well as building improvements were purchased at the cost of $3,278,168 for governmental activities and $1,758,435 for business-type activities.

A summary of the County's capital assets is shown below.

Table 8—Capital Assets, net of depreciation

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 2,419,686	$ 2,419,686	$ 12,415	$ 12,415	$ 2,432,101	$ 2,432,101
Construction in progress	2,368,036	2,704,156	-	786,642	2,368,036	3,490,798
Buildings and improvements	49,097,698	50,263,092	2,481,695	1,006,758	51,579,393	51,269,850
Machinery and equipment	9,418,390	8,774,463	942,603	939,046	10,360,993	9,713,509
Infrastructure	70,438,925	70,995,135	-	-	70,438,925	70,995,135
Total	$ 133,742,735	$ 135,156,532	$ 3,436,713	$ 2,744,861	$ 137,179,448	$ 137,901,393

Additional information on the County's capital assets can be found in Note 8 to the basic financial statements.

Debt Administration. In 2011, the County's debt, as reported on the County-wide statement of net assets, continues to reflect a dramatic change due to the implementation of GASB Statement No. 45. GASB requires that the County recognize, according to a prescribed calculation, its obligation for OPEB. In the case of Jefferson County, this obligation consists of health benefits promised to its current and future retirees. Based on a study of the County's numerous benefit packages and the affected population, actuaries have determined the value of these benefits earned in prior years, as well as the value earned during 2011.

This obligation is a commitment the County has made to its employees pursuant to contract negotiations. As health costs have risen dramatically over the past several years, County management has attempted to address these costs as new contracts have been negotiated. Newer contracts require greater employee contributions and length of employment to qualify for retiree health benefits.

Outstanding debt in other areas changed as follows:

- Outstanding bond indebtedness decreased per amortization schedules. The County refunded several bond issuances in its governmental activities during 2011. In the business-type activity, there was no outstanding debt at December 31, 2011.

Table 9—Debt and Long-Term Liabilities

	Governmental activities		Business-type activities		Total		Percentage
	2011	2010	2011	2010	2011	2010	Change
Serial bonds	$17,845,000	$20,560,000	$ -	$ -	$17,845,000	$20,560,000	(13.21)
Compensated absences	2,131,930	2,136,097	27,270	26,267	2,159,200	2,162,364	(0.15)
Claims and judgements	9,285,212	9,266,435	-	-	9,285,212	9,266,435	0.20
OPEB	58,403,499	42,451,011	-	-	58,403,499	42,451,011	37.58
Total	$87,665,641	$74,413,543	$ 27,270	$ 26,267	$87,692,911	$74,439,810	17.80

The County's bond rating was recalibrated from A2 to Aa3 on April 19, 2011 by Moody's. According to Moody's, the recalibration of the ratings represents a move from Moody's expression on one scale to another and does not represent a change in their opinion of the County's credit. Additional information on the County's long-term debt can be found in Note 10 to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

- Over the past several years the County has experienced consistent population growth and an upswing in economic, employment and construction activity. As a result of the 10th Mountain Division's 3rd Brigade transformation, which is now complete at Fort Drum, over 6,000 new soldiers have been assigned to Fort Drum since 2006. However, the 10th Mountain Division continues to be actively deployed and brigade units are regularly in rotation to the Middle East. These cycles continue to impact the local housing market, especially the rental market, with notable variations in demand.

- Commercial, retail, and service growth is continuing in the County and remains a notably stronger economic segment compared to similarly-sized nearby rural counties. New projects underway or recently completed include a Hilton Gardens Hotel and Convention Center, a Regal 12 screen theatre complex, and new eating establishments near Exit 45 off Interstate 81 in Watertown. Such new commercial investments are supported by the County's growing population base, as well as favorable currency exchange rates for nearby Canadian shoppers and visitors.

- Construction is underway on a new four lane limited access highway (I781) that will connect Interstate 81 and US Route 11 and the Fort Drum main gate. The project is scheduled to be completed in 2012 and its construction cost is valued at $56.5 million. Another significant local transportation development is the continued upgrade of the terminal and runways at Watertown International Airport. Due in part to these upgrades and the growth in the County, American Eagle will began daily non-stop commercial flights to Chicago-O'Hare Airport in November 2011 using 44 seat Embraer regional jets.

- The 2011 U.S. Census Bureau population for Jefferson County was 116,229, which is a 4% increase from the 2000 census of 111,738.

- The County's 2012 budget reflects no change in the full value property tax rate of $6.53 per thousand.

- The County expects that sales tax revenues will continue to increase through 2012 as it has in 2011. The expansion of Fort Drum and proximity to the Province of Ontario has contributed to this increase.

- Appropriations for the County for 2011 include an increase of $1.9 million to the NYS Retirement System, due to increased contribution rates. The County does not participate in the management and definition of the benefits.

Contacting the County's Financial Management

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 show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Jefferson County Treasurer's Office, 175 Arsenal Street, Watertown, New York 13601.

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BASIC FINANCIAL STATEMENTS

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COUNTY OF JEFFERSON, NEW YORK
Statement of Net Assets (Deficit)
December 31, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Jefferson Community College August 31, 2011	Industrial Development Agency September 30, 2011
ASSETS					
Current assets:					
Cash and cash equivalents	$ 48,956,000	$ 34,406	$ 48,990,406	$ 6,771,619	$ 3,257,105
Restricted cash and cash equivalents	2,498,097	332,496	2,830,593	-	2,226,406
Receivables (net of allowances for estimated uncollectible amounts):					
Taxes	11,607,440	-	11,607,440	-	-
Accounts receivable	4,570,833	226,736	4,797,569	5,558,134	126,112
Due from state and federal governments	10,805,888	121,297	10,927,185	-	-
Due from other governments	5,305,380	-	5,305,380	606,693	-
Prepaid items	1,976,296	19,700	1,995,996	222,870	-
Capital lease receivable, current portion	-	-	-	-	915,437
Loans and notes receivable, net	-	-	-	-	3,502,609
Inventories	-	-	-	381,323	-
Total current assets	85,719,934	734,635	86,454,569	13,540,639	10,027,669
Noncurrent assets:					
Restricted cash and cash equivalents	716,757	-	716,757	1,026,850	-
Notes receivable, long-term portion	-	-	-	-	31,057
Interfund loan	1,200,000	(1,200,000)	-	-	-
Due from other governments, long term portion	487,609	-	487,609	-	-
Investments	-	-	-	5,627,582	-
Capital lease receivable, long-term portion	-	-	-	-	1,023,241
Capital assets:					
Land and construction in progress	4,787,722	12,415	4,800,137	3,199,891	639,814
Other, capital assets net of accumulated depreciation	128,955,013	3,424,298	132,379,311	16,889,485	299,370
Total noncurrent assets	136,147,101	2,236,713	138,383,814	26,743,808	1,993,482
Total assets	221,867,035	2,971,348	224,838,383	40,284,447	12,021,151
LIABILITIES					
Current liabilities:					
Accounts payable	8,883,380	107,841	8,991,221	248,207	68,384
Retainages payable	103,172	-	103,172	-	-
Accrued liabilities	2,854,339	16,884	2,871,223	821,788	-
Interest payable	119,658	-	119,658	190,635	-
Due to other governments	12,748,908	-	12,748,908	1,754,525	13,749
Unearned revenue	1,285,195	-	1,285,195	5,763,453	31,968
Other liabilities	7,256	-	7,256	308,547	6,504
Total current liabilities	26,001,908	124,725	26,126,633	9,087,155	120,605
Noncurrent liabilities:					
Due within one year	2,611,597	1,364	2,612,961	1,103,584	915,437
Due in more than one year	85,054,044	25,906	85,079,950	25,578,358	1,203,401
Total noncurrent liabilities	87,665,641	27,270	87,692,911	26,681,942	2,118,838
Total liabilities	113,667,549	151,995	113,819,544	35,769,097	2,239,443
NET ASSETS (DEFICIT)					
Invested in capital assets, net of related debt	120,914,492	3,436,713	124,351,205	6,197,176	789,184
Restricted for:					
Long-term receivable restricted for debt service	670,071	-	670,071	-	-
General Fund restrictions	2,351,114	-	2,351,114	-	-
Debt Service restrictions	97,150	-	97,150	-	-
Capital projects	-	332,496	332,496	2,573,154	-
Community College-expendable	-	-	-	1,154,502	-
Community College-nonexpendable	-	-	-	2,896,266	-
Community development	-	-	-	-	5,594,097
Unrestricted	(15,833,341)	(949,856)	(16,783,197)	(8,305,748)	3,398,427
Total net assets (deficit)	$108,199,486	$ 2,819,353	$111,018,839	$ 4,515,350	$ 9,781,708

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Statement of Activities
Year Ended December 31, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Unit	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Jefferson Community College August 31, 2011	Industrial Development Agency September 30, 2011
Primary government:									
Governmental activities:									
General government support	$ 58,341,248	$ 3,690,952	$ 663,259	$ -	$ (53,987,037)	$ -	$ (53,987,037)	$ -	$ -
Education	11,496,670	152,363	-	710,318	(10,633,989)	-	(10,633,989)	-	-
Public safety	29,282,507	1,633,824	1,320,450	792,311	(25,535,922)	-	(25,535,922)	-	-
Public health	15,599,040	8,080,321	8,554,053	-	1,035,334	-	1,035,334	-	-
Transportation	18,006,032	563,404	-	3,425,677	(14,016,951)	-	(14,016,951)	-	-
Economic assistance and opportunity	72,661,916	5,148,770	33,343,844	-	(34,169,302)	-	(34,169,302)	-	-
Culture and recreation	463,458	-	100,130	-	(363,328)	-	(363,328)	-	-
Home and community services	3,459,781	11,252	1,327,109	-	(2,121,420)	-	(2,121,420)	-	-
Interest and fiscal charges	1,420,450	-	-	-	(1,420,450)	-	(1,420,450)	-	-
Total governmental activities	210,731,102	19,280,886	45,308,845	4,928,306	(141,213,065)	-	(141,213,065)	-	-
Business-type activities:									
Solid waste management	2,685,751	2,888,481	83,740	-	-	286,470	286,470	-	-
Total business-type activities	2,685,751	2,888,481	83,740	-	-	286,470	286,470	-	-
Total primary government	$ 213,416,853	$ 22,169,367	$ 45,392,585	$ 4,928,306	(141,213,065)	286,470	(140,926,595)	-	-
Component Units:									
Jefferson Community College	$ 36,956,662	$ 9,885,942	$ 16,732,519	$ -				$ (10,338,201)	$ -
Industrial Development Agency	2,383,982	1,021,005	764,723	-				-	(598,254)
Total component units	$ 39,340,644	$ 10,906,947	$ 17,497,242	$ -				$ (10,338,201)	$ (598,254)
	General revenues:								
	Taxes:								
	Property taxes, levied for general purpose				46,131,988	-	46,131,988	-	-
	Property tax items				3,361,649	-	3,361,649	-	200,000
	Sales taxes				68,919,882	-	68,919,882	-	-
	Other taxes				582,807	-	582,807	-	-
	Unrestricted grants and contributions				-	-	-	2,034,961	286,553
	Use of money and property				497,903	2,668	500,571	1,115,525	83,016
	Miscellaneous				2,207,894	30,600	2,238,494	183,117	74,639
	State and federal appropriations				-	-	-	5,740,000	-
	Sale of property and compensation for loss				1,413,024	-	1,413,024	-	-
	Gain or loss on sale of capital assets				-	27,834	27,834	(6,604)	(20,887)
	Additions to permanent endowments				-	-	-	111,214	-
	Transfers:								
	Transfers to/from enterprise fund				-	(3,020)	(3,020)	-	-
	Total general revenues and transfers				123,115,147	58,082	123,173,229	9,178,213	623,321
	Change in net assets				(18,097,918)	344,552	(17,753,366)	(1,159,988)	25,067
	Net assets—beginning				126,297,404	2,474,801	128,772,205	5,675,338	9,756,641
	Net assets—ending				$ 108,199,486	$ 2,819,353	$ 111,018,839	$ 4,515,350	$ 9,781,708

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 37,168,826	$ 8,099,177	$ 3,687,997	$ 48,956,000
Restricted cash and cash equivalents	2,400,947	716,757	97,150	3,214,854
Receivables (net of allowances for estimated uncollectible amounts):				
Taxes	11,607,440	-	-	11,607,440
Accounts receivable	3,213,124	20,310	4,002	3,237,436
Due from other funds	512,979	-	182,648	695,627
Interfund loan	1,200,000	-	-	1,200,000
Due from state and federal governments	9,507,886	1,276,739	21,263	10,805,888
Due from other governments	4,930,763	139,414	52,741	5,122,918
Prepaid items	1,824,565	-	151,731	1,976,296
Total assets	$ 72,366,530	$ 10,252,397	$ 4,197,532	$ 86,816,459
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 8,167,874	$ 520,253	$ 195,253	$ 8,883,380
Retainages payable	-	103,172	-	103,172
Accrued liabilities	2,706,954	-	147,385	2,854,339
Due to other governments	12,744,641	-	4,267	12,748,908
Due to other funds	185,295	-	510,332	695,627
Deferred revenue	8,743,646	117,500	-	8,861,146
Other liabilities	3,571	-	3,685	7,256
Total liabilities	32,551,981	740,925	860,922	34,153,828
Fund balances (deficit):				
Nonspendable	3,024,565	-	151,731	3,176,296
Restricted	2,351,114	716,757	97,150	3,165,021
Committed	5,000,000	-	-	5,000,000
Assigned	20,606,718	8,794,715	3,296,545	32,697,978
Unassigned	8,832,152	-	(208,816)	8,623,336
Total fund balances (deficit)	39,814,549	9,511,472	3,336,610	52,662,631
Total liabilities and fund balances (deficit)	$ 72,366,530	$ 10,252,397	$ 4,197,532	$ 86,816,459

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Reconciliation of Balance Sheet—Governmental Funds
to the Statement of Net Assets
December 31, 2011

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances—total governmental funds		$ 52,662,631
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $230,633,488 and the accumulated depreciation is $96,890,753.		133,742,735
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is $119,658 at year end.		(119,658)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Deferred tax revenue	$ 8,527,676	
Deferred revenue	18,772	8,546,448
Certain accrued revenues reported in the Statement of Net Assets are received after the availability period for recognition of revenue in the Governmental Funds.		
Long-term receivable	$ 670,071	
Other receivable	1,333,397	2,003,468
Long-term liabilities, including bonds payable, other post-employment benefits ("OPEB"), compensated absences, and judgements and claims payable and are not due and payable in the current period and, therefore are not reported in the funds. The effect of these items are:		
Bonds payable	$ (17,845,000)	
Compensated absences	(2,131,930)	
Claims and judgements payable	(9,285,212)	
OPEB	(58,403,499)	(87,665,641)
Bond premiums are reported as revenues in the governmental funds. The revenue is $975,449 and accumulated amortization is $4,952.		(970,497)
Net assets of governmental activities		$108,199,486

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK

Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds

Year Ended December 31, 2011

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Real property taxes	$ 45,793,174	$ -	$ -	$ 45,793,174
Real property tax items	3,361,649	-	-	3,361,649
Non property tax items	69,502,689	-	-	69,502,689
Departmental income	13,859,251	-	833,543	14,692,794
Intergovernmental charges	3,825,999	152,363	158,416	4,136,778
Use of money and property	424,326	4,844	63,837	493,007
Licenses and permits	21,131	-	570	21,701
Fines and forfeitures	291,590	-	-	291,590
Sale of property and compensation for loss	1,348,130	-	43,880	1,392,010
Miscellaneous	2,324,556	45,320	4,350	2,374,226
Interfund revenues	-	-	362,016	362,016
State aid	18,413,666	1,122,222	3,042,374	22,578,262
Federal aid	23,813,735	1,224,637	2,951,335	27,989,707
Total revenues	182,979,896	2,549,386	7,460,321	192,989,603
EXPENDITURES				
Current:				
General government support	52,701,268	-	-	52,701,268
Education	10,061,670	-	-	10,061,670
Public safety	20,313,428	-	581,224	20,894,652
Health	13,040,394	-	-	13,040,394
Transportation	807,933	-	11,824,657	12,632,590
Economic assistance and opportunity	62,990,015	-	2,719,850	65,709,865
Culture and recreation	425,563	-	-	425,563
Home and community services	1,975,437	-	1,249,269	3,224,706
Employee benefits	7,302,898	-	26,180	7,329,078
Debt service:				
Principal	-	-	2,400,000	2,400,000
Interest and fiscal charges	-	-	854,832	854,832
Capital outlay	-	5,909,971	-	5,909,971
Total expenditures	169,618,606	5,909,971	19,656,012	195,184,589
Excess (deficiency) of revenues over (under) expenditures	13,361,290	(3,360,585)	(12,195,691)	(2,194,986)
OTHER FINANCING SOURCES (USES)				
Transfers in	573,324	3,039,932	14,210,779	17,824,035
Transfers out	(15,545,711)	(573,324)	(1,705,000)	(17,824,035)
Proceeds of refunding bonds	-	-	9,440,000	9,440,000
Net premium on refunding bonds	-	-	975,449	975,449
Payment to escrow agent	-	-	(10,415,449)	(10,415,449)
Total other financing sources (uses)	(14,972,387)	2,466,608	12,505,779	-
Net change in fund balances	(1,611,097)	(893,977)	310,088	(2,194,986)
Fund balances—beginning	41,425,646	10,405,449	3,026,522	54,857,617
Fund balances—ending	$ 39,814,549	$ 9,511,472	$ 3,336,610	$ 52,662,631

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to the Statement of Activities
Year Ended December 31, 2011

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

Net change in fund balances—total governmental funds		$ (2,194,986)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	$ 6,213,676	
Depreciation expense	(7,543,517)	(1,329,841)
Loss on disposition of capital assets is recorded in the statement of activities (within sale of property and other revenues) but not in the statement for governmental funds.		(83,956)
Certain tax and other revenue in the governmental funds is deferred or not recognized because it is not available soon enough after year end to pay for the current period's expenditures. On the accrual basis, however, this is recognized regardless of when it is collected.		
Change in deferred tax revenue	$ 338,814	
Change in deferred revenue	(533,671)	
Change in long-term receivable	(192,424)	
Change in other receivable	25,910	(361,371)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds, installment purchase debt and related items is as follows:		
Issuance of refunding bonds	$ (9,440,000)	
Principal payments on serial bonds	12,155,000	
Change in accrued interest	94,831	2,809,831
Bond issuance premiums that are recorded on the statement for government funds but not in the statement of activities.		(970,497)
In the statement of activities, certain operating expenses—other post employment benefits ("OPEB"), compensated absences (vacation & compensatory time) and judgements and claims—are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences is as follows:		
Compensated absences	$ 4,167	
Judgements and claims	(18,777)	
OPEB	(15,952,488)	(15,967,098)
Change in net assets of governmental activities		$ (18,097,918)

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Statement of Net Assets (Deficit)
Proprietary Fund
December 31, 2011

	Business-type Activities—Enterprise Fund: Solid Waste Management
ASSETS	
Current assets:	
Cash and cash equivalents	$ 34,406
Restricted cash and cash equivalents	332,496
Accounts receivable, net of allowances for estimated uncollectible amounts	226,736
Due from other governments	100
Due from state and federal governments	121,197
Prepaid items	19,700
Total current assets	734,635
Noncurrent assets:	
Capital assets not being depreciated:	
Land	12,415
Capital assets net of accumulated depreciation:	
Buildings and improvements	2,481,695
Machinery and equipment	942,603
Total noncurrent assets	3,436,713
Total assets	4,171,348
LIABILITIES	
Current liabilities:	
Accounts payable	107,841
Accrued liabilities	16,884
Total current liabilities	124,725
Noncurrent liabilities:	
Compensated absences-due within one year	1,364
Compensated absences-due in more than one year	25,906
Interfund loan	1,200,000
Total noncurrent liabilities	1,227,270
Total liabilities	1,351,995
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	3,436,713
Restricted for capital projects	332,496
Unrestricted	(949,856)
Total net assets (deficit)	$ 2,819,353

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year Ended December 31, 2011

	Business-type Activities—Enterprise Fund
	Solid Waste Management
Operating revenues:	
Charges for services	$ 2,136,823
Recycling income	751,658
Miscellaneous	30,600
Total operating revenues	2,919,081
Operating expenses:	
Salaries, wages and employee benefits	723,672
Tipping fees	1,681,916
Depreciation	264,835
Write off of uncollectible accounts receivable	10,128
Total operating expenses	2,680,551
Operating income	238,530
Nonoperating revenues (expenses):	
State aid and local grants	83,740
Investment earnings	2,668
Gain on sale of capital assets	27,834
Financing interest	(5,200)
Total nonoperating revenues (expenses)	109,042
Income before transfers	347,572
Transfers out	(3,020)
Change in net assets	344,552
Total net assets—beginning	2,474,801
Total net assets—ending	$ 2,819,353

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Statement of Cash Flows
Proprietary Fund
Year Ended December 31, 2011

	Business-type Activities—Enterprise Fund
	Solid Waste Management
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from services provided	$ 2,159,630
Receipts from other operating revenue	782,158
Payments to employees	(730,964)
Payments to suppliers	(1,946,873)
Net cash provided by operating activities	263,951
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	83,740
Payments of long-term loan to other funds	(100,000)
Net cash (used) by noncapital financing activities	(16,260)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(971,795)
Proceeds of sales	39,923
Financing interest	(5,200)
Net cash (used) by capital and related financing activities	(937,072)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	2,668
Net cash provided by investing activities	2,668
Net (decrease) in cash and cash equivalents	(686,713)
Cash and cash equivalents—beginning	1,053,615
Cash and cash equivalents—ending	$ 366,902
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 238,530
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	264,835
Decrease in accounts receivable	32,935
(Increase) in due from other governments	(100)
(Increase) in prepaid items	(5,815)
(Decrease) in accounts payable	(233,816)
(Decrease) in retainage payable	(31,141)
(Decreaes) in accrued liabilities	(2,480)
Increase in compensated absences	1,003
Total adjustments	25,421
Net cash provided by operating activities	$ 263,951

The notes to the financial statements are an integral part of this statement.

COUNTY OF JEFFERSON, NEW YORK
Statement of Fiduciary Net Assets—Agency Funds
December 31, 2011

	Agency Funds
ASSETS	
Cash	$ 1,461,573
Total assets	$ 1,461,573
LIABILITIES	
Agency liabilities	$ 1,461,573
Total liabilities	$ 1,461,573

The notes to the financial statements are an integral part of this statement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLCIES

The basic financial statements of the County of Jefferson, New York (the “County”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”), as applied to government units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (“FASB”) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The County has the option to apply FASB pronouncements issued after that date to its Business-type Activities and Enterprise Funds and has not elected to do so. The more significant of the County’s accounting policies are described below.

A. Reporting entity

The County, which was established in 1805, is governed by County local law and other general laws of the State of New York and various local laws. The Board of Legislators is the legislative body responsible for overall operations, the Chairman of the Board serves as chief executive officer and the County Treasurer serves as chief fiscal officer. Independent elected officials of the County include 15 legislatures, the District Attorney, the County Clerk, the County Treasurer, and the County Sheriff.

The following basic services are provided: maintenance of County roads, health and social services (including a nursing home and Office for the Aging), public safety (including law enforcement, jail, probation, District Attorney and Public Defender), general administrative services, culture and recreation, solid waste management (including recycling) and among others, operation of a Community College.

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

The financial reporting entity consists of (a) the primary government which is the County, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Organizations are Component Units*.

The decision to include a potential component unit in the County’s reporting entity is based on several criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39, 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 Component Units—The component unit columns in the basic financial statements include the financial data of the County's two discretely presented component units. These units are reported in a separate column to emphasize that they are legally separate from the County.

- **Jefferson Community College**—The Jefferson Community College (the "College") was established in 1961 with the County of Jefferson as the local sponsor under provisions of Article 126 of the Education Law. The College is administered by a Board of Trustees consisting of ten members, five appointed by the County governing body, four by the Governor and one student trustee. Also, the College budget is subject to the approval of the County Board of Legislators and the County provides one half of capital costs for the College. Real property of the College vests with the County and bonds and notes for the College capital costs are issued by the County and represent County debt. Mandated by New York State Law, the fiscal year ending for the College is August 31.

  The County budget for 2011 included an appropriation of $4,260,548 in support of the College budget for the College fiscal year ended August 31, 2011. The final amount was paid over to the College on March 1, 2011. In addition to the funds contributed for the support of the College budget for 2010-2011, $371,760 was expended from the General Fund budget in support of the debt service on pre-2000 college capital improvement bonds. This amount consisted of principal in the amount of $330,000 and interest of $41,760. On December 22, 2011, this bond, along with other debt of the County, was refunded into a 2011 series bond.

  In 2005, the College began work on a new capital improvement plan for which the County has responsibility for the debt issued in 2006. In 2011, the County paid $486,986 in debt service on the 2006 debt issue. The principal payment was $335,000, and interest was paid in the amount of $151,986. Outstanding debt on this issue at December 31, 2011, was $3,665,000.

  Included with the College's financial information are the Jefferson Community College Foundation, Faculty Student Association, and Student Association, component units of the College. Separate financial statements can be obtained from the College's administration office, 1220 Coffeen Street, Watertown, New York 13601.

- **Jefferson County Industrial Development Agency**—The Jefferson County Industrial Development Agency (the "Agency") is a public benefit corporation created by Article 18A of New York State General Municipal Law to promote the economic welfare, recreation opportunities and prosperity of County inhabitants. Members of the Agency are appointed by the County Board of Legislatures which exercises no oversight responsibility for fiscal matters. The Agency members have complete responsibility for management of the Agency and accountability for fiscal matters. The County is not liable for agency bonds or notes.

  In addition, the Agency administers a $4,736,736 revolving loan fund, a $611,922 micro-enterprise loan program which provides loans to small businesses, and a $245,439 Watertown Economic Growth Fund which provides support to enterprises in the City of Watertown. These funds are used to provide loans to eligible businesses that save and create employment opportunities for residents of Jefferson County. The Agency works closely with Jefferson County Job Development Corporation ("JCJDC") through funding of certain programs for economic development activities. The Agency has no staff; staff is supplied by the JCJDC under contract.

Separate financial statements can be obtained by writing the Agency's administration office, 800 Starbuck Avenue, Suite 800, Watertown, New York 13601.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., statement of net assets and the statement of governmental activities) report information on all the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide and fiduciary fund 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when the underlying exchange transaction has occurred and the resources are available. Revenues are considered *available* when they are collectible within the current period, or soon enough thereafter to pay liabilities of the current period. Material revenues that are accrued include real property taxes, State and Federal aid, sales tax and certain user charges. The County considers property tax and tobacco settlement receivables collected within 60 days after year end to be available and recognizes them as revenues of the current year. All other revenues deemed collectible within one year after year end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made and the resources are available.

Expenditures are recorded when incurred. The cost of capital assets is recognized as expenditure when received. Exceptions to this general rule are that 1) expenditures for prepaid expenses and inventory-type items are recognized at the time of purchase, 2) principal and interest on indebtedness are not recognized as an expenditure until due, and 3) compensated absences, such as vacation and sick leave which vests or accumulates, are charged as an expenditure when paid.

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 (the sources, uses, and balances of current financial resources). The following are the County's governmental fund types. The County considers the following governmental funds as major funds:

- *General Fund*—This fund is the principal operating fund of the County and is used to account for all financial resources except those required to be accounted for in other funds.

- *Capital Projects Fund*—The capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment other than those financed by the enterprise fund. The County utilizes separate funds to account for capital projects benefiting the following programs: general government, public safety, transportation, sanitation, and recreation.

Additionally, the County reports the following fund types:

Special Revenue Funds—used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The following Special Revenue Funds are utilized:

- *County Road Fund*—used to account for expenditures for highway purposes authorized by Section 114 of the Highway Law.

- *Road Machinery Fund*—used to account for the purchase, repair, maintenance and storage of highway machinery, tools and equipment pursuant to Section 133 of the Highway Law.

- *Special Grant Fund*—used to account for funds received under the Job Training Partnership Act/Workforce Investment Act and for Community Block Grant funds received from the Department of Housing and Urban Development.

Debt Service Fund—used to account for current payments of principal and interest on general obligation long-term debt and for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness.

Proprietary Funds—Proprietary Funds are used to account for activities similar to those often found in the private sector. The costs of providing goods or services to the general public are financed or recovered primarily through user fees, Measurement focus is upon determination of operating income, changes in net assets, financial position, and cash flows. The Proprietary Funds utilized are listed on the following page.

- *Enterprise Fund*—The Solid Waste Management Fund accounts for handling of solid waste, including a recycling facility and transfer station, where the governing officials have determined all costs of operations are to be financed through charges for services to users and because measurement of net income is appropriate for this operation.

Fiduciary Fund—Fiduciary Funds are used to account for assets held by the County in a trustee or custodial capacity, and therefore are not available to support the County's programs. The following are the County's Fiduciary Funds:

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

D. Assets, liabilities and net assets or equity

***Cash, cash equivalents and investments*—**Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity date within three months of the date acquired by the County. State statutes and various resolutions of the County Legislature govern the County's investment policies. Permissible investments include obligations of the U.S. Treasury and U.S. Government agencies, repurchase agreements and obligations of New York State or its localities. The County had no investments at December 31, 2011. However, when the County does have investments it is County policy to record them at fair value based on quoted market prices.

***Restricted Cash and Cash Equivalents*—**Restricted cash and cash equivalents represent unspent proceeds from debt and amounts to support restricted fund balances.

***Receivables*—**Receivables are stated net of allowances for estimated uncollectible amounts. Amounts due from state and federal governments represent amounts owed to the County to reimburse it for expenditures incurred pursuant to state and federally funded programs.

All major revenues of the County are considered "susceptible to accrual" under the modified accrual basis. These include property tax, sales tax, state tax, State and Federal aid, and various grant program revenues.

***Prepaid items*—**Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

***Inventory*—**Inventory associated with the Governmental and Business-type Activities is considered immaterial at year end.

Capital assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads and bridges), are reported in the applicable Governmental or Business-type Activities columns in the Government-wide financial statements. Capital assets are defined by the County as assets with an estimated useful life in excess of two years and an initial, individual cost equal or greater than the threshold amount listed below for a particular class of asset. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Major outlay for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the estimated useful lives on the following page.

Capitalization Threshold and Useful Lives		
Class of Asset	Threshold	Useful Life
Land	$ 5,000	n/a
Land improvements	5,000	20
Buildings	25,000	50
Building improvements	5,000	20
Machinery and equipment:		
Office equimpment	5,000	10
Furniture	5,000	10
Computer and computer equipment	5,000	5
Vehicles	5,000	7
Heavy equipment	10,000	7
Other	5,000	10
Infrastructure:		
Roads, network	25,000	25
Bridges (includes culverts)	25,000	40
Improvements other than land or buildings	5,000	7
Works of art and historical treasures	5,000	n/a
Construction in progress	5,000	n/a

When capital assets are retired, or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period in the Government-wide financial statements. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

Compensated absences—Most employees are granted vacation, personal, and sick leave and earn compensatory time in varying amounts. In the event of termination, an employee is entitled to payment for accumulated vacation and compensatory time. Upon retirement, an employee is entitled to vacation and unused compensatory absences at various rates subject to certain maximum limitations.

Full time employees are entitled to earn 15 days of sick time annually which is accrued proportionately with each bi-weekly pay period, and may accumulate credit up to a maximum of 200 days. The County has no liability for sick leave upon retirement; any unused sick leave is applied toward service time for retirement benefits as outlined in Section 41J of New York State Retirement and Social Security Law.

Compensated absences for vacation and compensatory time for governmental fund type employees are reported as a liability and an expense in the government-wide financial statements. For Proprietary Fund type employees, the accumulation is recorded as an accrued liability and/or other long-term obligation of the Proprietary Fund type.

The compensated absences liability for the primary government at year end totaled $2,159,200 and is reported as governmental activities at $2,131,930, business-type activities at $27,270. The College reports $348,255 as its liability for compensated absences.

Payment of vacation and compensatory time is recorded in the governmental funds is dependent upon many factors. Therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation and compensatory time when such payment becomes due.

Postemployment benefits—In addition to providing pension benefits, the County provides retired employees with group health insurance benefits. The obligation of the County to contribute to the cost of providing this benefit has been established pursuant to legislative resolution and various collective bargaining agreements. Substantially all employees become eligible for such benefit if they have been continuously employed by the County for the equivalent of at least ten years at the time of retirement.

The following information is provided regarding the County's postemployment benefits:

- Retirees and their survivor's health care benefits are provided through an insurance company, whose premiums are based on historic experience.

- The County finances the plan on a pay-as-you-go basis.

- The cost of retiree group health insurance benefits is recognized as an expenditure/expense based on premiums paid during the year. During 2011, $5,391,733 was paid by the County on behalf of 426 eligible retirees, their dependents and survivors.

E. Real Property Taxes

Real property taxes are levied annually no later than December 31, and become a lien on January 1. Town and County taxes are collected by the towns during the period January 1 to late March, as specified in their warrants. Towns return unpaid taxes to the County by appointment in March. Delinquent taxes accrue interest at 1% per month beginning on February 1. A 5% penalty is added to any taxes due upon settlement between the towns and the County. Upon settlement, the County assumes collection of delinquent taxes until they are enforced, no earlier than 24 months after lien date. Towns and special districts receive the full amount of their levies annually from the first amounts collected on the combined bills.

For years prior to 1995, unpaid taxes were/are enforced in accordance with the provision of Chapter 157 of the Law of 1883, as amended; the end result being that the individual towns made the taxes whole to the County. The County Treasurer acts as central collection for all delinquent taxes outside the City of Watertown.

Since 1995, pursuant to Article 11 of New York State Real Property Tax Law, the County assumes enforcement responsibility for all taxes levied outside the city, with the County Attorney acting as the Tax Enforcement Officer.

In 2011, the County Attorney, as Tax Enforcement Officer, conducted the County's thirteenth sale of properties acquired through tax foreclosure. Of 54 properties acquired through foreclosure in 2011 and remaining unsold from 2010, 47 were sold at auction, generating receipts of $525,211.

In 1997, the County enacted a local law to allow payment of current real property taxes in installments commencing in 1998. Each town has the option to adopt the installment method.

Twenty of the County's twenty-two towns participated in installment collections from 1998 through 2011.

Beginning in 1999, non-city school districts were permitted to adopt the installment option of payment for their taxpayers. The program allows for the school district to collect the first installment within the first 30 days of the tax lien. The County is then charged with collecting the second and third installments, after compensating the school districts for these amounts.

In 1996, a local law was approved to allow real property owners in the County owing delinquent taxes to enter into an installment contract. There have been 4,260 contracts through December 31, 2011. As long as the taxpayer continues payments within the terms of the contract, real property is protected from tax enforcement proceedings.

County taxes collected on properties within the City of Watertown are enforced, and will continue to be enforced, by the City. The County receives the full amount of such taxes in the year due.

Unpaid village taxes and non-city school district taxes are turned over to the County for enforcement. Any such taxes remaining unpaid at year end are re-levied as County taxes in the subsequent year.

School taxes remaining unpaid in the enlarged city school district (outside the City) are turned over to the County Treasurer in December each year and eventually are subject to enforcement by the County within the same time frame as re-levied village and school taxes.

F. Constitutional Tax Limit

The amount that may be raised by the County-wide tax levy on real estate in any fiscal year (for purposes other than debt service on County indebtedness) is limited to one and one-half per centum (subject to increase up to two per centum by resolution of the County Legislature) of the five-year average full valuation of taxable real estate of the County, per New York State statutes.

The County constitutional tax limit (per New York State statutes) for the fiscal year ended December 31, 2011 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate	$ 6,608,375,568
Tax limit @ 1.5%	$ 99,125,634
Tax levy subject to tax limit	43,957,755
Tax Margin	$ 55,167,879

G. Property Tax Revenue Recognition

The County-wide property tax is levied by the County Legislature effective January 1 of the year the taxes are recognizable as revenue. Taxes become a lien on the related property on that date of the year for which they are levied. Accordingly, property tax is only recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period or 60 days thereafter in the Governmental Fund financial statements.

The County's tax sale procedures have resulted in cumulative net gain. The County does not consider its delinquent property taxes for prior years to be uncollectible. However, delinquent property taxes not collected at year end (excluding collections in the 60 day subsequent period) are recorded as deferred revenue in the Governmental Fund financial statements. Any taxes not collectible pursuant to a court order are recorded as a reduction to prior year revenue when the Court determines them to be uncollectible.

H. Revenues

Substantially all governmental fund revenues are accrued. Property tax receivables expected to be received later than 60 days after year end are deferred. Tobacco settlement receivables to be recorded later than 60 days are not accrued in the General Fund. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient. The County first utilizes restricted resources to finance qualifying activities.

Operating revenues of enterprise funds consist of user fees. Operating expenses of enterprise funds consist of salaries, wages and benefits, contractual services and depreciation and amortization. Transactions related to capital and financing activities, non-capital financing activities, investing activities and interfund transfers from other funds and State appropriations are components of non-operating income. Subsidies and grants to proprietary funds which finance either capital or current operations are reported as nonoperating revenue based on GASB Statement No. 33.

I. Insurance

***General Liability*—**The County assumes the liability for most risk including, but not limited to, property damage, personal injury liability, employee health insurance, and workers' compensation. 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. Such recording is consistent with the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." Governmental Fund type estimated current contingent loss liabilities for property damage, personal injury liability, employee health insurance, and workers' compensation are reported within Governmental Activities in the Government-wide financial statements.

J. Pensions

Nearly all County employees are members of various New York State retirement systems. The County is invoiced annually by the systems for its share of the costs.

K. Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include the following items: cash on hand; cash in checking and time accounts; and certain short-term items maturing three months or less from the date acquired, as permitted by State statute.

The Statement of Cash Flows—Proprietary Funds, uses the direct method of reporting cash flows.

L. Use of Estimates

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

M. Interfund Activity

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

N. Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*; No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for the year ending December 31, 2012; GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*; No. 65, *Items Previously Reported as Assets and Liabilities*; and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; No. 67, *Financial Reporting for Pension Plans*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions*, effective for the year ending December 31, 2015. The County is therefore unable to disclose the impact that adopting GASB Statements No. 57, 60, 61, 62, 63, 64, 65, 66, 67, and 68 will have on its financial position and results of operations when such statements are adopted.

The County has adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*, which was implemented and had no material impact to the County.

2. BUDGETS AND BUDGETARY DATA

The County's annual procedures in establishing the budgetary data reflected in the basic financial statements are as follows:

- No later than November 15, the budget officer submits a tentative budget to the Board of Legislators for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.

- After public hearings are conducted to obtain taxpayer comments, no later than December 20, the governing board adopts the budget.

- All modifications of the budget must be approved by the governing board. (However, the County Administrator is authorized to transfer certain budgeted amounts within departments, upon request of the department head).

- Budgets are prepared for proprietary funds to establish the estimated contributions required from other funds and to control expenditures.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Available cash of the County is deposited and invested in accordance with the provisions of applicable State statutes. The County also has its own written investment guidelines which have been established by the County Legislature.

The County deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts at, or certificates of deposit issued by, FDIC-insured commercial banks or trust companies located within the State. Some of the County's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for County operating cash and for investment purposes. The County's bank accounts are maintained in separate demand accounts with the respective offset being to various fund equities in pooled cash, investments, and restricted cash. Interest income from the pooled accounts is allocated based on the funds' respective share of the pool.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, contractual repurchase agreements, and obligations of New York State. Per existing policies, the underlying securities for repurchase transactions must be only federal obligations.

Cash at year-end consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Fund	Total Balance
Petty cash (uncollateralized)	$ 6,274	$ 800	$ -	$ 7,074
Deposits	52,164,580	366,102	1,461,573	53,992,255
Total	$ 52,170,854	$ 366,902	$ 1,461,573	$ 53,999,329

Deposits and Cash with Fiscal Agent—All deposits and cash with fiscal agent are carried at fair value.

	Bank Balance	Carrying Amount
Insured (FDIC)	$ 14,647,204	$ 14,647,204
Uninsured:		
Collateral held by bank's agent in the County's name	41,186,867	39,345,051
Total	$ 55,834,071	$ 53,992,255

***Custodial Credit Risk*—**In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. For investments, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2011, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

During 2011, the County pooled its cash from all funds, except for cash required by law to be segregated, into a concentration account for investment purposes. County officials decided to apply all interest earned on these investments to the various funds, as well as reserve funds and bonded indebtedness.

At December 31, 2011, the County had no investments.

Restricted cash and cash equivalents include the following:

	Purpose	Amount
Governmental activities:		
General Fund	Workers' compensation	$ 319,198
General Fund	Unemployment insurance	69,624
General Fund	Insurance	1,920,707
General Fund	Repairs	25,086
General Fund	Law enforcement and prosecution	66,332
Capital Projects Fund	College capital projects	716,757
Debt Service Fund	Debt service	97,150
Business-type activities:		
Solid waste	Capital projects	332,496
Total primary government		$ 3,547,350

Amounts restricted for General Fund reserves are subject to externally enforceable legal purpose restrictions. The reserves are authorized by General Municipal Law.

Amounts restricted for college capital projects represent non-operating cash that has been raised through borrowings. The use of these proceeds is limited to the specific purpose of the issue.

Amounts restricted for debt service represent unexpended fund balances of completed capital projects and/or interest earned from the investment of debt proceeds which will be used to reduce future debt service per New York State Local Finance Law.

Amounts restricted for capital projects within the Solid Waste Management Enterprise Fund are reserved to finance future costs of equipment replacement and capital improvements, including facility reconstruction. The fund is managed in accordance with section 6-c of the Municipal Law.

A. Discretely presented component units

The Jefferson Community College and its component units had unrestricted deposits of $5,026,028 and $1,745,591, respectively. The College's deposits were insured or collateralized by securities held by the pledging financial institution's trust department or agent in the College's name, with a carrying value of $751,856. The Jefferson County Industrial Development Agency had unrestricted deposits of $3,257,105 which were insured or collateralized by securities held by the pledging financial institution's trust department or agent in the Agency's name, with a carrying value of $4,697,603.

i) Jefferson Community College

The College and its component units had the following investments as of August 31, 2011:

Jefferson Community College	Market Value	Percent of Total
Obligations of the United States Government:		
Treasury bills	254	0.01%
Obligations of Federal Agencies:		
Federal National Mortgage Association	42,522	2.47%
Federal Home Loan Bank	1,681,343	97.52%
	1,723,865	99.99%
Total investments	$ 1,724,119	100.00%

Equity investments RBC Dain Rauscher:		
Estabrook Capital	$ 676,370	$ 647,888
WHV Investments	222,865	207,008
Fox Asset Management	239,843	208,944
Madison Investments	233,728	209,453
Minneapolis Investments	192,693	191,373
ClearBridge Investments	226,384	197,056
RMC Dain Rauscher	16,167	17,893
Equity investments Morgan Stanley Smith Barney:		
Hancock Investments	1,021,497	967,868
Neurberger Investments	132,029	121,472
Fred Alger Investments	137,540	126,740
WHV International	141,802	128,921
Fixed income funds RBC Dain Rauscher	662,545	634,499
Total investments	$ 3,903,463	$ 3,659,115

The College has restricted cash of $1,026,850 consisting of unspent debt proceeds of $813,439, $118,007 held for the Faculty Student Association, $93,882 for unspent lease proceeds and other restrictions of $1,522 at August 31, 2011.

ii) Jefferson County Industrial Development Agency

The Agency has restricted cash of $2,226,406; restricted for loan funds.

4. REAL PROPERTY AND NONPROPERTY TAXES

At December 31, 2011, the total real property tax assets of $13,509,585 are offset by an allowance for uncollectible taxes of $1,902,145. Included in real property tax assets are current year returned village and school taxes of $4,545,861, which are offset by liabilities to the villages and school districts which will be paid no later than April 20, 2012. The remaining portion of tax assets is offset by deferred tax revenue of $8,527,676 in the General Fund.

A 3.75% sales tax is levied in and for the County under the general authority of Article 29 of the Tax Law and specific authority of local law. The tax rate increased 0.75%, from 3.00% in the fourth quarter of 2004. This tax is administered and collected by the State Sales Tax Commission in the same manner as the State imposed 4.00% sales and compensating use tax. Net collections, meaning monies collected after deducting them from expenses of administration and collection and amounts refunded or to be refunded, but inclusive of any applicable penalties and interest, are paid by the State to the County on a monthly basis. Of the total $68,919,882 sales tax collected or accrued for the year ending December 31, 2011, $36,527,538 was distributed to the towns and villages and the City of Watertown. The amount of sales taxes receivable at year end is $6,211,870, which includes amounts to be distributed to the towns, villages and the City of Watertown.

5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All interfund balances are expected to be collected/paid within the subsequent year. Interfund transfers are routine annual events for both the budget and accounting process and are necessary to present funds in their proper fund classification.

Interfund receivables, payables, and transfers of the County as of, and for the year ended December 31, 2011 are presented below.

	Interfund			
Fund	Receivables	Payables	Transfers In	Transfers Out
General Fund	$ 512,979	$ 185,295	$ 573,324	$ 15,545,711
Capital Projects Fund	-	-	3,039,932	573,324
Other governmental funds	182,648	510,332	14,210,779	1,705,000
Total	$ 695,627	$ 695,627	$ 17,824,035	$ 17,824,035

The County's Solid Waste Fund donated an asset to its General Fund during the year ended December 31, 2011 with a book value of $3,020. This transaction is accounted for as a transfer out of the business-type activity fund and an asset recorded at book value in the governmental fund.

6. INTERFUND LOAN

The long-term interfund loan balance within the General Fund and the Solid Waste Management Facility consists of a $1,300,000 loan made during the year ended December 31, 2010. A pre-determined interest rate is not included within the terms of the agreement. The County will charge the Solid Waste Management Facility an interest rate, on its outstanding debt to the General Fund, equal to the average interest it receives in its interest bearing accounts. During the year ended December 31, 2011, the Solid Waste Fund made an interest payment of $5,200 and principal of $100,000, leaving a balance of $1,200,000.

7. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2011, are as follows:

Governmental Activities:	
Various fees and charges-	
General Fund	$ 3,445,963
Capital Projects Fund	20,310
Other governmental funds	4,002
Less allowance for doubtful accounts	(232,839)
Total	$ 3,237,436
Business-type Activities:	
Various fees and charges	$ 230,323
Less allowance for doubtful accounts	(3,587)
Total	$ 226,736

8. CAPITAL ASSETS

A. Governmental activities—Capital asset activity for the primary government's governmental activities, for fiscal year ending December 31, 2011, was as follows:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 2,419,686	$ -	$ -	$ 2,419,686
Construction in progress	2,704,156	1,037,020	(1,373,140)	2,368,036
Total capital assets not being depreciated	5,123,842	1,037,020	(1,373,140)	4,787,722
Capital assets, being depreciated:				
Buildings and building improvements	77,583,420	574,312	-	78,157,732
Improvements other than buildings	1,341,077	-	-	1,341,077
Machinery and equipment	21,127,416	2,703,856	(515,077)	23,316,195
Infrastructure	119,759,134	3,271,628	-	123,030,762
Total capital assets being depreciated	219,811,047	6,549,796	(515,077)	225,845,766
Less accumulated depreciation for:				
Buildings and building improvements	(27,663,770)	(1,702,705)	-	(29,366,475)
Improvements other than buildings	(997,635)	(37,001)	-	(1,034,636)
Machinery and equipment	(12,352,953)	(1,975,972)	431,121	(13,897,804)
Infrastructure	(48,763,999)	(3,827,839)	-	(52,591,838)
Total accumulated depreciation	(89,778,357)	(7,543,517)	431,121	(96,890,753)
Total capital assets, being depreciated, net	130,032,690	(993,721)	(83,956)	128,955,013
Governmental activities capital assets, net	$ 135,156,532	$ 43,299	$ (1,457,096)	$ 133,742,735

Depreciation expense for governmental activities was charged to functions and programs of the primary government as follows:

Governmental activities:	
General government support	$ 1,126,311
Public safety	1,644,887
Public health	33,886
Transportation	4,531,754
Economic assistance and opportunity	206,166
Home and community services	513
Total depreciation expense—governmental activities	$ 7,543,517

B. Business-type activities—Capital asset activity for the primary government's business-type activities (Enterprise Fund), for fiscal year ending December 31, 2011, as presented below:

	Balance 1/1/2011	Additions	Deletions	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	$ 12,415	$ -	$ -	$ 12,415
Construction in progress	786,642	-	(786,642)	-
Total capital assets not being depreciated	799,057	-	(786,642)	12,415
Capital assets, being depreciated:				
Buildings	1,434,796	1,511,727	-	2,946,523
Machinery and equipment	2,657,915	246,707	(275,543)	2,629,079
Total capital assets being depreciated	4,092,711	1,758,434	(275,543)	5,575,602
Less accumulated depreciation for:				
Buildings	(428,037)	(36,791)	-	(464,828)
Machinery and equipment	(1,718,869)	(228,044)	260,437	(1,686,476)
Total accumulated depreciation	(2,146,906)	(264,835)	260,437	(2,151,304)
Total capital assets, being depreciated, net	1,945,805	1,493,599	(15,106)	3,424,298
Business-type activities capital assets, net	$ 2,744,862	$ 1,493,599	(801,748)	$ 3,436,713

Depreciation expense for business-type activities was charged to functions and programs of the primary government as follows:

Business-type activities:	
Solid waste management	$ 264,835

C. Discretely presented component units

i) Jefferson Community College

	Balance 9/1/2010	Additions	Deletions	Balance 8/31/2011
Capital assets, not being depreciated:				
Construction in progress	$ 805,263	$ 2,394,628	$ -	$ 3,199,891
Capital assets, being depreciated:				
Land improvements and infrastructure	3,684,571	26,206	-	3,710,777
Buildings	22,298,863	222,988	-	22,521,851
Furniture and equipment	3,659,505	216,613	(202,549)	3,673,569
Library books	3,990,371	128,545	-	4,118,916
Total capital assets being depreciated	33,633,310	594,352	(202,549)	34,025,113
Less accumulated depreciation for:				
Land improvements and infrastructure	(1,344,369)	(175,180)	-	(1,519,549)
Buildings	(8,202,626)	(622,354)	-	(8,824,980)
Furniture and equipment	(3,183,995)	(144,382)	195,945	(3,132,432)
Library books	(3,669,273)	(129,846)	-	(3,799,119)
Total accumulated depreciation	(16,400,263)	(1,071,762)	195,945	(17,276,080)
Total capital assets, being depreciated, net	17,233,047	(477,410)	(6,604)	16,749,033
Governmental activities capital assets, net	$ 18,038,310	$ 1,917,218	$ (6,604)	$ 19,948,924

In addition to the above capital assets, the College reports net capital assets of its discretely presented component units in the amount of $140,452.

ii) Jefferson County Industrial Development Agency

	Balance 10/1/2010	Additions	Deletions	Balance 9/30/2011
Capital assets, not being depreciated:				
Land and land improvements	$ 525,701	$ 150,000	$ (35,887)	$ 639,814
Capital assets, being depreciated:				
Equipment	92,058	6,620	-	98,678
Buildings	724,125	-	-	724,125
Total capital assets, being depreciated:	816,183	6,620	-	822,803
Less accumulated depreciation for:				
Buildings	(423,087)	(100,346)	-	(523,433)
Total accumulated depreciation	(423,087)	(100,346)	-	(523,433)
Total capital assets, being depreciated, net	393,096	(93,726)	-	299,370
Governmental activities capital assets, net	$ 918,797	$ 56,274	$ (35,887)	$ 939,184

9. SHORT-TERM DEBT

Bond anticipation notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds. Such notes may be classified as long-term debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within five years after the original issue date.

During the year ended December 31, 2011, the County did not issue or redeem any bond anticipation notes.

A. Discretely presented component units

i) **Jefferson Community College—**There was no short-term note activity during the year ended August 31, 2011.

ii) **Jefferson County Industrial Development Agency—**The Agency has a $200,000 line-of-credit with HSBC Bank USA available until terminated by either party. Advances on the line-of-credit, which bear interest at the Bank's prime rate minus 1%, are uncollateralized. At September 30, 2011, the Agency had drawn $-0- on the line-of-credit.

10. LONG-TERM DEBT

Long-term debt is reported in the Government-wide financial statements. The following describes the County's long-term debt transactions:

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

The provision to be made in future budgets for capital 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.

Governmental Activities Bonds	Original Date Issued	Original Debt	Interest Rate	Date Final Maturity	Balance 12/31/2011
Public Improvement					
Public Safety	1991	$ 12,450,000	6.60-6.70%	5/2015	$ 2,400,000
Court Complex—Series A	2003	5,700,000	3.50-4.25%	3/2013	665,000
Court Complex—Series B	2003	10,500,000	3.63-4.25%	3/2013	1,275,000
Highway Complex	2004	2,800,000	3.25-3.75%	12/2013	410,000
2011 Refunding Bonds	2011	8,795,000	2.00-5.00%	3/2020	8,795,000
Issued on behalf of Jefferson Community College					
	2006	4,915,000	3.75-3.95%	11/2020	3,655,000
	2011	645,000	2.00-5.00%	3/2013	645,000
Total		$ 45,805,000			$ 17,845,000

Current Year's Advanced Refunding—During the current year, the County issued $9,440,000 in Refunding Serial Bonds, which collectively refund the previously issued 1998, 2003 Series A and 2003 Series B (partially refunding) and 2004 Series A bonds, originally issued for various purposes. The interest on the 2011 bonds ranges from 2.0% to 5.0%. The net proceeds of the refunding debt ($10,415,449 after premium of $1,083,134, issuance costs of $70,586 and underwriter's discount of $37,099) were used to purchase non-callable, direct obligations of the United States of America, with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust fund to pay for all future debt service payments of the original bonds. As a result, the 1998 bonds are considered fully refunded and the 2003 A, 2003 B and 2004 A bonds are considered partially refunded and the liability of those bonds, $645,000, $2,805,000, $5,150,000 and $1,155,000, respectively, have been removed from the financial statements. An aggregate budgetary savings in the amount of $480,807 was realized as a result of this refunding transaction.

Compensated Absences—Represents the value of earned and unused portion of the liability for compensated absences and is liquidated in various funds.

Claims and Judgments—The County is self insured. Liabilities are established for workers' compensation and general claims in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. Estimated long-term contingent loss liabilities in the Governmental Fund types have been reported as long-term liabilities in the Government-wide financial statements. The Proprietary Fund has no loss contingency liability except workers' compensation which is only recognized when invoiced from the County.

The following is a summary of changes in the County's long-term liabilities for the year ended December 31, 2011:

	Balance 1/1/2011	Additions	Decreases	Balance 12/31/2011	Due Within One Year
Governmental activites:					
Bonds payable	$ 20,560,000	$ 9,440,000	$ 12,155,000	$ 17,845,000	$ 2,505,000
Compensated absences	2,136,097	2,742,909	2,747,076	2,131,930	106,597
Claims and judgements	9,266,435	1,922,753	1,903,976	9,285,212	-
Other post-employment benefits	42,451,011	21,344,221	5,391,733	58,403,499	-
Total governmental activities	$ 74,413,543	$ 35,449,883	$ 22,197,785	$ 87,665,641	$ 2,611,597
Business type activites:					
Compensated absences	$ 26,267	$ 33,213	$ 32,210	$ 27,270	$ 1,364
Total business-type activities	$ 26,267	$ 33,213	$ 32,210	$ 27,270	$ 1,364

The County's debt service requirements on long term debt at December 31, 2011 were as follows:

Year Ending December 31,	Governmental Serial Bonds Principal	Governmental Serial Bonds Interest	Total
2012	$ 2,505,000	$ 615,163	$ 3,120,163
2013	2,480,000	628,474	3,108,474
2014	2,130,000	520,136	2,650,136
2015	2,215,000	411,936	2,626,936
2016	1,695,000	314,186	2,009,186
2017-2020	6,820,000	607,569	7,427,569
Total	$ 17,845,000	$ 3,097,464	$ 20,942,464

Constitutional Debt Limit—Outstanding indebtedness aggregated $17,845,000, all of which was subject to the constitutional debt limit and represented approximately 3.90% of its debt limit.

A. Discretely presented component units

i) Jefferson Community College

The following is a summary of the College's long-term indebtedness:

Description of Issue	Original Date Issued	Interest Rate	Date Final Maturity	Balance 8/31/2011
DASNY:				
2004A Serial bonds-refunding	2004	3.00-5.13%	7/2022	$ 25,608
2004B Serial bonds-refunding	2004	3.90-5.25%	7/2021	3,173,988
2005C Serial bonds	2005	3.21%	7/2031	210,912
PIT 2005F Serial bonds	2005	5.00%	3/2035	2,515,695
PIT 2006D Serial bonds	2006	4.00-5.00%	3/2036	1,689,175
Jefferson County:				
Serial bonds-refunding	1999	3.40-4.30%	9/2013	975,000
Serial bonds	2006	3.75-3.95%	11/2020	3,990,000
Total				$ 12,580,378

The College's long-term debt activity for the year ended August 31, 2011:

	Balance 9/1/2010	Additions	Decreases	Balance 8/31/2011	Due Within One Year
Bonds payable	$ 13,395,597	$ -	$ 815,219	$ 12,580,378	$ 1,058,177
Compensated absences	360,249	-	11,994	348,255	-
Capital lease obligation	-	1,311,822	-	1,311,822	45,407
Other post-employment benefits	10,190,079	3,245,428	1,044,000	12,391,507	-
Total governmental activities	$ 23,945,925	$ 4,557,250	$ 1,871,213	$ 26,631,962	$ 1,103,584

In addition to the above, the College reports reserves payable of $16,367 as a noncurrent liability.

Remaining annual maturities of long-term debt for College are as follows:

Year Ending August 31,	Serial Bonds Principal	Serial Bonds Interest	Total
2012	$ 1,058,177	$ 570,047	$ 1,628,224
2013	1,083,403	523,185	1,606,588
2014	1,114,493	475,211	1,589,704
2015	826,220	432,214	1,258,434
2016	870,388	394,302	1,264,690
2017-2021	4,365,046	1,359,819	5,724,865
2022-2026	939,288	737,021	1,676,309
2027-2031	1,158,096	470,521	1,628,617
Thereafter	1,165,267	163,111	1,328,378
Total	$ 12,580,378	$ 5,125,431	$ 17,705,809

ii) Jefferson County Industrial Development Agency

As of September 30, 2011, notes payable were as follows: note payable to M&T Bank, secured by a $969,339 standby letter of credit, first lien on Stream building and contents and guaranty of Local Development Corporation of the City of Watertown. The note is due in monthly installments of $80,106 including interest at 2.989%. At September 30, 2011 the loan has two years remaining with a variable interest rate.

Grant repayment of 40% of the Industrial Access project due to the New York State Department of Transportation. Payments are to start one year from project completion; however, as of September 30, 2011, the project has not been completed.

Secured notes payable due to the Local Development Corporation of the City of Watertown, interest is due quarterly at 4%.

M&T Bank	$ 1,938,678
New York State Department of Transportation	180,160
Total notes payable	2,118,838
Less: current portion	(915,437)
Long-term portion	$ 1,203,401

The Agency's long-term debt activity for the year ended September 30, 2011:

	Balance 10/1/2010	Addition	Decreases	Balance 9/30/2011	Due Within One Year
Notes payable	$ 3,034,698	$ -	$ 915,860	$ 2,118,838	$ 915,437

Remaining annual maturities of long-term debt for the Agency, excluding $180,160 of notes due to the State Department of Transportation, are as follows:

Year Ending September 30,	Notes Payable Principal	Notes Payable Interest	Total Due
2012	$ 915,437	$ 45,832	$ 961,269
2013	943,341	17,928	961,269
2014	79,900	-	79,900
Total	$ 1,938,678	$ 63,760	$ 2,002,438

11. RETIREMENT PLANS

Plan Description—The County participates in the New York State and Local Employees' Retirement System ("ERS)". In addition, all faculty and administrators of the College (a Component Unit) have the option of participating in the New York State Teachers' Retirement System ("TRS") or the Teachers' Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New

York ("Comptroller") serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy—The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 ("ERS"), who generally contribute 3% of their salary for their entire length of service. Under the authority of NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the New York State Local Retirement fiscal year ending March 31. Included in the amount billed to the County are amounts for Jefferson Community College. The College reimburses its share to the County.

Contributions for the current year and two preceding years were equal to 100% of contributions required, and were as follows:

Year	ERS Contribution
2011	$ 6,624,137
2010	4,770,790
2009	2,775,646

The College's share for the current and two preceding years were:

Year	ERS Contribution
2011	$ 643,792
2010	447,435
2009	248,814

12. OTHER POST-EMPLOYMENT BENEFITS

Plan Description—In 2007, the County adopted GASB Statement No. 45, *Funding and accounting for Other Post-employment Benefits ("OPEB") for Current and Retired Employees*. In the past, the County reported the cost of retiree health care on a "pay-as-you-go" basis.

An actuarial valuation of the Jefferson County Retiree Medical Program (the "Plan") was performed as of January 1, 2011 for the fiscal years ending December 31, 2011. The Plan is a single-employer defined benefit Healthcare Plan administered by the county of Jefferson. The Plan provides medical, hospital, drug part B Premium Reimbursements and vision benefits to eligible retirees and their spouses. Sheriffs do not receive vision benefits. The County of Jefferson assigns the authority to establish and amend benefit provisions to the County Legislature. The Plan does not issue a standalone financial report.

Funding Policy—The contribution requirements of Plan members and the County are established and may be amended by the County Legislature. The County Legislature has negotiated several collective bargaining agreements, which include obligations of Plan members and the County. The required contribution is based on projected pay-as-you-go financing requirements. For the year ended December 31, 2011, the County contributed $5,391,733 to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit.

Annual OPEB Cost and Net OPEB Obligation—The County's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years.

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

	2011	2010
Normal Cost for Year Ending December 31,	$ 10,746,896	$ 7,114,600
Amortization of UAAL	9,985,542	7,087,600
Interest	429,876	59,200
Annual required contribution	21,162,314	14,261,400
Interest on net OPEB obligation	1,698,040	1,570,400
Adjustment to annual required contribution	(1,516,133)	(1,203,600)
Annual OPEB cost (expense)	21,344,221	14,628,200
Contributions made	(5,391,733)	(4,111,076)
Increase in net OPEB obligation	15,952,488	10,517,124
Net OPEB obligation—beginning of year	42,451,011	31,933,887
Net OPEB obligation—end of year	$ 58,403,499	$ 42,451,011

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

Year Ended December 31,	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 21,344,221	$ 5,391,733	25.3%	$ 58,403,499
2010	14,628,200	4,111,076	28.1%	42,451,011
2009	13,742,600	3,645,526	26.5%	31,933,887

Funding Status and Funding Progress—As of January 1, 2011, the most recent actuarial valuation date, the plan was not funded. Since there were no assets legally segregated for the Plan, the unfunded actuarial liability for benefits was $268,836,959. As of December 31, 2011 the County has had two actuarial valuations performed. Accordingly, information from the study is presented in the County's Schedule of Funding Progress and the Schedule of the County's Contributions on the following page.

The County's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Acturial Value of Assets	Acturial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL as a Percentage of Covered Payroll
December 31, 2011	$ -	$ 268,836,959	$ 268,836,959	0.0%	$ 36,428,389	738.0%
December 31, 2010	-	174,400,300	174,400,300	0.0%	38,694,580	450.7%
December 31, 2009	-	174,400,300	174,400,300	0.0%	37,279,501	467.8%

Actuarial Methods and Assumptions—Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding funded status of the Plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposed are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation was performed utilizing the level percent amortization method. The results shown above are based on the baseline assumptions with respect to the medial inflation rate. The actuarial assumptions included annual healthcare cost trend rate of 5% initially, increased by increments to an ultimate rate of 6.4% after ten years. The rate also includes a 4% inflation assumption, which is a decrease from the 5% rate used in the December 31, 2009 valuation. The County's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year period. A single amortization base is re-amortized each year (open basis, as defined under GASB Statement No. 45).

A. Discretely presented component unit—Jefferson Community College

Plan Description—The College administers the Jefferson Community College Retiree Medical Plan (the "Plan") as a single-employer defined benefit Other Postemployment Benefit plan. The plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the College subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report, as there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy—The obligations of the Plan members, employers and other entities are established by action of the College pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The College currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. For the fiscal year 2011, the College contributed

$1,044,000 for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on date of hire. The costs of administering the Plan are paid by the College.

Annual OPEB Cost and Net OPEB Obligation—The College's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the College's net OPEB obligation to the Plan:

	2011	2010
Annual required contribution	$ 3,427,119	$ 3,633,492
Interest on net OPEB obligation	407,603	312,760
Adjustment to annual required contribution	(589,294)	(452,174)
Annual OPEB cost (expense)	3,245,428	3,494,078
Contributions made	(1,044,000)	(1,123,000)
Increase in net OPEB obligation	2,201,428	2,371,078
Net OPEB obligation—beginning of year	10,190,079	7,819,001
Net OPEB obligation—end of year	$ 12,391,507	$ 10,190,079

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

Year Ended August 31,	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 3,384,453	$ 1,011,596	30%	$ 7,819,001
2010	3,494,078	1,123,000	32%	10,190,079
2011	3,245,428	1,044,000	32%	12,391,507

Funding Status and Funding Progress—The funded status of the plan as of August 31, 2011 was as follows:

Actuarial accrued liability ("AAL")	$ 38,649,162
Actuarial value of plan assets	-
Unfunded actuarial accrued liability ("UAAL")	$ 38,649,162
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	Not available
UAAL as percentage of covered payroll	Not available

The Schedule of Funding Progress presents multi-year trend information that is useful in determining whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The projection of benefits is based on the types of benefits provided under the substantive Plan at the time of the valuation date and on the pattern of cost-sharing between the employer and Plan members. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and Plan members of the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Acturial Value of Assets	Acturial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL as a Percentage of Covered Payroll
December 31, 2009	$ -	$ 38,572,255	$ 38,572,255	0.0%	not available	n/a
December 31, 2010	-	40,334,238	40,334,238	0.0%	not available	n/a
December 31, 2011	-	38,649,162	38,649,162	0.0%	not available	n/a

Actuarial Methods and Assumptions—The actuarial cost method used to calculate the costs of the Plan for age, disability, vested and surviving spouse's benefits is known as the Projected Unit Credit Actuarial Cost Method. Under this method, each participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial date and actuarial assumptions. The actuarial assumptions included annual healthcare cost trend rate of 12% initially, reduced by decrements to an ultimate rate of 5% after ten years. The discount rate as of September 1, 2010 and August 31, 2011 was 4% per year compounded annually. This is the rate used to discount future benefit liabilities into today's dollars. The College's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year period. A single amortization base is re-amortized each year (open basis, as defined under GASB Statement No. 45).

13. DEFERRED COMPENSATION PLAN

In October, 1997, the Governmental Accounting Standards Board issued Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Plans."* This statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

On October 1, 1997, the New York State Deferred Compensation Board (the "Board") created a Trust and Custody agreement making JP Morgan Chase Bank the Trustee and Custodian of the Plan. Consequently, Statement No. 32 became effective for the New York State Deferred compensation Plan as of October 1, 1997. As the Board is no longer the trustee of the plan, the Plan no longer meets the criteria for inclusion in New York State's financial statements. Therefore, municipalities which participate in New York State's Deferred Compensation Plan are no longer required to record the value of the Plan assets. The County participates in the Plan which is administered for them by Nationwide Retirement Solutions.

14. LEASE COMMITMENTS-OPERATING LEASE

The County leases vehicles for the sheriff, building code officers and the Board of Elections under non-cancelable operating leases. Additionally, during 2009 the County entered into a four year lease on copier equipment. Total costs for such leases were $102,170 for the year ended December 31, 2011.

During 2009, the County entered into an agreement with the Watertown Savings Bank to lease a building on Coffeen Street to use in operation of Workforce Development. Costs for this lease totaled $107,280 for the year ended December 31, 2011. The future minimum lease payments for these leases are as follows:

Year Ending December 31,	Vehicles & Copiers Amount	Property Amount	Total Due
2012	$ 92,325	$ 71,520	$ 163,845
2013	46,747	-	46,747
Total	$ 139,072	$ 71,520	$ 210,592

15. JOINT VENTURE/LONG-TERM RECEIVABLE

The County has entered into an intermunicipal agreement with the City of Watertown, New York for the operation of a Public Safety Facility. The County receives a minimum lease payment annually from the City based on the prorated share of square footage utilized by the City. For its prorated share of costs for operation and maintenance in 2011, the City was billed $145,011 for the lease agreement as well as $179,079 for joint services. These payments are offset by a percentage of construction costs incurred by the City. Regardless of whether the City continues the lease, they will remain liable for a share of the debt service. Debt service paid by the City in 2011 was $192,424.

Future payments from the City toward their share of debt service are scheduled as follows:

Year Ending December 31,	Amount
2012	$ 182,462
2013	172,499
2014	162,537
2015	152,573
	$ 670,071

16. RELATED ORGANIZATIONS

A. Jefferson County Soil and Water Conservation District

The Legislature of Jefferson County has declared the County to be a Soil and Water Conservation District in accordance with the provisions of the Soil and Water Conservation District Law. Members of the Board of Directors have been appointed by the County governing body and administrative costs of the District are provided primarily through County appropriations. The County Board of Legislators retains general oversight responsibilities including monitoring district activities through detailed reporting to the Legislature by the District Directors of its work and transactions in such periods as the legislature may direct. However, the District does not meet any of the Imposition of Will criteria or the financial benefit/burden relationship with the County to qualify it as a component unit of the County. This was determined through a review of New York State Statute, Article 2, §6-9 as provided by the County Attorney.

On September 1, 2009, The Jefferson County Board of Legislators authorized an advance of $15,000 to the Jefferson County Soil and Water Conservation District. These funds were for the purpose of covering the initial expenditures related to trail improvements on county reforestation property. Jefferson County Soil and Water was to be reimbursed trail expenditures through a grant from the New York State Office of Parks, Recreation and Historic Preservation. A memorandum of understanding was established between the County and the Soil and Water Conservation District to repay the funds to the County upon the receipt of the grant funds. As of December 31, 2011, these funds had not been repaid to the County.

The annual financial report can be obtained from the District's administration office at Jefferson County Soil and Water Conservation District, 21168 State Route 232, PO Box 838, Watertown, NY 13601.

B. Thousand Islands Bridge Authority

The Thousand Islands Bridge Authority is a public benefit corporation created by State Legislation to promote the economic welfare, recreation, and prosperity of the County inhabitants. Members of the agency are appointed by the municipal governing body which exercises no oversight responsibility. The agency members have complete responsibility for management of the agency and accountability for fiscal matters. The municipality is not liable for agency bonds or notes.

17. NET ASSETS AND FUND BALANCE

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

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

Capital assets, net of accumulated depreciation		$ 133,742,735
Related debt:		
Serial bonds issued	(17,845,000)	
Serial bonds issued on behalf of Jefferson Community College	4,300,000	
Unspent proceeds reported within the Capital Projects Fund	716,757	
Debt issued issued for capital assets		(12,828,243)
Investment in capital assets, net of related debt		$ 120,914,492

- ***Restricted net assets***—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

A Capital Reserve Fund/Solid Waste Management net asset restriction is reported in the County's Proprietary Fund and was established by the County Board within the Solid Waste Management Enterprise Fund to finance future costs of equipment replacement and capital improvements, including facility reconstruction. By resolution, monies for “the reserve” were taken from those funds equal to the depreciation which had been accumulated. The fund is managed in accordance with section 6-c of the Municipal Law.

B. GASB No. 54—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 had $1,976,296 of prepaid expenses and $1,200,000 representing a long term receivable that were classified as nonspendable funds.

Restricted—Amounts that are subject to externally enforceable legal purpose 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 funds:

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Restricted for:				
Workers' compensation	$ 319,198	$ -	$ -	$ 319,198
Unemployment insurance	69,624	-	-	69,624
Insurance	1,920,707	-	-	1,920,707
Repairs	25,086	-	-	25,086
Law enforcement and prosecution	16,499	-	-	16,499
Capital projects	-	716,757	-	716,757
Debt	-	-	97,150	97,150
Total restricted fund balance	$ 2,351,114	$ 716,757	$ 97,150	$ 3,165,021

Committed—Amounts that are subject to a purpose constraint imposed by a formal action of the County’s highest level of decision-making authority, or by their designated body or official. As of December 31, 2011, the Jefferson County Board of Legislators has committed $5,000,000 towards the development of an assisted living facility in the County.

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 on the following page were considered to be assigned.

	General Fund	Capital Projects Fund	County Road Fund	Road Machinery Fund	Total
Assigned for:					
Temporary assistance for needy					
families reserve	$ 643,653	$ -	$ -	$ -	$ 643,653
Assigned to workers' compensation	3,250,000	-	-	-	3,250,000
Assigned to software	1,500,000	-	-	-	1,500,000
Assigned to compensated absences	2,131,930	-	-	-	2,131,930
Assigned to risk retention	2,000,000	-	-	-	2,000,000
Encumbrances	348,485	2,801,647	93,167	62,395	3,305,694
Appropriated for subsequent					-
years' expenditures	10,732,650	-	-	-	10,732,650
Assigned to capital projects	-	5,993,068	-	-	5,993,068
Assigned to county road	-	-	2,383,157	-	2,383,157
Assigned to road machinery	-	-	-	757,826	757,826
Total assigned fund balance	$ 20,606,718	$ 8,794,715	$ 2,476,324	$ 820,221	$ 32,697,978

Significant encumbrances are amounts encumbered in excess of $100,000. As of December 31, 2011, there were the following significant encumbrances:

Description	Amount
Airport Project—Capital Projects Fund	$ 1,691,914
Airport Project—Capital Projects Fund	290,680

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 $8,628,787 which is the net of the negative assigned balance in the Special Grant Fund of $208,816.

Order of Fund Balance Spending Policy—The County's policy is to expend fund balances in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

Minimum Fund Balance—It is the intention of the Board of Legislators to maintain adequate reserves in the general fund unassigned fund balance equal to two months of general fund operating expenditures, net of local sales tax distribution. If the General Fund fund balance should fall 10% above or below the level set by the policy, the County Administrator shall recommend increasing or decreasing the use of fund balance appropriated in the following year's budget, such that in his estimation over the course of no more than three years, the fund balance will be again within the level set by the fund balance policy.

18. RISK FINANCING ACTIVITIES

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; injuries to employees; and natural disasters. The County assumes the liability for risks relating to property damage, personal injury liability, and workers' compensation. The County had also elected to purchase minor policies from commercial insurers to provide for items such as property damage coverage, as well as protection of valuable papers and records; settled claims have not exceeded commercial coverage in a material amount in any of the past three fiscal years.

Claims and judgments are recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. These liabilities include an estimate of claims that have been incurred but not reported, and the effects of both specific, incremental claims adjustment expenditures/expenses and estimated recoveries on unsettled claims, if any.

Proprietary type fund claims and judgments applicable to self-insured claims are recorded as expenses and liabilities in the Enterprise Funds (except workers' compensation, which is only recognized when invoiced from the County).

Claims and judgments reportable as part of the County's Governmental-type Fund Activities are recognized as expenditures and fund liabilities in the General Fund when payment is due. Claims and judgments are recorded as a Governmental Activities long-term liability instead of in the General Fund at December 31, 2011 because they did not meet the criteria for recognition as fund liabilities.

The changes since December 31, 2009 in the reported Governmental Activities for risk financing activities for worker's compensation claims were as follows:

Year Ended December 31,	Liability Beginning of Year	Claims and Ajustments	Claim Payments	Liability End of Year
2011	$ 9,266,435	$ 1,922,753	$ 1,903,976	$ 9,285,212
2010	9,263,586	2,422,626	2,419,777	9,266,435

19. OTHER CONTINGENT LIABILITIES

Sales tax audits—The State of New York periodically audits its distribution of sales tax revenues to counties throughout the State. Subsequent revisions to the revenues recorded as of December 31, 2011, if any, would be reflected in the operations statement in the year they are calculated.

Grant and aid programs—The County receives significant financial assistance from numerous federal and state agencies. The receipt of such funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the County. The amount of disallowance, if any, cannot be determined at this time, although the County expects any such amounts to be immaterial.

Other—The County is also involved in litigation arising in the ordinary course of its operations. The County believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the County's financial condition or results of operations.

20. DEFICIT FUND BALANCE

Special Grant Fund—The Special Grant Fund reported an unassigned deficit of $208,816 at December 31, 2011. This deficit is primarily caused by timing and reporting within two funding periods. The County's fiscal year is a calendar year while the Special Grant fund operates on a July 1st to June 30th fiscal year. In addition, there are operating costs which qualify for reimbursement under an agreement that was not yet fully executed. It is anticipated that the deficit will be remedied by future reimbursements from New York State.

Enterprise Fund—The Solid Waste Management Facility Fund reported an unrestricted net asset deficit of $949,856, which reflects an increase of $287,987 to the December 31, 2010 deficit. Prior years' deficits resulted from the repayment of start-up costs to the General Fund in 2003 and other substantial capital asset investments. During the current fiscal year, the Enterprise Fund reflected a substantial investment in capital assets for the construction of a new facility, which is a non-recurring event. It is anticipated that future operations will increase net assets.

21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 11, 2012, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

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REQUIRED SUPPLEMENTAL INFORMATION

COUNTY OF JEFFERSON, NEW YORK
Required Supplementary Information
Budgetary Comparison Schedule (Non-GAAP)—General Fund
Year Ended December 31, 2011

	Budgeted Amounts		Budgetary	Variance with
	Original	Final	Amount	Final Budget
REVENUES				
Real property taxes	$ 46,046,210	$ 46,046,210	$ 45,793,174	$ (253,036)
Real property tax items	2,900,000	3,087,632	3,361,649	274,017
Non property tax items	66,379,170	67,949,151	69,502,689	1,553,538
Departmental income	14,341,675	14,378,975	13,859,251	(519,724)
Intergovernmental charges	3,618,109	3,624,908	3,825,999	201,091
Use of money and property	539,000	544,200	424,326	(119,874)
Licenses and permits	10,000	10,000	21,131	11,131
Fines and forfeitures	285,192	291,192	291,590	398
Sale of property and compensation for loss	1,443,000	1,462,534	1,348,130	(114,404)
Miscellaneous	1,977,697	2,012,865	2,324,556	311,691
Interfund revenues	587,067	565,441	-	(565,441)
State aid	18,336,967	18,519,128	18,413,666	(105,462)
Federal aid	20,963,150	21,973,015	23,813,735	1,840,720
Total revenues	177,427,237	180,465,251	182,979,896	2,514,645
EXPENDITURES				
Current:				
General government support	53,937,338	54,029,623	52,674,230	1,355,393
Education	10,995,548	10,995,548	10,061,670	933,878
Public safety	18,762,426	21,435,595	20,344,590	1,091,005
Health	14,126,173	14,418,899	13,049,664	1,369,235
Transportation	836,490	2,411,583	808,174	1,603,409
Economic assistance and opportunity	62,213,114	63,417,459	62,970,614	446,845
Culture and recreation	655,665	706,237	434,273	271,964
Home and community services	792,309	2,365,744	976,627	1,389,117
Employee benefits	10,232,202	11,469,987	7,302,898	4,167,089
Total expenditures	172,551,265	181,250,675	168,622,740	12,627,935
Excess (deficiency) of revenues over (under) expenditures	4,875,972	(785,424)	14,357,156	15,142,580
OTHER FINANCING SOURCES (USES)				
Transfers in	100,000	573,324	573,324	-
Transfers out	(15,236,079)	(15,545,711)	(15,545,711)	-
Total other financing sources (uses)	(15,136,079)	(14,972,387)	(14,972,387)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(10,260,107)	(15,757,811)	(615,231)	$ 15,142,580
Appropriated fund balance	10,260,107	15,757,811		
Net change in encumbrances			(995,866)	
Net change in fund balance	$ -	$ -	(1,611,097)	
Fund balances—beginning			41,425,646	
Fund balances—ending			$ 39,814,549	

The notes to the Required Supplementary Information are an integral part of this statement.

1. REPORTING ON BUDGETARY BASIS

The County reports its budgetary status with the actual data including encumbrances as charges against budgeted appropriations. Following is a reconciliation of the budgetary and GAAP basis operating results.

	General Fund
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses - GAAP basis	$ (1,611,097)
Add: 2010 encumbrances	1,344,351
Less: 2011 encumbrances	(348,485)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses - basis of budgeting	$ (615,231)

SUPPLEMENTAL SCHEDULES

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COUNTY OF JEFFERSON, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
December 31, 2011

	County Road Fund	Road Machinery Fund	Special Grant Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,592,209	$ 922,721	$ 173,067	$ -	$ 3,687,997
Restricted cash	-	-	-	97,150	97,150
Accounts receivables, net of allowances for estimated uncollectible amounts	485	3,517	-	-	4,002
Due from other funds	1,049	372	181,227	-	182,648
Due from state and federal governments	-	-	21,263	-	21,263
Due from other governments	19,224	11,327	22,190	-	52,741
Prepaid items	94,147	19,006	38,578	-	151,731
Total assets	$ 2,707,114	$ 956,943	$ 436,325	$ 97,150	$ 4,197,532
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 47,220	$ 98,483	$ 49,550	$ -	$ 195,253
Accrued liabilities	89,423	19,233	38,729	-	147,385
Due to other governments	-	-	4,267	-	4,267
Due to other funds	-	-	510,332	-	510,332
Other liabilities	-	-	3,685	-	3,685
Total liabilities	136,643	117,716	606,563	-	860,922
Fund balances (deficit):					
Nonspendable	94,147	19,006	38,578	-	151,731
Restricted	-	-	-	97,150	97,150
Assigned	2,476,324	820,221	-	-	3,296,545
Unassigned	-	-	(208,816)	-	(208,816)
Total fund balances (deficit)	2,570,471	839,227	(170,238)	97,150	3,336,610
Total liabilities and fund balances (deficit)	$ 2,707,114	$ 956,943	$ 436,325	$ 97,150	$ 4,197,532

COUNTY OF JEFFERSON, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2011

	County Road Fund	Road Machinery Fund	Special Grant Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES					
Departmental income	$ 963	$ -	$ 832,580	$ -	$ 833,543
Intergovernmental charges	54,637	103,779	-	-	158,416
Use of money and property	12,497	319	50,668	353	63,837
Licenses and permits	570	-	-	-	570
Sale of property and compensation for loss	1,044	42,814	22	-	43,880
Miscellaneous	4,164	161	25	-	4,350
Interfund revenues	40,000	322,016	-	-	362,016
State aid	2,931,447	-	110,927	-	3,042,374
Federal aid	-	-	2,951,335	-	2,951,335
Total revenues	3,045,322	469,089	3,945,557	353	7,460,321
EXPENDITURES					
Current:					
Public safety	581,224	-	-	-	581,224
Transportation	9,713,578	2,111,079	-	-	11,824,657
Economic assistance & opportunity	-	-	2,719,850	-	2,719,850
Home and community services	-	-	1,249,269	-	1,249,269
Employee benefits	22,286	3,894	-	-	26,180
Debt service:					
Principal	-	-	-	2,400,000	2,400,000
Interest and fiscal charges	-	-	-	854,832	854,832
Total expenditures	10,317,088	2,114,973	3,969,119	3,254,832	19,656,012
Excess (deficiency) of revenues over (under) expenditures	(7,271,766)	(1,645,884)	(23,562)	(3,254,479)	(12,195,691)
OTHER FINANCING SOURCES (USES)					
Transfers in	9,311,103	1,745,092	-	3,154,584	14,210,779
Transfers out	(1,705,000)	-	-	-	(1,705,000)
Proceeds of refunding bonds	-	-	-	9,440,000	9,440,000
Net premium on refunding bonds	-	-	-	975,449	975,449
Payment to escrow agent	-	-	-	(10,415,449)	(10,415,449)
Total other financing sources (uses)	7,606,103	1,745,092	-	3,154,584	12,505,779
Net change in fund balances	334,337	99,208	(23,562)	(99,895)	310,088
Fund balances—beginning	2,236,134	740,019	(146,676)	197,045	3,026,522
Fund balances —ending	$ 2,570,471	$ 839,227	$ (170,238)	$ 97,150	$ 3,336,610

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FEDERAL AWARDS

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COUNTY OF JEFFERSON, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor		Federal Expenditures	
U.S. DEPARTMENT OF AGRICULTURE					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	NYS Office of Temporary & Disability Assistance (OTDA)		$1,796,729	
TOTAL U.S. DEPARTMENT OF AGRICULTURE					**$ 1,796,729**
U.S. DEPARTMENT OF DEFENSE					
Health Quality Initiative	12.420	Fort Drum Regional Health Planning Organization		25,000	
TOTAL U.S. DEPARTMENT OF DEFENSE					**25,000**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Community Development Block Grant-Entitlement Grant	14.228	NYS Governor's Office for Small Cities		611,613	
HUD Shelter Plus Care	14.238	N/A Direct		244,943	
ARRA- Homelessness Prevention and Rapid Re-Housing Program	14.257	NYS OTDA		727,629	
Home Investment Partnerships Program	14.239	N/A Direct		637,656	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					**2,221,841**
U.S. DEPARTMENT OF JUSTICE					
State Criminal Alien Assistance Program	16.606	NYS Division of Criminal Justice		1,295	
Bulletproof Vest Partnership Program	16.607	N/A Direct		412	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	City of Watertown		9,704	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	NYS Division of Criminal Justice		19,077	
TOTAL U.S. DEPARTMENT OF JUSTICE					**30,488**
U.S. DEPARTMENT OF LABOR					
Senior Community Service Employment Program	17.235	NYS Office for the Aging		36,852	
Trade Adjustment Assistance	17.245	NYS Department of Labor		307,856	
Workforce Investment cluster:					
WIA—Adult Program	17.258	NYS Department of Labor	391,472		
ARRA—WIA—Adult Program	17.258	NYS Department of Labor	25,936		
WIA—Youth Activities	17.259	NYS Department of Labor	360,314		
ARRA—WIA—Youth Activities	17.259	NYS Department of Labor	6,776		
ARRA—WIA—Dislocated Workers	17.260	NYS Department of Labor	174,647		
WIA—Dislocated Workers	17.278	NYS Department of Labor	269,701		
Total Workforce Investment cluster				1,228,846	
TOTAL U.S. DEPARTMENT OF LABOR					**1,573,554**

(continued)

COUNTY OF JEFFERSON, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor		Federal Expenditures	
U.S. DEPARTMENT OF TRANSPORTATION					
Airport Improvement Program	20.106	N/A Direct		316,133	
Highway Planning and Construction	20.205	NYS Department of Transportation		96,158	
Highway Safety cluster:					
State and Community Highway Safety	20.600	NYS Governors Traffic Safety	14,864		
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	NYS Governors Traffic Safety	18,460		
Total Highway Safety cluster				33,324	
TOTAL U.S. DEPARTMENT OF TRANSPORTATION					**445,615**
U.S. DEPARTMENT OF EDUCATION					
Career and Technical Education - Basic Grants to States	84.048	Jefferson Community College		10,929	
Early Intervention Services (IDEA) cluster:					
Special Education—Grants for Infants and Families	84.181	NYS Department of Health	86,402		
ARRA—Special Education—Grants for Infants and Families,	84.393	NYS Department of Health	38,555		
Total Early Intervention Services (IDEA) cluster				124,957	
TOTAL U.S. DEPARTMENT OF EDUCATION					**135,886**
U.S. ELECTION ASSISTANCE COMMISSION					
Help America Vote Act Requirement Payments	90.401	NYS Board of Elections		51,082	
TOTAL U.S. ELECTION ASSISTANCE COMMISSION					**51,082**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Special Programs for Aging, Title VII, Chapter 2	93.042	NYS Office for the Aging		13,592	
Special Programs for Aging Title III , Part D	93.043	NYS Office for the Aging		6,266	
Aging Cluster					
Special Programs for Aging, Title III, Part B	93.044	NYS Office for the Aging	102,183		
Special Programs for Aging Title III, Part C	93.045	NYS Office for the Aging	184,604		
Nutrition Services Incentive Program	93.053	NYS Office for the Aging	77,888		
Total Aging Cluster:				364,675	
National Family Caregiver Support Title III, Part E	93.052	NYS Office for the Aging		45,436	
Public Health Emergency Preparedness	93.069	Health Research Institute		66,965	
Medicare Enrollment Assistance Program	93.071	NYS Office for the Aging		16,402	
Substance Abuse and Mental Health Services Program	93.243	NYS OASAS/RFMH		43,000	

(continued)

County of Jefferson, New York
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor		Federal Expenditures	
Immunization Grant	93.268	NYS Department of Health	37,253		
ARRA—Immunization Grant	93.712	NYS Department of Health	2,515		
Total Immunization Grant				39,768	
Centers for Disease Control and Prevention	93.283	NYS Department of Health		3,500	
Promoting Safe and Stable Families	93.556	NYS OTDA		69,922	
Temporary Assistance to Needy Families (TANF)	93.558	NYS OTDA		6,982,183	
Child Support Enforcement, Title IV-D	93.563	NYS OTDA		583,022	
Low Income Home Energy Assistance (HEAP)	93.568	NYS OTDA	5,922,371		
Low Income Home Energy Assistance (WRAP)	93.568	NYS Office for the Aging	25,926		
Total Low Income Home Energy Assistance				5,948,297	
Child Care & Development Block Grant	93.575	NYS OTDA		2,650,220	
Child Welfare Services-State Grants	93.645	NYS OTDA		53,851	
Foster Care, title IV-E	93.658	NYS OTDA	1,871,840		
ARRA- Foster Care, title IV-E	93.658	NYS OTDA	67,535		
Total Foster Care				1,939,375	
Adoption Assistance	93.659	NYS OTDA	1,245,666		
ARRA- Adoption Assistance	93.659	NYS OTDA	126,682		
Total Adoption Assistance				1,372,348	
Social Services Block Grant	93.667	NYS OTDA		2,292,579	
Medical Assistance Program	93.778	NYS OTDA	2,164,663		
Medical Assistance Program	93.778	NYS Department of Health	130,230		
Total Medical Assistance Program				2,294,893	
Centers for Medicare and Medicaid Services	93.779	NYS Office for the Aging		17,556	
Block Grants for Prevention & Treatment of Substance Abuse	93.959	NYS OASAS		632,213	
Maternal & Child Health Services Block Grant to the States	93.994	NYS Department of Health		66,168	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					**25,502,231**

(continued)

COUNTY OF JEFFERSON, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

(concluded)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures	
U.S. DEPARTMENT OF HOMELAND SECURITY				
Hazard Mitigation Grant Program	97.039	NYS Emergency Management	10,451	
Emergency Management Performance Grants	97.042	NYS Emergency Management	4,586	
Homeland Security Grant Program	97.067	NYS Office of Homeland Security	1,294,405	
Law Enforcement Officer Reimbursement Agreement Program	97.090	N/A Direct	87,907	
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				**1,397,349**
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$ 33,179,775**

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

COUNTY OF JEFFERSON, NEW YORK

Schedule of Expenditures of Federal Awards-Subrecipients
Year Ended December 31, 2011

Program Title/Subrecipient	Federal CFDA Number	Federal Expenditures
State Administrative Matching Grants for		
the Supplemental Nutrition Assistsance Program		
Cornell Cooperative Extension	10.561	$ 121,254
Community Development Block Grant-Entitlement Grant		
Neighbors of Watertown	14.228	527,879
Avalon Associates	14.228	83,734
HUD Shelter Plus Care - Lewis County	14.238	244,943
Home Investment Partnerships Program - DANC	14.239	626,404
Trade Adjustment Assistance - Lewis County	17.245	703
ARRA- Homelessness Prevention and Rapid Re-Housing Program		
North County Management Services, LLC	14.257	727,629
WIA—Adult Program - Lewis County	17.258	64,115
ARRA—WIA—Adult Program - Lewis County	17.258	1,175
WIA—Youth Activities - Lewis County	17.259	42,886
ARRA—WIA—Dislocated Workers - Lewis County	17.260	9,055
WIA—Dislocated Workers - Lewis County	17.278	59,478
Substance Abuse and Mental Health Services - SBIRT		
Alcohol and Substance Abuse Council	93.243	20,000
Samaritan Medical Center	93.243	7,000
Carthage Area Hospital	93.243	8,000
Medical Assistance Program - Other Mental Health Administration		
Children's Home Community Mental Health	93.778	55,230
Block Grants for Prevention & Treatment of Substance Abuse		
Credo Community Center for the Treatment of Addictions	93.959	620,725

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of County of Jefferson, New York (the "County") and is presented on the modified accrual basis of accounting. The information is this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

2. INDIRECT COSTS

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

3. MATCHING COSTS

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

4. DEPARTMENT OF SOCIAL SERVICES – ADMINISTRATIVE COSTS

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

5. NON-MONETARY FEDERAL PROGRAM

The County is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed a non-monetary program. During the year ended December 31, 2011, the County distributed $23,975,500 worth of food stamps to eligible persons participating in the Food Stamp Program, CFDA No. 10.551.

6. RECONCILIATION

A reconciliation to the basic financial statements is available.

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Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

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

Honorable County Executive and County Legislature
County of Jefferson, New York:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Jefferson, New York (the "County"), as of and for the year ended December 31, 2011, and have issued our report thereon dated July 11, 2012. Our report refers to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Jefferson Community College and the Jefferson County Industrial Development Agency, as described in our report on the County's financial statements. This reports includes our consideration of the results of the other auditors' testing of internal controls over financial reporting and compliance and other matters that are reported on separately by those auditors. However, this report insofar as it relates to the results of other auditors, is based solely on the reports of the other auditors.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the County in a separate letter dated July 11, 2012.

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

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

Drescher & Malecki LLP

July 11, 2012

Drescher & Malecki LLP
3083 William Street, Suite 5
Cheektowaga, New York 14227
Telephone: 716.565.2299
Fax: 716.565.2201

Certified Public Accountants

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

Honorable County Executive and County Legislature
County of Jefferson, New York:

Compliance

We have audited the County of Jefferson, New York's, (the "County") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2011. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of County management. Our responsibility is to express an opinion on the County's compliance based on our audit.

The County's basic financial statements include the operations of the Jefferson Community College and the Jefferson County Industrial Development Agency, which received $14,653,777 and $-0- in federal awards, respectively, which is not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2011. Our audit, described below, did not include the operation of the Jefferson Community College and the Jefferson County Industrial Development Agency, because other auditors were engaged to perform such audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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

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

Drescher & Malecki LLP

July 11, 2012

Part I. Summary of auditors' results

Financial Statements

Type of auditors' report issued: Unqualified*

* which report refers to other auditors

Internal control over financial reporting:

1. Material weakness(es) identified?	______ Yes	✓ No
2. Significant deficiency(ies) identified?	✓ Yes	______ None reported
3. Noncompliance material to financial statements noted?	______ Yes	✓ No

Federal Awards:

Internal control over major programs:

4. Material weakness(es) identified?	______ Yes	✓ No
5. Significant deficiency (ies) identified?	______ Yes	✓ None reported

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

6. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	______ Yes	✓ No

7. The County's major programs were:

Name of Federal Program	CFDA Number
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257
Immunization Grant	
Immunization Grant	93.268
ARRA—Immunization Grant	93.712
Adoption Assistance	93.659
ARRA—Adoption Assistance	93.659
Low Income Home Energy Assistance	
Low Income Home Energy Assistance (HEAP)	93.568
Low Income Home Energy Assistance (WRAP)	93.568
Foster Care	93.658
ARRA—Foster Care	93.658

(continued)

Social Services Block Grant	93.667
Medical Assistance Program	93.778
Homeland Security Grant Program	97.067

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 995,393

9. Auditee qualified as low-risk auditee? ✓ Yes ____ No

(concluded)

Part II. Financial statement findings section

Finding 2011-1—*Waste Management Facility - Segregation of Duties*

Criteria—Certain tasks of the accounting process, such as the receiving of cash, voiding transactions, balancing and reconciling accounts, and making deposits should be segregated. No one person should have the ability to perform all tasks.

Condition—During the course of the audit, we noted that the clerks at the Waste Management Facility perform most of the cash and cash receipt duties and also have access to the reconciling of accounts. There is no formal review process performed to verify that the amounts collected agree to the amounts actually received that day. Further, there are no security cameras located at the facility.

Cause—Lack of procedures to mitigate risk.

Effect—An inadequate design of cash controls increases the risk that cash assets will be misappropriated or that cash receipts will not be properly recorded.

Audit Recommendation—We recommend that the County continue reviewing the Solid Waste Management Facility's receipt of cash and consider improvements to strengthen internal controls. The County should evaluate the cost and benefit of several alternatives including, but not limited to, the installation of security cameras and/or performing internal cash audits.

Management's Response—The Treasurer, in conjunction with the County Auditor and staff at the recycling center, will continue to pursue methods to properly segregate duties as much as possible to mitigate the risk of loss of cash. Procedures that are being considered are periodic audits and rotation of end of day processing duties at the Solid Waste Management Facility (SWMF). Daily reports are currently being reviewed in the Treasurer's office to verify the cash collected by the clerk at the SWMF.

Part III. Federal award findings and questioned costs section

None noted.

COUNTY OF JEFFERSON, NEW YORK
Schedule of Prior Year Audit Findings
Year Ended December 31, 2011
(Follow Up on December 31, 2010 Findings)

The following item was identified as reportable for the year ended December 31, 2010:

Finding 2010-1—Solid Waste Management Facility

Criteria—An objective of sound internal control is to obtain assurance that all amounts received at a location are appropriately tracked and subsequently recorded in the general ledger. Additionally, accounts receivable should be accurately maintained to reflect the amount of cash which is expected to be received and should not include any old receivables that are not expected to be converted to cash.

Condition—Through our procedures we found that an employee at the Solid Waste Management Facility has the ability to record receiving transactions, and has the ability to void such transactions. Additionally, the same person processes customer invoices and has access to the accounts receivable records at the Solid Waste Management Facility. Furthermore, we found the accounts receivable ledger of the facility contains several old accounts receivable and there are certain instances in which receivables are credited. Moreover, although most transactions are performed on credit, some are cash transactions. For these transactions we note that only one employee performs collections at the point of sale, as such there are no segregation of duties. Finally, although the Solid Waste Management Facility remits receiving reports to the Treasurer, we were not provided with formalized procedures for a daily close-out of each day's transactions.

Effect—An inadequate design over cash controls increases the risk that cash assets will be misappropriated or that cash receipts will not be properly recorded.

Cause—Lack of procedures to mitigate risk.

Recommendation—We recommend that the County review the Solid Waste Management Facility's receipt of cash and consider improvements to strengthen internal controls. The County should evaluate the cost and benefit of several alternatives including, but not limited to, the installation of security cameras and/or performing internal cash audits.

Management's Corrective Action Plan—The Treasurer will review the processes at the Solid Waste Management Facility ("SWMF") to determine how a proper segregation of duties can be accomplished. The first step will be a full reconciliation of the account balances in the accounts receivable. Past due amounts will be reviewed with the SWMF department head to determine the collectability of those amounts past due. Once the uncollectible amounts are recognized, a write off of these amounts will be proposed to the Board of Legislators. Procedures will be developed to outline steps to be taken to collect past due amounts as well as steps to be taken to void transactions and to establish procedures for issuing credits to receivable accounts. Consideration will be given to the installation of security cameras and to the performance of periodic internal cash audits.

Current Status—The Solid Waste Management Facility has made improvements from the prior year however, there certain deficiencies were not remedied during the year ended December 31, 2011. Accordingly, an updated comment has been reported for the audit of the year ended December 31, 2011.