County of Jefferson, New York

Basic Financial Statements, Required Supplementary Information, Supplemental Schedules and Federal Assistance Information for the Year Ended December 31, 2012 and Independent Auditors' Reports

COUNTY OF JEFFERSON, NEW YORK
Table of Contents

(continued)

(concluded)

Required Supplemental Information:

Supplemental Schedules:

Federal Awards:

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Honorable County Legislature
County of Jefferson, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jefferson County Industrial Development Agency and the Jefferson County Community College, which are shown as discretely presented component units. Those statements were audited by other auditors whose reports 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 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 from material misstatement.

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

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

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining fund statements and supplemental schedules listed in the foregoing table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Drescher & Malecki LLP

July 3, 2013

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, 2012. 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 and deferred outflows of resources of the County exceeded its liabilities at December 31, 2012 by $92,505,363 (net position) compared to $111,018,839 at December 31, 2011. The County anticipates net position to continue to decrease due to the effect of recognizing the other postemployment benefits liability.
- The County's total net position decreased by $19,063,433. Governmental Activities decreased the County's net position by $19,186,045, while the net position of Business-type Activities increased $122,612.
- As of December 31, 2012, the County's Governmental Funds reported combined fund balances of $50,151,100, a decrease of $2,511,531 in comparison with the prior year. General Fund fund balance of $6,675,808 is available to meet the County's current and future needs (unassigned fund balance).
- The General Fund recorded a decrease of $2,690,013 for the year ended December 31, 2012 and ended the year with a fund balance of $37,124,536. Of this, $8,168,061 is considered nonspendable, $2,617,913 is restricted, and $19,662,754 is assigned 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.

The *statement of net position* presents information on all of the County's assets, liabilities, and deferred inflows/outflows of resources, with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position 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).

Both of the government-wide financial statements distinguish function of the County that principally are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, county roads, health and social services, public safety, general administrative services, culture and recreation, and solid waste management.

The government-wide financial statements include not only the County itself (known as the primary government), but also a legally separate Community College and an Industrial Development Agency. Financial information presented for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 14-15 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, aggregated 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 statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds. The County maintains one enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its Solid Waste Facility.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

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

The basic fiduciary fund financial statement can be found on page 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to acquire 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 24-57 of this report.

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

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. The additional required supplementary information can be found on pages 58-59 of this report.

The Federal Awards section presents the County's Schedule of Expenditures of Federal Awards. This section can be found on pages 62-67 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities of the primary government by $92,505,363 at the close of the most recent fiscal year.

The County's combined net position for fiscal year ended December 31, 2012 decreased from $111,568,796, as restated, to $92,505,363. By far, the largest portion of the County's net position, $126,697,087, 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 position, $3,470,505, represents resources subject to external restrictions on how they may be used and are reported as restricted net position. The remaining category of total net position, $37,662,229, is considered to be an unrestricted net deficit.

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

Table 1—Condensed Statements of Net Position—December 31, 2012 and December 31, 2011

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	$ 84,148,299	$ 85,719,934	$ 912,425	$ 734,635	$ 85,060,724	$ 86,454,569
Noncurrent assets	1,415,110	2,404,366	-	-	1,415,110	2,404,366
Capital assets	135,404,488	133,742,735	3,322,599	3,436,713	138,727,087	137,179,448
Total assets	220,967,897	221,867,035	4,235,024	4,171,348	225,202,921	226,038,383
Deferred outflows of resources	1,385,746	-	-	-	1,385,746	-
Current liabilities	25,249,718	26,001,908	157,139	124,725	25,406,857	26,126,633
Noncurrent liabilities	107,540,527	87,665,641	1,135,920	1,227,270	108,676,447	88,892,911
Total liabilities	132,790,245	113,667,549	1,293,059	1,351,995	134,083,304	115,019,544
Net position:						
Net investment in capital assets	123,374,488	120,914,492	3,322,599	3,436,713	126,697,087	124,351,205
Restricted	3,137,510	3,118,335	332,995	332,496	3,470,505	3,450,831
Unrestricted	(36,948,600)	(15,833,341)	(713,629)	(949,856)	(37,662,229)	(16,783,197)
Total net position	$ 89,563,398	$ 108,199,486	$ 2,941,965	$ 2,819,353	$ 92,505,363	$ 111,018,839

The net position of the County's governmental activities decreased by $19,186,045. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints, changed from a $15,833,341 deficit at December 31, 2011 to a $36,948,600 deficit at December 31, 2012. Contributing to these results was the following:

- The County realized a decrease in net position in 2012, 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 $1.6 million. The single largest decrease to current assets was cash and cash equivalents.

- Noncurrent liabilities increased by $19.8 million during the year ended December 31, 2012. Payments toward outstanding debt service decreased liabilities, and slightly offset the net impact of an additional $21.3 million of OPEB liabilities.

- The $2.8 million increase in net investment in capital assets is a combination of investment in infrastructure, equipment and building improvements, netted with scheduled debt payments on related debt. No new debt was issued during the year ended December 31, 2012.

Net position of the County's business-type activities increased by $122,612 at December 31, 2012. The total net position of $2,941,965, however, cannot be used for Governmental Activities. Generally, the County can only use these assets to finance continuing operations of the Solid Waste Management Facility.

Governmental activities. Governmental activities decreased the County's net position by $19,186,045. Table 2, as presented below, shows the changes in net position for the years ended December 31, 2012 and December 31, 2011.

Table 2—Condensed Statement of Revenues, Expenses and Changes in Net Position—Governmental Activities—Years Ended December 31, 2012 and December 31, 2011

	Governmental activities		Increase/(decrease)	
	2012	2011	Dollars	Percent
Revenues:				
Program revenues	$ 71,611,483	$ 69,518,037	$ 2,093,446	3.0
General revenues	128,512,773	123,115,147	5,397,626	4.4
Total revenues	200,124,256	192,633,184	7,491,072	3.9
Total expenses	219,310,301	210,731,102	8,579,199	4.1
Change in net position	(19,186,045)	(18,097,918)	(1,088,127)	6.0
Net position—beginning	108,199,486	126,297,404	(18,097,918)	(14.3)
Restatement per note 3	549,957	-	549,957	n/a
Net position—beginning, as restated	108,749,443	126,297,404	(17,547,961)	(13.9)
Net position—ending	$ 89,563,398	$ 108,199,486	$ (18,636,088)	(17.2)

Revenues during the year ended December 31, 2012 increased by 3.9 percent from the year ended December 31, 2011 largely due to the following:

- Capital grants increased by $3.5 million. The increase is due primarily to the extension of the airport runway project.

- Non-property tax revenues increased by $3.6 million largely due to an increase in sales tax collections.

A summary of sources of revenues for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Charges for services	$ 21,565,796	$ 19,280,886	$ 2,284,910	11.9
Operating and capital grants	41,579,259	45,308,845	(3,729,586)	(8.2)
Capital grants and contributions	8,466,428	4,928,306	3,538,122	71.8
Property taxes and tax items	50,597,289	49,493,637	1,103,652	2.2
Non-property taxes	73,156,358	69,502,689	3,653,669	5.3
Other general revenues	4,759,126	4,118,821	640,305	15.5
Total revenues	$ 200,124,256	$ 192,633,184	$ 7,491,072	3.9

As presented in Table 3, the most significant source of revenues is non-property taxes, which accounts for $73,156,358 or 36.6 percent of total governmental activities revenues, for the year ended December 31, 2012, and $69,502,689 or 36.1 percent of total governmental activities revenues, for the year ended December 31, 2011. The next largest source of revenue is property taxes and items, which comprises 25.3 percent and 25.7 percent of total governmental activities revenues for the years ended December 31, 2012 and 2011, respectively.

A summary of program expenses for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 4.

Table 4—Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
General government support	$ 60,895,783	$ 58,341,248	$ 2,554,535	4.4
Education	11,995,865	11,496,670	499,195	4.3
Public safety	31,013,774	29,282,507	1,731,267	5.9
Public health	15,887,253	15,599,040	288,213	1.8
Transportation	18,757,689	18,006,032	751,657	4.2
Economic assistance and opportunity	76,189,652	72,661,916	3,527,736	4.9
Culture and recreation	363,764	463,458	(99,694)	(21.5)
Home and community services	3,582,192	3,459,781	122,411	3.5
Interest on long-term debt	624,329	1,420,450	(796,121)	(56.0)
Total program expenses	$ 219,310,301	$ 210,731,102	$ 8,579,199	4.1

Significant changes in the County's expenses from 2011 to 2012 are identified as follows:

- Cost for general government support increased by $2.5 million, or 4.4%, due primarily to an increase in sales tax distributions of $1.9 million from 2011 to 2012.

- Expenses for public safety increased by $1.7 million or 5.9%. There were multiple factors; personal services increased due to contractual obligations and increased expenses for out boarding of prisoners are some of the more significant increases.

As presented in Table 4, the County's significant expense items for governmental activities were economic assistance and opportunity of $76.2 million or 34.7 percent of total governmental activities expenses, general government support of $60.9 million or 27.8 percent of total governmental activities expenses, public safety of $31.0 million or 14.1 percent of total governmental activities expenses, transportation of $18.8 million or 8.6 percent of total governmental activities expenses, and public health of $15.9 million or 7.2 percent of total governmental activities expenses for the year ended December 31, 2012. Similarly, for the year ended December 31, 2011 significant expense items were economic assistance and opportunity of $72.7 million or 34.5 percent of total governmental activities expenses, general government support of $58.3 million or 27.7 percent of total governmental activities expenses, public safety of $29.3 million or 13.9 percent of total governmental activities expenses, transportation of $18.0 million or 8.9 percent of total governmental activities expenses, and public health of $15.6 million or 7.4 percent of total governmental activities expenses.

Business-type Activities. Business-type activities increased the County's net position by $122,612 due to normal operations. Table 5, as presented below, shows the changes in net position for the years ended December 31, 2012 and December 31, 2011.

Table 5—Condensed Statement of Revenues, Expenses and Changes in Net Position—Business-type Activities—Years Ended December 31, 2012 and December 31, 2011

	Business-type activities		Increase/(decrease)	
	2012	2011	Dollars	Percent
Revenues:				
Program revenues	$ 2,732,028	$ 2,972,221	$ (240,193)	(8.1)
General revenues (expenses)	53,319	58,082	(4,763)	(8.2)
Total revenues	2,785,347	3,030,303	(244,956)	(8.1)
Total expenses	2,662,735	2,685,751	(23,016)	(0.9)
Change in net assets	122,612	344,552	(221,940)	(64.4)
Net assets—beginning	2,819,353	2,474,801	344,552	13.9
Net assets—ending	$ 2,941,965	$ 2,819,353	$ 122,612	4.3

Revenues decreased by 8.1 percent and expenses decreased 0.9 percent for the year ended December 31, 2012, from the year ended December 31, 2011.

A summary of sources of revenues and expenditures for the County's business-type activities for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 6.

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

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Charges for services	$ 2,640,032	$ 2,888,481	$ (248,449)	(8.6)
Operating grants and contributions	91,996	83,740	8,256	9.9
General revenues (expenses)	53,319	58,082	(4,763)	(8.2)
Total program revenues	$ 2,785,347	$ 3,030,303	$ (244,956)	(8.1)
Solid waste management expenditures	$ 2,662,735	$ 2,685,751	$ (23,016)	(0.9)

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

	General	Capital Projects	County Road
Net change in fund balances (deficits)	$ (2,690,013)	$ (1,171,411)	$ 934,139
Unassigned or assigned to the fund's specific use	6,675,808	5,072,428	3,388,480
Total fund balances (deficits)	37,124,536	8,337,061	3,504,610
Percentage unassigned or assigned the fund's to specific use	18.0%	60.8%	96.7%
	Road Machinery	**Special Grant**	**Debt Service**
Net change in fund balances (deficits)	$ 243,213	$ 240,703	$ (65,162)
Unassigned or assigned to the fund's specific use	840,215	2,646	-
Total fund balances (deficits)	1,082,440	70,465	31,988
Percentage unassigned or assigned the fund's to specific use	77.6%	3.8%	0.0%

General Fund fund balance decreased by $2,690,013 the main contributing factor was the purchase of fixed based operation for the airport.

Fund balance in the Capital Fund decreased by $1,171,411, due to the completion of various projects that were moved to capital assets.

The County Road Fund fund balance increased $934,139. In 2012, numerous projects have been undertaken and the County has transferred funds that have not yet been spent.

The Special Grant Fund fund balance increased by $240,703. Amounts due from government agencies were identified and recorded.

The Road Machinery Fund balance increased slightly in the current year, by $243,213, due to transfers from the General Fund that had not been expended by the end of the year.

The Debt Service Fund decreased by $65,162 due to the planned use of restricted 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 position of the Solid Waste management fund increased from $2,819,353 at December 31, 2011 to $2,941,965 at December 31, 2012. The unrestricted net deficit at the end of December 31, 2012 amounted to $713,629, as compared to $949,856 at December 31, 2011. The decrease in the net deficit is primarily due to revenue from operations.

General Fund Budgetary Highlights

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

- Departmental income fell under budget due to a drop in nursing home charges as the County transitioned the services to a third party.

- Non-property tax items were substantially more than budgeted due primarily to an increase in sales tax receipts. Revenues were conservatively budgeted in 2012 because of shortfalls in prior years. Sales tax revenues began to rise again during 2012 resulting in a significant positive variance.

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, 2012, amounts to $138.7 million (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, 2012 was $5.8 million due mainly to ongoing projects at the airport.

♦ The County purchased a fixed based operation at the Watertown International Airport to provide fueling and other services to American Eagle and other private plane owners.

♦ Various machinery and equipment additions as well as building improvements were purchased at the cost of $9.4 million for governmental activities and $167,812 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	
	2012	2011	2012	2011	2012	2011
Land	$ 2,419,686	$ 2,419,686	$ 12,415	$ 12,415	$ 2,432,101	$ 2,432,101
Construction in progress	5,836,631	2,368,036	-	-	5,836,631	2,368,036
Buildings and improvements	48,604,963	49,097,700	2,435,447	2,481,695	51,040,410	51,579,395
Machinery and equipment	8,347,524	9,418,388	874,738	942,600	9,222,262	10,360,988
Infrastructure	70,195,685	70,438,925	-	-	70,195,685	70,438,925
Total	$ 135,404,489	$ 133,742,735	$ 3,322,600	$ 3,436,710	$ 138,727,089	$ 137,179,445

Additional information on the County's capital assets can be found in Note 6 to the basic financial statements.

Debt Administration. In 2012, the County's debt, as reported on the County-wide statement of net position, 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 Other Postemployment Benefits ("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 2012.

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 increased length of employment to qualify for retiree health benefits.

Outstanding debt in other areas changed as follows:

- Outstanding bonded indebtedness decreased per amortization schedules. In the business-type activity, there was no outstanding debt in 2012.

Table 9—Debt and Long-Term Liabilities

	Governmental activities		Business-type activities		Total		Percentage
	2012	2011	2012	2011	2012	2011	Inc/(Dec)
Net bonds payable	$ 16,285,681	$18,922,636	$ -	$ -	$ 16,285,681	$ 18,922,636	(16.19)
Compensated absences	2,258,703	2,131,930	35,920	27,270	2,294,623	2,159,200	5.90
Claims and judgements	9,249,761	9,285,212	-	-	9,249,761	9,285,212	(0.38)
OPEB	79,746,382	58,403,499	-	-	79,746,382	58,403,499	26.76
Total	$ 107,540,527	$ 88,743,277	$ 35,920	$ 27,270	$ 107,576,447	$ 88,770,547	17.48

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 10^{th} Mountain Division's 3^{rd} Brigade transformation, which is now complete at Fort Drum, over 19,000 soldiers have been assigned to Fort Drum. However, the 10^{th} Mountain Division continues to be actively deployed and brigade units are regularly in rotation due to the global war on terror. These cycles continue to impact the local housing market, especially the rental market, with notable variations in demand. It is estimated that in addition to soldiers assigned to Fort Drum, an additional 20,000 family members accompany the soldiers at any given time.

- Commercial, retail, and service industries have continued to grow in the County and remain notably stronger economic segments as compared to similarly-sized nearby rural counties. Recently completed local projects include a Hilton Gardens Hotel and Convention Center, a Fairfield Inn and Suites, 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 has been completed on a new four lane limited access highway (I781) that connects Interstate 81, US Route 11, and the Fort Drum main gate. 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 began a daily non-stop commercial flights to Chicago-O'Hare Airport using 44 seat Embraer regional jets.

- The 2012 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 2013 budget set the full value property tax rate at $6.47 per thousand which is a .97% increase from the prior year.

- The County also considered that sales tax revenues will continue to increase through 2013 as it has in 2012. The expansion of Fort Drum and proximity to Ontario with an influx of Canadian shoppers has contributed to such increase.

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 Position
December 31, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Jefferson Community College August 31, 2012	Industrial Development Agency September 30, 2012
ASSETS					
Current assets:					
Cash	$41,338,292	$ 134,828	$41,473,120	$ 7,257,484	$ 3,237,146
Restricted cash	3,012,854	332,995	3,345,849	-	1,838,512
Receivables (net of allowances for estimated uncollectible amounts):					
Taxes	9,946,644	-	9,946,644	-	-
Accounts receivable	3,917,882	290,989	4,208,871	5,985,130	426,998
Due from state and federal governments	13,823,828	130,756	13,954,584	-	-
Due from other governments	4,877,718	-	4,877,718	694,907	-
Prepaid items	7,170,000	22,857	7,192,857	246,346	343
Capital lease receivable, current portion	-	-	-	-	943,468
Loans and notes receivable, net	-	-	-	-	4,509,535
Inventories	61,081	-	61,081	497,083	-
Total current assets	84,148,299	912,425	85,060,724	14,680,950	10,956,002
Noncurrent assets:					
Restricted cash and cash equivalents	-	-	-	115,837	-
Notes receivable, long-term portion	-	-	-	-	30,061
Interfund loan	1,100,000	(1,100,000)	-	-	-
Due from other governments, long term portion	315,110	-	315,110	-	-
Investments	-	-	-	4,308,420	-
Capital lease receivable, long-term portion	-	-	-	-	80,015
Capital assets:					
Land and construction in progress	8,256,317	12,415	8,268,732	1,906,146	606,137
Other, capital assets net of accumulated depreciation	127,148,171	3,310,184	130,458,355	18,211,070	185,339
Total noncurrent assets	136,819,598	2,222,599	139,042,197	24,541,473	901,552
Total assets	220,967,897	3,135,024	224,102,921	39,222,423	11,857,554
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding bonds	576,635	-	576,635	-	-
Excess consideration provided for acquisition	809,111	-	809,111	-	-
Total deferred outflows of resources	1,385,746	-	1,385,746	-	-
LIABILITIES					
Current liabilities:					
Accounts payable	10,721,605	134,948	10,856,553	504,373	109,506
Retainages payable	82,188	-	82,188	-	-
Accrued liabilities	1,740,860	22,191	1,763,051	876,838	-
Interest payable	180,318	-	180,318	44,751	4,854
Due to other governments	12,358,926	-	12,358,926	2,202,193	53,630
Unearned revenue	141,325	-	141,325	6,022,589	31,057
Other liabilities	24,496	-	24,496	61,577	40,190
Total current liabilities	25,249,718	157,139	25,406,857	9,712,321	239,237
Noncurrent liabilities:					
Due within one year	2,724,890	1,796	2,726,686	51,966	943,468
Due in more than one year	104,815,637	34,124	104,849,761	16,288,182	260,175
Total noncurrent liabilities	107,540,527	35,920	107,576,447	16,340,148	1,203,643
Total liabilities	132,790,245	193,059	132,983,304	26,052,469	1,442,880
NET POSITION					
Net investment in capital assets	123,374,488	3,322,599	126,697,087	18,850,801	641,476
Restricted for:					
Long-term receivable restricted for debt service	487,609	-	487,609	-	-
General Fund restrictions	2,617,913	-	2,617,913	-	-
Debt Service restrictions	31,988	-	31,988	-	-
Capital projects	-	332,995	332,995	-	-
Community College-expendable	-	-	-	1,358,796	-
Community College-nonexpendable	-	-	-	2,974,771	-
Community development	-	-	-	-	5,629,994
Unrestricted	(36,948,600)	(713,629)	(37,662,229)	(10,014,414)	4,143,204
Total net position	$89,563,398	$ 2,941,965	$92,505,363	$ 13,169,954	$ 10,414,674

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, 2012

		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, 2012**	**Industrial Development Agency September 30, 2012**
Primary government:									
Governmental activities:									
General government support	$ 60,895,783	$ 3,758,678	$ 517,886	$ -	$ (56,619,219)	$ -	$ (56,619,219)	$ -	$ -
Education	11,995,865	130,488	-	973,288	(10,892,089)	-	(10,892,089)	-	-
Public safety	31,013,774	1,808,226	1,113,027	55,989	(28,036,532)	-	(28,036,532)	-	-
Public health	15,887,253	9,876,640	6,132,369	-	121,756	-	121,756	-	-
Transportation	18,757,689	1,582,271	-	7,437,151	(9,738,267)	-	(9,738,267)	-	-
Economic assistance and opportunity	76,189,652	4,384,199	31,468,954	-	(40,336,499)	-	(40,336,499)	-	-
Culture and recreation	363,764	-	78,992	-	(284,772)	-	(284,772)	-	-
Home and community services	3,582,192	25,294	2,268,031	-	(1,288,867)	-	(1,288,867)	-	-
Interest and fiscal charges	624,329	-	-	-	(624,329)	-	(624,329)	-	-
Total governmental activities	219,310,301	21,565,796	41,579,259	8,466,428	(147,698,818)	-	(147,698,818)	-	-
Business-type activities:									
Solid waste management	2,662,735	2,640,032	91,996	-	-	69,293	69,293	-	-
Total business-type activities	2,662,735	2,640,032	91,996	-	-	69,293	69,293	-	-
Total primary government	$ 221,973,036	$ 24,205,828	$ 41,671,255	$ 8,466,428	(147,698,818)	69,293	(147,629,525)	-	-
Component Units:									
Jefferson Community College	$ 38,048,323	$ 10,518,331	$ 12,582,106	$ -				$ (14,947,886)	$ -
Industrial Development Agency	1,762,654	1,251,385	693,457	-				-	182,188
Total component units	$ 39,810,977	$ 11,769,716	$ 13,275,563	$ -				$ (14,947,886)	$ 182,188
	General revenues:								
	Taxes:								
	Property taxes, levied for general purpose				47,297,688	-	47,297,688	-	-
	Property tax items				3,299,601	-	3,299,601	-	-
	Sales taxes				72,537,561	-	72,537,561	-	-
	Other taxes				618,797	-	618,797	-	-
	Unrestricted grants and contributions				-	-	-	970,585	404,120
	Use of money and property				512,833	3,764	516,597	458,514	55,335
	Miscellaneous				2,834,396	30,113	2,864,509	4,676,815	-
	State and federal appropriations				-	-	-	7,059,231	-
	Sale of property and compensation for loss				1,411,897	-	1,411,897	-	-
	Gain (loss) on sale of capital assets				-	19,442	19,442	-	(8,677)
	Additions to permanent endowments				-	-	-	78,505	-
	Total general revenues and transfers				128,512,773	53,319	128,566,092	13,243,650	450,778
	Change in net position				(19,186,045)	122,612	(19,063,433)	(1,704,236)	632,966
	Net position—beginning, as previously stated				108,199,486	2,819,353	111,018,839	4,515,350	9,781,708
	Restatement and cumulative effect of change in application of accounting principle (see note 3)				549,957	-	549,957	10,358,840	-
	Net position—beginning, as restated				108,749,443	2,819,353	111,568,796	14,874,190	9,781,708
	Net position—ending				$ 89,563,398	$ 2,941,965	$ 92,505,363	$ 13,169,954	$ 10,414,674

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

COUNTY OF JEFFERSON, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	$31,528,013	$5,460,560	$ 4,349,719	$41,338,292
Restricted cash	2,980,390	476	31,988	3,012,854
Receivables (net of allowances for estimated uncollectible amounts):				
Taxes	9,946,644	-	-	9,946,644
Accounts receivable	2,576,830	-	8,492	2,585,322
Due from other funds	300,930	-	167,782	468,712
Interfund loan	1,100,000	-	-	1,100,000
Due from state and federal governments	9,129,686	3,637,503	1,056,639	13,823,828
Due from other governments	4,501,870	139,414	63,935	4,705,219
Inventory	61,081	-	-	61,081
Prepaid items	7,006,980	600	162,420	7,170,000
Total assets	$69,132,424	$9,238,553	$ 5,840,975	$84,211,952
LIABILITIES				
Accounts payable	$ 9,254,495	$ 818,828	$ 648,282	$10,721,605
Retainages payable	-	82,188	-	82,188
Accrued liabilities	1,563,267	-	177,593	1,740,860
Due to other governments	12,354,704	-	4,222	12,358,926
Due to other funds	166,022	-	302,690	468,712
Unearned revenue	380,147	476	15,000	395,623
Other liabilities	20,811	-	3,685	24,496
Total liabilities	23,739,446	901,492	1,151,472	25,792,410
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues—grants	1,367,000	-	-	1,367,000
Unavailable revenues—property taxes	6,901,442	-	-	6,901,442
Total deferred inflows of resources	8,268,442	-	-	8,268,442
FUND BALANCES				
Nonspendable	8,168,061	600	162,420	8,331,081
Restricted	2,617,913	3,264,033	31,988	5,913,934
Assigned	19,662,754	5,072,428	4,495,095	29,230,277
Unassigned	6,675,808	-	-	6,675,808
Total fund balances (deficit)	37,124,536	8,337,061	4,689,503	50,151,100
Total liabilities, deferred inflows of resources and fund balances	$69,132,424	$9,238,553	$ 5,840,975	$84,211,952

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 Position
December 31, 2012

Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Fund balances—total governmental funds (page 16)		$ 50,151,100
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is $239,561,313 and the accumulated depreciation is $104,156,825.		135,404,488
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is $180,318 at year end.		(180,318)
Other long-term assets are not available to pay for current period expenditures and, therefore, are either recorded as unearned revenue or deferred inflows of resources in the funds but are considered government-wide revenues:		
Deferred inflows of resources - grants	$ 1,367,000	
Deferred inflows of resources - property taxes	6,901,442	
Unearned revenue	254,298	8,522,740
The excess consideration for acquired assets that have a useful life extending beyond a single reporting period is recorded as an expenditure within the funds but recorded as a deferred outflow of resources on the government-wide financial statements.		
Deferred outflows of resources	$ 809,111	809,111
Certain accrued revenues reported in the statement of net position are received after the availability period for recognition of revenue in the governmental funds.		
Long-term receivable	$ 487,609	
Other receivable	1,332,560	1,820,169
Long-term liabilities, including bonds payable, other post-employment benefits ("OPEB"), compensated absences, and claims and judgments 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	$ (15,340,000)	
Compensated absences	(2,258,703)	
Claims and judgements payable	(9,249,761)	
OPEB	(79,746,382)	(106,594,846)
For refunding bonds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred charge and recognized as a component of interest expense over either the lesser of the life of the debt issuance or the bonds refunded for the government-wide statements. The deferred charge on refunding debt is $660,449 and the accumulated interest expense is $83,814.		576,635
Bond premiums associated with refunding bonds are recorded as other financing sources in the fund financial statements and amortized over the life of the debt issuance or the bonds refunded for the government-wide statements. The bond premium is $1,083,134 and the accumulated amortization is $137,453.		(945,681)
Net position of governmental activities		$ 89,563,398

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, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
Real property taxes	$ 48,942,694	$ -	$ -	$48,942,694
Real property tax items	3,299,601	-	-	3,299,601
Non property tax items	73,156,358	-	-	73,156,358
Departmental income	14,679,336	-	925,512	15,604,848
Intergovernmental charges	3,809,623	117,024	107,180	4,033,827
Use of money and property	413,772	-	93,436	507,208
Licenses and permits	26,138	-	690	26,828
Fines and forfeitures	290,653	-	-	290,653
Sale of property and compensation for loss	1,409,812	-	8,546	1,418,358
Miscellaneous	2,750,294	12,852	40,346	2,803,492
Interfund revenues	-	-	267,382	267,382
State aid	14,936,329	1,341,894	3,138,435	19,416,658
Federal aid	22,784,332	4,189,952	3,589,072	30,563,356
Total revenues	186,498,942	5,661,722	8,170,599	200,331,263
EXPENDITURES				
Current:				
General government support	54,279,839	-	-	54,279,839
Education	9,997,854	-	-	9,997,854
Public safety	20,652,755	-	626,340	21,279,095
Health	12,949,863	-	-	12,949,863
Transportation	2,979,607	-	11,051,806	14,031,413
Economic assistance and opportunity	65,208,601	-	2,447,138	67,655,739
Culture and recreation	340,875	-	-	340,875
Home and community services	1,130,826	-	2,159,020	3,289,846
Employee benefits	6,678,685	-	28,095	6,706,780
Debt service:				
Principal	-	-	2,505,000	2,505,000
Interest and fiscal charges	-	-	615,163	615,163
Capital outlay	-	9,191,327	-	9,191,327
Total expenditures	174,218,905	9,191,327	19,432,562	202,842,794
Excess (deficiency) of revenues over expenditures	12,280,037	(3,529,605)	(11,261,963)	(2,511,531)
OTHER FINANCING SOURCES (USES)				
Transfers in	3,892	2,359,086	14,424,356	16,787,334
Transfers out	(14,973,942)	(3,892)	(1,809,500)	(16,787,334)
Total other financing sources (uses)	(14,970,050)	2,355,194	12,614,856	-
Net change in fund balances	(2,690,013)	(1,174,411)	1,352,893	(2,511,531)
Fund balances—beginning	39,814,549	9,511,472	3,336,610	52,662,631
Fund balances—ending	$37,124,536	$8,337,061	$ 4,689,503	$50,151,100

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, 2012

Amounts reported for governmental activities in the statement of activities (page 15) are different because:		
Net change in fund balances—total governmental funds (page 18)		$ (2,511,531)
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	$ 9,399,173	
Depreciation expense	(7,608,484)	1,790,689
Loss on disposition of capital assets is recorded in the statement of activities but not in the statement for governmental funds.		(128,936)
Governmental funds report excess consideration paid for assets acquired as expenditures. However, in the County's statement of activities the cost of consideration is allocated over the estimated useful life and impaired accordingly.		809,111
For refunding bonds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred charge on the government-wide statements and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.		(80,461)
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 inflows of resources - property taxes	$ (1,645,006)	
Change in unearned revenue	1,621,298	
Change in long-term receivable	(182,462)	
Change in other receivable	(837)	(207,007)
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:		
Principal payments on serial bonds	$ 2,505,000	
Change in accrued interest	(60,660)	2,444,340
Premiums that are recorded as revenues on the governmental funds in the year of issuance are amortized on the government-wide statements.		131,955
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	$ (126,773)	
Judgments and claims	35,451	
OPEB	(21,342,883)	(21,434,205)
Change in net position of governmental activities		$ (19,186,045)

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

COUNTY OF JEFFERSON, NEW YORK
Statement of Net Position
Proprietary Fund
December 31, 2012

	Business-type Activities— Enterprise Fund
	Solid Waste Management
ASSETS	
Current assets:	
Cash	$ 134,828
Restricted cash	332,995
Accounts receivable, net of allowances for estimated uncollectible amounts	290,989
Due from state and federal governments	130,756
Prepaid items	22,857
Total current assets	912,425
Noncurrent assets:	
Capital assets not being depreciated:	
Land	12,415
Capital assets net of accumulated depreciation:	
Buildings and improvements	2,435,446
Machinery and equipment	874,738
Total noncurrent assets	3,322,599
Total assets	4,235,024
LIABILITIES	
Current liabilities:	
Accounts payable	134,948
Accrued liabilities	22,191
Total current liabilities	157,139
Noncurrent liabilities:	
Compensated absences-due within one year	1,796
Compensated absences-due in more than one year	34,124
Interfund loan	1,100,000
Total noncurrent liabilities	1,135,920
Total liabilities	1,293,059
NET POSITION	
Net investment in capital assets	3,322,599
Restricted for capital projects	332,995
Unrestricted	(713,629)
Total net position	$ 2,941,965

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 Position
Proprietary Fund
Year Ended December 31, 2012

	Business-type Activities—Enterprise Fund
	Solid Waste Management
Operating revenues:	
Charges for services	$ 2,026,205
Recycling income	613,827
Miscellaneous	30,113
Total operating revenues	2,670,145
Operating expenses:	
Salaries, wages and employee benefits	771,340
Tipping fees	1,612,884
Depreciation	274,911
Total operating expenses	2,659,135
Operating income	11,010
Nonoperating revenues (expenses):	
State aid and local grants	91,996
Investment earnings	3,764
Gain on sale of capital assets	19,442
Financing interest	(3,600)
Total nonoperating revenues (expenses)	111,602
Change in net position	122,612
Total net position—beginning	2,819,353
Total net position—ending	$ 2,941,965

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, 2012

	Business-type Activities—Enterprise Fund
	Solid Waste Management
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from services provided	$ 1,961,952
Receipts from other operating revenue	644,040
Payments to employees	(760,540)
Payments to suppliers	(1,585,777)
Net cash provided by operating activities	259,675
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants received	82,438
Payments of long-term loan to other funds	(100,000)
Net cash (used) by noncapital financing activities	(17,562)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(167,812)
Proceeds of sales	26,456
Financing interest	(3,600)
Net cash (used) by capital and related financing activities	(144,956)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	3,764
Net cash provided by investing activities	3,764
Net increase in cash and cash equivalents	100,921
Cash and cash equivalents—beginning	366,902
Cash and cash equivalents—ending	$ 467,823
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 11,010
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	274,911
(Increase) in accounts receivable	(64,253)
Decrease in due from other governments	100
(Increase) in prepaid items	(3,157)
Increase in accounts payable	27,107
Increase in accrued liabilities	5,307
Increase in compensated absences	8,650
Total adjustments	248,665
Net cash provided by operating activities	$ 259,675

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

COUNTY OF JEFFERSON, NEW YORK
Statement of Net Position—Agency Funds
December 31, 2012

	Agency Funds
ASSETS	
Cash	$ 1,685,417
Total assets	$ 1,685,417
LIABILITIES	
Agency liabilities	$ 1,685,417
Total liabilities	$ 1,685,417

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the County of Jefferson, New York (the "County") and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Financial 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 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 and an airport.

All governmental activities and functions performed for the County are its direct responsibility. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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 2012 included an appropriation of $4,473,575 in support of the College budget for the College fiscal year ended August 31, 2012. The final amount was paid over to the College on February 28, 2012. In addition to the funds contributed for the support of the College budget for 2011-2012, the General Fund budget supports the debt service on the pre-2000 college capital improvement bond. On December 22, 2011, this bond, along with other debt, 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 2012, the County paid $484,424 in debt service on the 2006 debt issue. The principal payment was $345,000, and interest was paid in the amount of $139,424. Outstanding debt on this issue at December 31, 2012, was $3,310,000.

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 $4,795,090 revolving loan fund, a $587,612 micro-enterprise loan program which provides loans to small businesses, and a $247,292 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.

C. Basis of Presentation—Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As discussed earlier, the government has two discretely presented component units. While neither the Jefferson Community College or the Jefferson County Industrial Development Agency are considered to be a major component unit, they are nevertheless shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the government. Elimination of these changes would distort the direct costs and program revenues reported for the various functions covered.

D. Basis of Presentation—Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental 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.

The County reports the following major enterprise fund:

- The Solid Waste Management Fund accounts for the handling of solid waste, including a recycling facility and transfer station, where the governing officials have determined that the costs of operations are to be financed through charges for services to users.

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.

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.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/due to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are recorded at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of government-wide financial statements. Transfers between the funds included in governmental activities are eliminated as transfer in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers property tax collected within 60 days after year end to be available and recognizes them as revenues of the current year, all other revenues are deemed to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing resources.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within one year of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Budgetary Information

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Debt Service Fund. The Capital Projects Fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund, function, and department. The government's department heads may make transfers of appropriations within a department. However, amendments of the budget must be approved by the governing board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriation and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executor contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

G. Assets, Liabilities Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The primary government had no investments at December 31, 2012. 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 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.

Inventory and Prepaid Items

Inventory associated with the governmental and business-type activities is considered immaterial at year-end. 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors or other governments reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expense when consumed rather than when purchased.

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, except for infrastructure assets, are defined by the County as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. For infrastructure assets, the same estimated minimum useful life is used (in excess of two years), but only those infrastructure projects that cost more than $25,000 are reported as capital assets.

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. Land and construction in progress are not depreciated. The other 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:

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The County has two items that qualify for reporting in this category. The first is the excess consideration provided for the acquisition of the fixed based operation at the airport and is reported in the government-wide statement of net position. The excess results from the difference in the carrying value of the items purchased and the acquisition price. This amount is considered deferred and is being impaired over the life of the assets that were acquired. The other item is a deferred charge on refunding bonds that is being amortized over the life of the refunded debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The County has two types of items, which arise only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, *unavailable revenue*, are reported as deferred inflows of resources only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and some State aid that will more than likely not be realized within one year. These amounts are deferred and recognized in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's position to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The County itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Legislators is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Legislators has by resolution authorized the County Administrator to recommend assignments to a committee which can then approve, reject or adjust the assignments of fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as 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 or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 2012, the County Attorney, as Tax Enforcement Officer, conducted the County's fourteenth sale of properties acquired through tax foreclosure. Of 57 properties acquired through foreclosure in 2012 and remaining unsold from 2011, 43 were sold at auction, generating receipts of $484,400.

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 2012.

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 4,518 contracts through December 31, 2012. 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.

At December 31, 2012, the total real property tax assets of $12,093,671 are offset by an allowance for uncollectible taxes of $2,147,027. Included in real property tax assets are current year returned village and school taxes of $4,178,905, 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 partially offset by deferred inflows of resources – property taxes of $6,901,442 in the General Fund and represents an estimate of tax liens which will not be collected within the first sixty (60) days of the subsequent year.

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 $72,537,561 sales tax collected or accrued for the year ended December 31, 2012, $38,444,907 was distributed to the towns and villages and the City of Watertown. The amount of sales taxes receivable at year end is $5,443,467, which includes amounts to be distributed to the towns, villages and the City of Watertown.

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, 2012 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate	$	7,311,582,711
Tax limit @ 1.5%	$	109,673,741
Tax levy subject to tax limit		45,906,510
Tax Margin	$	63,767,231

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 inflows of resources 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.

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 $2,294,623 and is reported as governmental activities at $2,258,703, business-type activities at $35,920. The College reports $438,402 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.

Proprietary funds operating and nonoperating revenues and expenses

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.

I. Other

General Liability Insurance

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. 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.

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.

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 2012, $5,872,815 was paid by the County on behalf of 440 eligible retirees, their dependents and survivors.

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.

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.

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.

Impacts of Accounting Pronouncements

During the year ended December 31, 2012, the County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net assets reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The County also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities. Other than that discussed in Note 3, GASB Statement Nos. 63 and 65 did not have a material impact on the County's financial position or results from operations.

Additionally, during the year ended December 31, 2012, the County 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*; and No. 64, *Derivative Employer Plans*; *Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. GASB Statements No. 57, 60, 62 and 64 did not have a material impact on the County's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 15 and No. 34;* 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—an amendment of GASB Statement No. 25*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the year ending

December 31, 2015. The County is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68, 69 and 70 will have on its financial position and results of operations.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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 amendments 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.

Deficit Fund Balance

Enterprise Fund—The Solid Waste Management Facility Fund reported an unrestricted net position deficit of $713,629, which reflects an improvement of $236,227 from the December 31, 2011 deficit. Prior years' deficits resulted from the repayment of start-up costs to the General Fund in 2003 and other substantial capital asset investments.

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET POSITION

Primary Government

In the fiscal year ended December 31, 2011, the County issued refunding bonds of $9,440,000. As discussed in Note 1, during the year ended December 31, 2012, the County implemented GASB Statement No. 65 ("GASB 65"). Under GASB 65, the difference between the reacquisition price and the net carrying amount on the refunded debt is recorded as a deferred outflow of resources. This amount is then recognized as a component of interest expense over the shorter of the life of the new or old debt. Additionally, bond issuance costs are required to be expensed in the year of issue.

As a result of this implementation, net position at December 31, 2012 has been restated to include the net effect of the deferred charge on refunding and bond issuance costs of $549,957.

Jefferson Community College

The College changed its method of revenue recognition provided by the State and the County (Sponsor). In all prior periods, major capital construction and rehabilitation of facilities at the College were funded with bond funds issued by the State and the County (50% each). The title to the assets was generally held by the Sponsor in trust for the uses and purposes of the College. Consistent with GASB guidance, the College recorded all capital assets held for their benefit in their financial statements regardless of whether the College has legal title to the assets. Under the matching principle, the College also recorded the debt obligations (liability) supporting the construction or renovation of these capital facilities. As debt service payments were made on the obligations by the State or County, the College would report a reduction of debt (principal portion), the related interest expense, and also recognize state and county appropriation revenue.

The College will recognize State and County appropriation revenue when the project is approved, the appropriation is made available, and the expenditure is incurred. The impact of this change in the year of implementation will result in the elimination of debt and other related statement of net position items that were supported and paid by the State and the County. As a result, the cumulative effect of applying the new method increased beginning net position of the College by $10,358,840.

The effect of these changes to beginning net position is summarized below:

	Net Position	
	Primary Government Governmental Activities	Component Unit Business-type Activities JCC
Beginning net position, as previously reported	$ 108,199,486	$ 4,515,350
Recognition of deferred charge on refunding	549,957	-
Cumulative effect of change in application of JCC	-	10,358,840
Beginning net position, as restated	$ 108,749,443	$ 14,874,190

4. 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)	$ 6,350	$ 800	$ -	$ 7,150
Deposits	44,344,796	467,023	1,685,417	46,497,236
Total	$ 44,351,146	$ 467,823	$ 1,685,417	$ 46,504,386

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

	Bank Balance	Carrying Amount
Insured (FDIC)	$ 11,992,570	$ 9,862,809
Uninsured:		
Collateral held by bank's agent in the County's name	36,688,674	36,634,427
Total	$ 48,681,244	$ 46,497,236

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, 2012, 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 2012, 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, 2012, the primary government had no investments.

Restricted cash and cash equivalents include the following:

	Purpose	Amount
Governmental activities:		
General Fund	Workers' compensation	$ 456,703
General Fund	Unemployment insurance	69,728
General Fund	Insurance	1,923,591
General Fund	DWI funds	117,467
General Fund	1% Bail funds	35,370
General Fund	Handicapped parking funds	595
General Fund	Federal advances	221,154
General Fund	Law enforcement and prosecution	155,782
Capital Projects Fund	Capital projects	476
Debt Service Fund	Debt service	31,988
Business-type activities:		
Solid waste	Capital projects	332,995
Total primary government		$ 3,345,849

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 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

i) Jefferson Community College

The Jefferson Community College and its component units had unrestricted deposits of $5,725,617 and $1,531,867, 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 $1,714,025.

The College had no investments as of August 31, 2012. Its component units had the following investments as of August 31, 2012:

JCC-Component Units	Market	Cost
Equity investments RBC Dain Rauscher:		
Estabrook Capital	$ 654,124	$ 552,631
WHV Investments	217,917	206,791
Fox Asset Management	275,875	220,913
Madison Investments	238,619	186,611
Minneapolis Investments	219,300	192,860
ClearBridge Investments	244,645	185,711
RBC Dain Rauscher	18,657	17,893
Equity investments Morgan Stanley Smith Barney:		
Hancock Investments	1,149,884	1,034,742
Neurberger Investments	145,216	124,556
Fred Alger Investments	157,552	134,536
WHV International	138,254	128,839
Fixed income funds RBC Dain Rauscher	848,377	821,061
Total investments	$ 4,308,420	$ 3,807,144

The College has restricted cash of $115,837, consisting of unspent debt proceeds of $114,337 and other restrictions of $1,500 at August 31, 2012.

ii) Jefferson County Industrial Development Agency

The Jefferson County Industrial Development Agency had unrestricted deposits of $3,237,146 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 $3,665,127.

The Agency has restricted cash of $1,602,658; restricted for loan funds and $235,854 held by a fiscal agent.

5. RECEIVABLES

Accounts receivable as of December 31, 2012, are as follows:

Governmental Activities:		
Various fees and charges		
General Fund	$	2,604,672
Other governmental funds		8,492
Less allowance for doubtful accounts		(27,842)
Total	$	2,585,322
Business-type Activities:		
Various fees and charges	$	294,577
Less allowance for doubtful accounts		(3,588)
Total	$	290,989

Due to the length of time it takes to receive reimbursement from New York State for some requested reimbursements, currently have approximately $1,385,000 in receivables that are not anticipated to be received within one year.

State, Federal, and other governmental receivables as of December 31, 2012, are as follows:

Governmental Activities:		
General Fund:		
Due from State and Federal	$	9,129,686
Due from other governments		4,501,870
Capital Projects Fund:		
Due from State and Federal		3,637,503
Due from other governments		139,414
Other governmental funds:		
Due from State and Federal		1,056,639
Due from other governments		63,935
Total	$	18,529,047
Business-type Activities:		
Solid Waste Management:		
Due from State and Federal	$	130,756
Total	$	130,756

A. Discretely presented component units

i) Jefferson Community College

Significant receivables include amounts due from students for fees and tuitions. These receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated and recorded based on the College's historical bad debt experience, and based on management's judgment. At August 31, 2012, the College reported total accounts receivable of $5,985,130.

ii) Jefferson County Industrial Development Agency

Significant receivables of the JCIDA include loans receivable, accounts receivable, the current portion of a capital lease receivable, and notes receivable. Loans receivable, net of allowance, totaled $4,508,539 at September 30, 2012. The JCIDA also had accounts receivable of $426,998, the current portion of a capital lease receivable of $943,468, and notes receivable of $31,057.

6. CAPITAL ASSETS

A. Governmental activities—Capital asset activity for the primary government's governmental activities, for fiscal year ending December 31, 2012, was as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 2,419,686	$ -	$ -	$ 2,419,686
Construction in progress	2,368,036	3,468,595	-	5,836,631
Total capital assets not being depreciated	4,787,722	3,468,595	-	8,256,317
Capital assets, being depreciated:				
Buildings and building improvements	78,157,732	1,282,459	-	79,440,191
Improvements other than buildings	1,341,077	-	-	1,341,077
Machinery and equipment	23,316,195	1,039,169	(471,348)	23,884,016
Infrastructure	123,030,762	3,608,950	-	126,639,712
Total capital assets being depreciated	225,845,766	5,930,578	(471,348)	231,304,996
Less accumulated depreciation for:				
Buildings and building improvements	(29,366,475)	(1,746,354)	-	(31,112,829)
Improvements other than buildings	(1,034,636)	(28,841)	-	(1,063,477)
Machinery and equipment	(13,897,804)	(1,981,100)	342,412	(15,536,492)
Infrastructure	(52,591,838)	(3,852,189)	-	(56,444,027)
Total accumulated depreciation	(96,890,753)	(7,608,484)	342,412	(104,156,825)
Total capital assets, being depreciated, net	128,955,013	(1,677,906)	(128,936)	127,148,171
Governmental activities capital assets, net	$ 133,742,735	$ 1,790,689	$ (128,936)	$ 135,404,488

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

Governmental activities:	
General government support	$ 1,171,871
Public safety	1,595,300
Public health	40,906
Transportation	4,593,020
Economic assistance and opportunity	206,874
Home and community services	513
Total depreciation expense—governmental activities	$ 7,608,484

B. Business-type activities—Capital asset activity for the primary government's business-type activities (Enterprise Fund), for fiscal year ended December 31, 2012, as presented below:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	$ 12,415	$ -	$ -	$ 12,415
Total capital assets not being depreciated	12,415	-	-	12,415
Capital assets, being depreciated:				
Buildings	2,946,523	5,207	-	2,951,730
Machinery and equipment	2,629,079	162,605	(112,028)	2,679,656
Total capital assets being depreciated	5,575,602	167,812	(112,028)	5,631,386
Less accumulated depreciation for:				
Buildings	(464,828)	(51,456)	-	(516,284)
Machinery and equipment	(1,686,476)	(223,458)	105,016	(1,804,918)
Total accumulated depreciation	(2,151,304)	(274,914)	105,016	(2,321,202)
Total capital assets, being depreciated, net	3,424,298	(107,102)	(7,012)	3,310,184
Business-type activities capital assets, net	$ 3,436,713	$ (107,102)	(7,012)	$ 3,322,599

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

Business-type activities:	
Home and community services	$ 274,914

C. Discretely presented component units

i) Jefferson Community College

	Balance 9/1/2011	Additions	Deletions	Balance 8/31/2012
Capital assets, not being depreciated:				
Construction in progress	$ 3,199,891	$ 832,024	$ (2,125,769)	$ 1,906,146
Capital assets, being depreciated:				
Land improvements and infrastructure	3,710,777	65,000	666,083	4,441,860
Buildings	22,521,851	-	1,459,686	23,981,537
Furniture and equipment	3,673,569	143,470	(27,523)	3,789,516
Library books	4,118,916	145,578	-	4,264,494
Total capital assets being depreciated	34,025,113	354,048	2,098,246	36,477,407
Less accumulated depreciation for:				
Land improvements and infrastructure	(1,519,549)	(225,975)	-	(1,745,524)
Buildings	(8,824,980)	(642,978)	-	(9,467,958)
Furniture and equipment	(3,132,432)	(123,863)	27,523	(3,228,772)
Library books	(3,799,119)	(131,110)	-	(3,930,229)
Total accumulated depreciation	(17,276,080)	(1,123,926)	27,523	(18,372,483)
Total capital assets, being depreciated, net	16,749,033	(769,878)	2,125,769	18,104,924
Governmental activities capital assets, net	$ 19,948,924	$ 62,146	$ -	$ 20,011,070

In addition to the capital assets on the previous page, the College reports net capital assets of its discretely presented component units in the amount of $106,146.

ii) Jefferson County Industrial Development Agency

	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
Capital assets, not being depreciated:				
Land and land improvements	$ 639,814	$ -	$ (33,677)	$ 606,137
Capital assets, being depreciated:				
Equipment	98,678	6,050	-	104,728
Buildings	724,125	-	-	724,125
Total capital assets, being depreciated:	822,803	6,050	-	828,853
Less accumulated depreciation for:				
Buildings	(523,433)	(120,081)	-	(643,514)
Total accumulated depreciation	(523,433)	(120,081)	-	(643,514)
Total capital assets, being depreciated, net	299,370	(114,031)	-	185,339
Governmental activities capital assets, net	$ 939,184	$ (114,031)	$ (33,677)	$ 791,476

7. ACCRUED LIABILTIIES

Accrued liabilities reported by governmental funds at December 31, 2012, were as follows:

	General Fund	Nonmajor Funds	Total Governmental Funds
Salary and employee benefits	$ 1,563,267	$ 177,593	$ 1,740,860
Total	$ 1,563,267	$ 177,593	$ 1,740,860

8. 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 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the 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 System's 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
2012	$ 7,135,414
2011	6,624,137
2010	4,770,790

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

Year	ERS Contribution
2012	$ 727,453
2011	643,792
2010	447,435

9. 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, 2012. 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, 2012, the County contributed $5,872,815 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.

GASB Statement No. 45 allows plan sponsors to utilize the results of an actuarial valuation for multiple years if no significant changes have occurred since the prior valuation was performed. As the County has experienced no significant changes, information provided for the actuarial valuation performed as of January 1, 2012 was used to calculate the annual required contribution for 2012.

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:

	2012	2011
Normal Cost for Year Ending December 31,	$ 11,176,772	$ 10,746,896
Amortization of UAAL	16,503,292	9,985,542
Interest	447,071	429,876
Annual required contribution	28,127,135	21,162,314
Interest on net OPEB obligation	2,336,140	1,698,040
Adjustment to annual required contribution	(3,247,577)	(1,516,133)
Annual OPEB cost (expense)	27,215,698	21,344,221
Contributions made	(5,872,815)	(5,391,733)
Increase in net OPEB obligation	21,342,883	15,952,488
Net OPEB obligation—beginning of year	58,403,499	42,451,011
Net OPEB obligation—end of year	$ 79,746,382	$ 58,403,499

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 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
2012	$ 27,215,698	$ 5,872,815	21.6%	$ 79,746,382
2011	21,344,221	5,391,733	25.3%	58,403,499
2010	14,628,200	4,111,076	28.1%	42,451,011

Funding Status and Funding Progress—As of December 31, 2012, the plan was not funded. The annual required contribution for 2012 was determined based on an actuarial valuation performed as of January 1, 2012. The actuarial accrued liability for benefits was $285,375,476. There were no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was $38,237,276 and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll is 746.3 percent. As of December 31, 2012, the County has had three actuarial valuations performed. Accordingly, information from the study is presented in the County's Schedule of Funding Progress.

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
January 1, 2012	$ -	$ 285,375,476	$ 285,375,476	0.0%	$ 38,237,276	746.3%
January 1, 2011	$ -	$ 268,836,959	$ 268,836,959	0.0%	$ 36,428,389	738.0%
January 1, 2010	$ -	$ 174,400,300	$ 174,400,300	0.0%	$ 38,694,580	450.7%

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 trends. 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 projected unit credit 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 4.0% inflation assumption. The County's unfunded actuarial accrued liability is being amortized as a level dollar amount over a 30 year period.

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 fiscal year 2012, the College contributed $1,154,000 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:

	2012	2011
Annual required contribution	$ 3,571,566	$ 3,427,119
Interest on net OPEB obligation	495,660	407,603
Adjustment to annual required contribution	(716,603)	(589,294)
Annual OPEB cost (expense)	3,350,623	3,245,428
Contributions made	(1,154,000)	(1,044,000)
Increase in net OPEB obligation	2,196,623	2,201,428
Net OPEB obligation—beginning of year	12,391,507	10,190,079
Net OPEB obligation—end of year	$ 14,588,130	$ 12,391,507

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 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
2012	$ 3,350,623	$ 1,154,000	34%	$ 14,588,130
2011	3,245,428	1,044,000	32%	12,391,507
2010	3,494,078	1,123,000	32%	10,190,079

Funding Status and Funding Progress—The funded status of the plan as of August 31, 2012 was as follows:

Actuarial accrued liability ("AAL")	$ 40,322,435
Actuarial value of plan assets	-
Unfunded actuarial accrued liability ("UAAL")	$ 40,322,435
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
August 31, 2012	$ -	$ 40,322,435	$ 40,322,435	0.0%	not available	n/a
August 31, 2011	-	38,649,162	38,649,162	0.0%	not available	n/a
August 31, 2010	-	40,334,238	40,334,238	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 11% initially, reduced by decrements to an ultimate rate of 5% after ten years. The discount rate as of September 1, 2011 and August 31, 2012 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).

10. DEFERRED COMPENSATION PLAN

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. 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.

11. 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, 2012 because they did not meet the criteria for recognition as fund liabilities.

The changes since December 31, 2010 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 Adjustments	Claim Payments	Liability End of Year
2012	$ 9,285,212	$ 1,941,235	$ 1,976,686	$ 9,249,761
2011	9,266,435	1,922,753	1,903,976	9,285,212

12. 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 $121,931 for the year ended December 31, 2012.

During 2012, 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 $110,260 for the year ended December 31, 2012. The future minimum lease payments for these leases are shown below.

Year Ending December 31,	Vehicles & Copiers Amount	Property Amount	Total Due
2013	$ 51,236	$ 116,200	$ 167,436
2014	1,496	19,200	20,696
2015	-	83,440	83,440
Total	$ 52,732	$ 218,840	$ 271,572

13. 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 2012, the City was billed $142,325 for the lease agreement as well as $194,579 for joint services. These payments are offset by a percentage of eligible 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 2012 was $182,462.

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

Year Ending December 31,	Amount
2013	172,499
2014	162,537
2015	152,573
	$ 487,609

14. 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 seven years after the original issue date.

During the year ended December 31, 2012, 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, 2012.

ii) **Jefferson County Industrial Development Agency—**There was no short-term note activity during the year ended September 30, 2012.

15. 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 position.

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 12/31/2012
Public Improvement					
Public Safety	1991	$ 12,450,000	6.70-6.75%	5/2015	$ 1,800,000
Court Complex—Series A	2003	5,700,000	3.50-4.25%	3/2013	340,000
Court Complex—Series B	2003	10,500,000	3.63-4.25%	3/2013	650,000
Highway Complex	2004	2,800,000	3.25-3.75%	12/2013	210,000
2011 Refunding Bonds	2011	9,440,000	2.00-5.00%	11/2020	9,030,000
Issued on behalf of Jefferson Community College					
	2006	4,915,000	3.75-3.95%	11/2020	3,310,000
Total		$ 45,805,000			$ 15,340,000

Prior Year's Advanced Refunding—In prior years, 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. The premium on these bonds was recorded within the government-wide financial statements and is being amortized over the life of the bonds. Additionally, the deferred charge on the refunding debt is recognized in the government-wide financial statements as a deferred outflow of resources and is amortized over the life of the refunded debt.

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 requirements. 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, 2012:

	Balance 1/1/2012	Additions	Decreases	Balance 12/31/2012	Due Within One Year
Governmental activites:					
Bonds payable	$ 17,845,000	$ -	$ 2,505,000	$ 15,340,000	$ 2,480,000
Premium	1,077,636	-	131,955	945,681	131,955
Net bonds payable	18,922,636	-	2,636,955	16,285,681	2,611,955
Compensated absences	2,131,930	3,003,834	2,877,061	2,258,703	112,935
Claims and judgments	9,285,212	1,941,235	1,976,686	9,249,761	-
Other post-employment benefits	58,403,499	27,215,698	5,872,815	79,746,382	-
Total governmental activities	$ 88,743,277	$ 32,160,767	$ 13,363,517	$ 107,540,527	$ 2,724,890
Business type activites:					
Compensated absences	$ 27,270	$ 39,296	$ 30,646	$ 35,920	$ 1,796
Total business-type activities	$ 27,270	$ 39,296	$ 30,646	$ 35,920	$ 1,796

The County's debt service requirements on long term debt at December 31, 2012 were as follows:

Year Ending December 31,	Governmental Serial Bonds Principal	Interest	Total
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	1,765,000	246,371	2,011,371
2018-2020	5,055,000	361,198	5,416,198
Total	$ 15,340,000	$ 2,482,301	$ 17,822,301

Constitutional Debt Limit—Outstanding indebtedness aggregated $15,340,000, all of which was subject to the constitutional debt limit and represented approximately 3.0% of its debt limit.

A. Discretely presented component units

i) Jefferson Community College

The College's long-term debt activity for the year ended August 31, 2012:

	Balance 9/1/2011	Additions	Decreases	Balance 8/31/2012	Due Within One Year
Compensated absences	$ 348,255	$ 90,147	$ -	$ 438,402	$ 51,966
Capital lease obligation	1,311,822	-	45,407	1,266,415	-
Other post-employment benefits	12,391,507	3,350,623	1,154,000	14,588,130	-
Total governmental activities	$ 14,051,584	$ 3,440,770	$ 1,199,407	$ 16,292,947	$ 51,966

In addition to the above, the College reports reserves payable of $47,201 as a noncurrent liability.

ii) Jefferson County Industrial Development Agency

As of September 30, 2012, notes payable were as follows: note payable to M&T Bank, secured by a $511,741 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 $80,121 including interest at 2.981%. At September 30, 2012 the loan has 13 months 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, 2012, 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 4.0%.

M&T Bank	$ 1,023,483
New York State Department of Transportation	180,160
Total notes payable	1,203,643
Less: current portion	(943,468)
Long-term portion	$ 260,175

The Agency's long-term debt activity for the year ended September 30, 2012:

	Balance 10/1/2011	Addition	Decreases	Balance 9/30/2012	Due Within One Year
Notes payable	$ 2,118,838	$ -	$ 915,195	$ 1,203,643	$ 943,468

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
2013	943,468	17,988	961,456
2014	260,175	-	260,175
Total	$ 1,203,643	$ 17,988	$ 1,221,631

16. NET POSITION AND FUND BALANCE

A. Net Position—The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- ***Net Investment in Capital Assets—***This category groups all capital assets, including infrastructure, into one component of net position. 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		$ 135,404,488
Related debt:		
Serial bonds issued	(15,340,000)	
Serial bonds issued on behalf of Jefferson Community College	3,310,000	
Debt issued issued for capital assets		(12,030,000)
Net investment in capital assets		$ 123,374,488

- ***Restricted***—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—***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. Fund Balance—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, 2012, the County had $7,006,980 of prepaid expenses, $61,081 of inventory and $1,100,000 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, 2012, the County had the restricted funds listed below.

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Restricted for:				
Workers' compensation	$ 456,703	$ -	$ -	$ 456,703
Unemployment insurance	69,728	-	-	69,728
Insurance	1,923,591	-	-	1,923,591
Grantor donor restrictions	-	3,264,033	-	3,264,033
Law enforcement and prosecution	14,458	-	-	14,458
DWI funds	117,468	-	-	117,468
1% Bail funds	35,370	-	-	35,370
Handicapped parking funds	595	-	-	595
Debt	-	-	31,988	31,988
Total restricted fund balance	$ 2,617,913	$ 3,264,033	$ 31,988	$ 5,913,934

***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, 2012, the Jefferson County Board of Legislators released and paid the previously committed $5,000,000 for the development of an assisted living facility in the County and therefore had no committed fund balance at year end.

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

	General Fund	Capital Projects Fund	County Road Fund	Road Machinery Fund	Special Grant Funds	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	2,258,703	-	-	-	-	2,258,703
Assigned to risk retention	2,000,000	-	-	-	-	2,000,000
Encumbrances	172,484	-	14,414	218,950	30,390	436,238
Appropriated for subsequent years' expenditures	9,837,914	-	-	-	-	9,837,914
Assigned to special grants	-	-	-	-	2,646	2,646
Assigned to capital projects	-	5,072,428	-	-	-	5,072,428
Assigned to county road	-	-	3,388,480	-	-	3,388,480
Assigned to road machinery	-	-	-	840,215	-	840,215
Total assigned fund balance	$ 19,662,754	$ 5,072,428	$ 3,402,894	$ 1,059,165	$ 33,036	$ 29,197,241

The County considers encumbrances significant if they are in excess of $100,000. As of December 31, 2012, there were the following significant encumbrances:

Assigned Encumbrances:		
Road Maintenance Equipment - Road Machinery Fund	$	192,229
Restricted Encumbrances:		
JCC McVean Center Project - Capital Fund	$	247,123
Bridge Construction - Capital Fund		173,522
Airport Snow Removal Equipment - Capital Fund		509,000
Airport Runway Project - Capital Fund		2,030,975

Unassigned—Represents the residual classification of the government's General Fund, and could report a surplus or deficit. As of December 31, 2012 the unassigned fund balance totaled $6,675,808.

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.

17. 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.

18. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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, 2012 are presented below.

	Interfund			
Fund	Receivables	Payables	Transfers In	Transfers Out
General Fund	$ 300,930	$ 166,022	$ 3,892	$ 14,973,942
Capital Projects Fund	-	-	2,359,086	3,892
Other governmental funds	167,782	302,690	14,424,356	1,809,500
Total	$ 468,712	$ 468,712	$ 16,787,334	$ 16,787,334

19. 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, 2012, the Solid Waste Fund made an interest payment of $3,600 and principal of $100,000, leaving a balance of $1,100,000.

20. 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, 2012, 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.

21. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 3, 2013, 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.

REQUIRED SUPPLEMENTAL INFORMATION

COUNTY OF JEFFERSON, NEW YORK
Required Supplementary Information
Budgetary Comparison Schedule (Non-GAAP)—General Fund
Year Ended December 31, 2012

	Budgeted Amounts		Budgetary	Variance with
	Adopted	Final	Amount	Final Budget
REVENUES				
Real property taxes	$ 46,900,788	$ 46,750,788	$ 48,942,694	$ 2,191,906
Real property tax items	2,575,990	2,575,990	3,299,601	723,611
Non property tax items	70,689,489	71,921,630	73,156,358	1,234,728
Departmental income	14,199,977	15,441,244	14,679,336	(761,908)
Intergovernmental charges	3,962,915	3,962,915	3,809,623	(153,292)
Use of money and property	562,900	467,721	413,772	(53,949)
Licenses and permits	20,000	20,000	26,138	6,138
Fines and forfeitures	273,676	273,676	290,653	16,977
Sale of property and compensation for loss	1,415,000	1,437,474	1,409,812	(27,662)
Miscellaneous	2,569,083	2,580,978	2,750,294	169,316
Interfund revenues	10,937	-	-	-
State aid	18,455,863	19,214,596	14,936,329	(4,278,267)
Federal aid	22,776,975	23,405,593	22,784,332	(621,261)
Total revenues	184,413,593	188,052,605	186,498,942	(1,553,663)
EXPENDITURES				
Current:				
General government support	57,454,301	57,593,208	54,326,687	3,266,521
Education	11,593,833	11,593,833	9,997,854	1,595,979
Public safety	19,534,328	21,234,966	20,514,705	720,261
Health	13,938,552	14,422,221	12,929,798	1,492,423
Transportation	885,707	3,534,578	2,980,837	553,741
Economic assistance and opportunity	66,993,160	72,892,625	65,151,615	7,741,010
Culture and recreation	292,294	380,525	332,165	48,360
Home and community services	1,075,395	1,567,378	1,129,536	437,842
Employee benefits	8,483,957	8,152,122	6,679,707	1,472,415
Total expenditures	180,251,527	191,371,456	174,042,904	17,328,552
Excess (deficiency) of revenues over (under) expenditures	4,162,066	(3,318,851)	12,456,038	15,774,889
OTHER FINANCING SOURCES (USES)				
Transfers in	-	3,892	3,892	-
Transfers out	(14,894,719)	(14,974,242)	(14,973,942)	300
Total other financing sources (uses)	(14,894,719)	(14,970,350)	(14,970,050)	300
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(10,732,653)	(18,289,201)	(2,514,012)	$ 15,775,189
Appropriated fund balance	10,732,653	18,289,201		
Net change in encumbrances			(176,001)	
Net change in fund balance	$ -	$ -	(2,690,013)	
Fund balances—beginning			39,814,549	
Fund balances—ending			$ 37,124,536	

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	$ (2,690,013)
Add: 2011 encumbrances	348,485
Less: 2012 encumbrances	(172,484)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses - budgetary basis	$ (2,514,012)

SUPPLEMENTAL SCHEDULES

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COUNTY OF JEFFERSON, NEW YORK
Combining Balance Sheet—Nonmajor Governmental Funds
December 31, 2012

	County Road Fund	Road Machinery Fund	Special Grant Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash	$ 3,150,581	$ 1,102,094	$ 97,044	$ -	$ 4,349,719
Restricted cash	-	-	-	31,988	31,988
Accounts receivables, net of allowances for estimated uncollectible amounts	-	4,408	4,084	-	8,492
Due from other funds	-	1,760	166,022	-	167,782
Due from state and federal governments	723,255	-	333,384	-	1,056,639
Due from other governments	44	26,484	37,407	-	63,935
Prepaid items	101,716	23,275	37,429	-	162,420
Total assets	$ 3,975,596	$ 1,158,021	$ 675,370	$ 31,988	$ 5,840,975
LIABILITIES					
Accounts payable	$ 356,849	$ 54,315	$ 237,118	$ -	$ 648,282
Accrued liabilities	114,137	21,266	42,190	-	177,593
Due to other governments	-	-	4,222	-	4,222
Due to other funds	-	-	302,690	-	302,690
Unearned revenues	-	-	15,000	-	15,000
Other liabilities	-	-	3,685	-	3,685
Total liabilities	470,986	75,581	604,905	-	1,151,472
FUND BALANCES					
Nonspendable	101,716	23,275	37,429	-	162,420
Restricted	-	-	-	31,988	31,988
Assigned	3,402,894	1,059,165	33,036	-	4,495,095
Total fund balances	3,504,610	1,082,440	70,465	31,988	4,689,503
Total liabilities and fund balances	$ 3,975,596	$ 1,158,021	$ 675,370	$ 31,988	$ 5,840,975

COUNTY OF JEFFERSON, NEW YORK
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2012

	County Road Fund	Road Machinery Fund	Special Grant Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES					
Departmental income	$ -	$ -	$ 925,512	$ -	$ 925,512
Intergovernmental charges	42,058	65,122	-	-	107,180
Use of money and property	3,798	1,425	88,076	137	93,436
Licenses and permits	690	-	-	-	690
Sale of property and compensation for loss	1,528	7,014	4	-	8,546
Miscellaneous	-	-	40,346	-	40,346
Interfund revenues	30,840	236,542	-	-	267,382
State aid	2,934,584	-	203,851	-	3,138,435
Federal aid	-	-	3,589,072	-	3,589,072
Total revenues	3,013,498	310,103	4,846,861	137	8,170,599
EXPENDITURES					
Current:					
Public safety	626,340	-	-	-	626,340
Transportation	9,206,967	1,844,839	-	-	11,051,806
Economic assistance & opportunity	-	-	2,447,138	-	2,447,138
Home and community services	-	-	2,159,020	-	2,159,020
Employee benefits	19,999	8,096	-	-	28,095
Debt service:					
Principal	-	-	-	2,505,000	2,505,000
Interest and fiscal charges	-	-	-	615,163	615,163
Total expenditures	9,853,306	1,852,935	4,606,158	3,120,163	19,432,562
Excess (deficiency) of revenues over (under) expenditures	(6,839,808)	(1,542,832)	240,703	(3,120,026)	(11,261,963)
OTHER FINANCING SOURCES (USES)					
Transfers in	9,583,447	1,786,045	-	3,054,864	14,424,356
Transfers out	(1,809,500)	-	-	-	(1,809,500)
Total other financing sources (uses)	7,773,947	1,786,045	-	3,054,864	12,614,856
Net change in fund balances	934,139	243,213	240,703	(65,162)	1,352,893
Fund balances (deficit)—beginning	2,570,471	839,227	(170,238)	97,150	3,336,610
Fund balances—ending	$ 3,504,610	$1,082,440	$ 70,465	$ 31,988	$ 4,689,503

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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, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures	
U.S. DEPARTMENT OF AGRICULTURE				
Cooperative Extension Service Program	10.500	Cornell Cooperative Extension Assoc of Jeff Co.	$ 1,800	
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	NYS Office of Temporary & Disability Assistance (OTDA)	1,929,382	
TOTAL U.S. DEPARTMENT OF AGRICULTURE				**$ 1,931,182**
U.S. DEPARTMENT OF COMMERCE				
Economic Development—Support for Planning Organizations	11.302	N/A Direct	45,000	
TOTAL U.S. DEPARTMENT OF COMMERCE				**45,000**
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grant—Entitlement Grant	14.228	NYS Governor's Office for Small Cities	760,422	
Emergency Solutions Grant Program	14.231	NYS OTDA	63,083	
HUD Shelter Plus Care	14.238	N/A Direct	509,897	
Home Investment Partnerships Program	14.239	N/A Direct	1,398,599	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				**2,732,001**
U.S. DEPARTMENT OF JUSTICE				
Juvenile Accountability Block Grant	16.523	NYS Division of Criminal Justice	11,738	
State Criminal Alien Assistance Program	16.606	NYS Division of Criminal Justice	2,608	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	NYS Division of Criminal Justice	46,295	
ARRA—Edward Byrne Memorial Justice Assistance Grant Program	16.803	NYS Division of Criminal Justice	30,000	
TOTAL U.S. DEPARTMENT OF JUSTICE				**90,641**
U.S. DEPARTMENT OF LABOR				
Employment Service/Wagner-Peyser Funded Activities	17.207	NYS Department of Labor	1,125	
Senior Community Service Employment Program	17.235	NYS Office for the Aging	35,514	
Trade Adjustment Assistance	17.245	NYS Department of Labor	190,494	

(continued)

COUNTY OF JEFFERSON, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures		
U.S. DEPARTMENT OF LABOR					
Workforce Investment cluster:					
WIA—Adult Program	17.258	NYS Department of Labor	387,518		
WIA—Youth Activities	17.259	NYS Department of Labor	424,414		
ARRA—WIA—National Emergency Grant	17.260	NYS Department of Labor	46,640		
WIA—National Emergency Grant	17.277	NYS Department of Labor	9,793		
WIA—Dislocated Workers	17.278	NYS Department of Labor	325,135		
Total Workforce Investment cluster				1,193,500	
TOTAL U.S. DEPARTMENT OF LABOR					**1,420,633**
U.S. DEPARTMENT OF TRANSPORTATION					
Airport Improvement Program	20.106	N/A Direct		2,940,171	
Highway Planning and Construction	20.205	NYS Department of Transportation		1,193,792	
Highway Safety cluster:					
State and Community Highway Safety	20.600	NYS Governors Traffic Safety	9,139		
Alcohol Traffic Safety & Drunk Driving Prevention Incentive Grants	20.601	NYS Governors Traffic Safety	25,435		
Total Highway Safety cluster				34,574	
TOTAL U.S. DEPARTMENT OF TRANSPORTATION					**4,168,537**
U.S. DEPARTMENT OF EDUCATION					
Career and Technical Education - Basic Grants to States	84.048	Jefferson Community College		14,054	
Special Education—Grants for Infants and Families	84.181	NYS Department of Health		85,942	
TOTAL U.S. DEPARTMENT OF EDUCATION					**99,996**
U.S. ELECTION ASSISTANCE COMMISSION					
Help America Vote Act Requirement Payments	90.401	NYS Board of Elections		2,070	
TOTAL U.S. ELECTION ASSISTANCE COMMISSION					**2,070**

(continued)

COUNTY OF JEFFERSON, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor		Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	NYS Department of Health		16,414
Special Programs for Aging, Title VII, Chapter 2	93.042	NYS Office for the Aging		483
Special Programs for Aging Title III , Part D	93.043	NYS Office for the Aging		1,352
Special Programs for Aging, Title IV & Title II Discretionary Grants	93.048	NYS OFA		2,884
Aging Cluster				
Special Programs for Aging, Title III, Part B	93.044	NYS Office for the Aging	104,815	
Special Programs for Aging, Title III, Part C	93.045	NYS Office for the Aging	195,429	
Nutrition Services Incentive Program	93.053	NYS Office for the Aging	96,054	
Total Aging Cluster:				396,298
National Family Caregiver Support Title III, Part E	93.052	NYS Office for the Aging		44,244
Public Health Emergency Preparedness	93.069	Health Research Institute		105,167
Medicare Enrollment Assistance Program	93.071	NYS Office for the Aging		9,522
Substance Abuse and Mental Health Services Program	93.243	NYS OASAS/RFMH		210,380
Immunization Grant	93.268	NYS Department of Health		16,446
Centers for Disease Control and Prevention	93.283	NYS Department of Health		1,000
Promoting Safe and Stable Families	93.556	NYS OTDA		51,868
Temporary Assistance to Needy Families (TANF)	93.558	NYS OTDA		6,806,191
Child Support Enforcement, Title IV-D	93.563	NYS OTDA	462,257	
ARRA—Child Support Enforcement, Title IV-D	93.563	NYS OTDA	161,532	
Total Child Support Enforcement:				623,789
Low Income Home Energy Assistance (HEAP)	93.568	NYS OTDA	6,253,115	
Low Income Home Energy Assistance (WRAP)	93.568	NYS Office for the Aging	21,240	
Total Low Income Home Energy Assistance				6,274,355

(continued)

(concluded)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor		Federal Expenditures	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Child Care & Development Block Grant	93.575	NYS OTDA		2,161,934	
Child Welfare Services—State Grants	93.645	NYS OTDA		47,836	
Foster Care, Title IV-E	93.658	NYS OTDA		2,062,833	
Adoption Assistance	93.659	NYS OTDA		1,190,285	
Social Services Block Grant	93.667	NYS OTDA		2,361,677	
Chafee Foster Care Independence Program	93.674	NYS OTDA		12,523	
Medical Assistance Program	93.778	NYS OTDA	2,707,350		
Medical Assistance Program	93.778	NYS Office of Mental Health	75,000		
Total Medical Assistance Program				2,782,350	
Centers for Medicare and Medicaid Services	93.779	NYS Office for the Aging		24,168	
Block Grants for Prevention & Treatment of Substance Abuse	93.959	NYS OASAS		611,079	
Maternal & Child Health Services Block Grant to the States	93.994	NYS Department of Health		25,963	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					**25,841,041**
U.S. DEPARTMENT OF HOMELAND SECURITY					
Emergency Management Performance Grant	97.042	NYS Office of Homeland Security		4,703	
Homeland Security Grant Program	97.067	NYS Office of Homeland Security	379,043		
Homeland Security Grant Program	97.067	Broome County	4,209		
Total Homeland Security Program				383,252	
Law Enforcement Officer Reimbursement Agreement Program	97.090	N/A Direct		26,756	
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY					**414,711**
TOTAL EXPENDITURES OF FEDERAL AWARDS					**$ 36,745,812**

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, 2012

Program Title/Subrecipient	Federal CFDA Number	Federal Expenditures
State Administrative Matching Grants for		
the Supplemental Nutrition Assistsance Program		
Cornell Cooperative Extension	10.561	$ 142,619
HUD Emergency Solutions Grant - North Country Management Services,	14.231	63,083
HUD Shelter Plus Care - Lewis County Opportunities	14.238	509,896
HOME Investment Partnerships Program - Development Authority of the	14.239	1,398,599
WIA—Adult Program - Lewis County	17.258	55,837
WIA—Youth Activities - Lewis County	17.259	73,243
Dislocated Workers - Lewis County	17.278	51,692
Block Grants for Prevention & Treatment of Substance Abuse		
Credo Community Center for the Treatment of Addictions	93.959	611,079
New York State Division of Homeland Security		
Lewis County	97.067	40,989

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 PROGRAMS

The County is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed a non-monetary program. Included on the schedule of expenditures of federal awards is $2,070 of equipment passed through the New York State Board of Elections.

6. RECONCILIATION

A reconciliation to the basic financial statements is available.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Jefferson (the "County"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 3, 2013. Our report includes a reference to other auditors who audited the financial statements of the Jefferson County Industrial Development Agency and Jefferson Community College, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Drescher & Malecki LLP

July 3, 2013

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Certified Public Accountants

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

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

Report on Compliance for Each Major Federal Program

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, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Jefferson County Industrial Development Agency and Jefferson Community College, which received $1,541,500 and $14,606,695 in federal awards, respectively, which are not included in the County's schedule of expenditures of federal awards during the year ended December 31, 2012. Our audit, described below, did not include the operations of the Jefferson County Industrial Development Agency and Jefferson Community College because other auditors were engaged to perform such audits in accordance with OMB Circular A-133, as applicable.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Drescher & Malecki LLP

July 3, 2013

COUNTY OF JEFFERSON, NEW YORK
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2012

Part I. Summary of auditors' results

Financial Statements

Type of auditors' report issued: Unmodified*

* 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: Unmodified

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
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561
Temporary Assistance for Needy Families	93.558
Child Support Enforcement Program	93.563
ARRA — Child Support Enforcement Program	93.563
Medical Assistance Program	93.778

8. Dollar threshold used to distinguish between Type A and Type B programs? $ 1,102,374

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

Part II. Financial statement findings section

None noted.

Part III. Federal award findings and questioned costs section

None noted.

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.

Current Status—Procedures have been implemented to establish internal controls within the SWMF. This comment has been removed for the audit of the year ended December 31, 2012.

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