

COUNTY OF CORTLAND, NEW YORK

**Basic Financial Statements
December 31, 2012
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

COUNTY OF CORTLAND, NEW YORK

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COUNTY OF CORTLAND, NEW YORK

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SECTION A

**COUNTY OF CORTLAND, NEW YORK
BASIC FINANCIAL STATEMENTS**

INDEPENDENT AUDITOR'S REPORT

September 20, 2013

To the County Legislature of the
County of Cortland, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Cortland, New York (the County) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. We did not audit the financial statements of the Cortland County Industrial Development Agency (the Agency) or Cortland Tobacco Asset Securitization Corporation (CTASC), which represent 40.2%, 23.9%, and 4.5% of the assets, net position, and revenues, respectively, of the discretely presented component units and 2.7%, 4.3%, and 0.7%, respectively, of each major fund.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Agency or CTASC, which represent 40.2%, 23.9%, and 4.5% of the assets, net position, and revenues, respectively, of the discretely presented component units and 2.7%, 4.3%, and 0.7%, respectively, of each major fund. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and CTASC, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

In our opinion, based on our audit and the reports of the 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 aggregate discretely presented component units, and each major fund of the County, as of December 31, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3-10 and budgetary comparison information on pages 53-54 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of state transportation assistance expended, as required by Draft Part 43 of the New York Code of Rules and Regulations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of state transportation assistance expended are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, and the procedures performed as described above, the schedule of expenditures of federal awards and the schedule of state transportation assistance expended are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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.

COUNTY OF CORTLAND, NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2012

The following is management's discussion and analysis of the County of Cortland, New York's (the County's) financial performance for the year ended December 31, 2012. This section is a summary of the County's financial activities based on current known facts, decisions, and conditions. It is also based on both the government-wide and fund financial statements. This section is only an introduction and should be read in conjunction with the County's basic financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

In 2012, the net position of the County's primary government increased by approximately \$539,000 from operating activities. There were also prior period adjustments which decreased net position by approximately \$1,825,000.

The assets of the County's primary government exceeded its liabilities at December 31, 2012 by \$64,232,545 of which \$70,546,066 represents the County's net investment in capital assets.

The County's governmental funds reported an increase in fund balance in 2012 of \$8,899,804.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, including the notes to financial statements; required supplementary information; and an optional section that presents the schedule of expenditures of federal awards and the schedule of expenditures of state transportation awards. The basic financial statements include two kinds of statements that present different views of the County, government-wide and fund financial statements. The following are some highlights of the financial statements:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the County's overall financial status.
- The remaining fund financial statements focus on individual parts of the County government that report the County's operations in more detail than the government-wide financial statements. The governmental funds statements indicate how general government services were financed in the short-term, as well as what remains for future spending.
- Proprietary fund financial statements offer short and long-term financial information about the activities the County operates similar to a business.
- Fiduciary fund financial statements provide information about financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources belong.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.
- The financial statements are followed by a section of required supplementary information that provides budgetary information for the County's General Fund and County Road Fund.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements

The government-wide financial statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the County's assets and liabilities. All of the current year's revenues and expenditures are accounted for in the statement of activities and change in net position regardless of when cash is received or paid.

The government-wide financial statements require that capital assets (infrastructure, including roads, bridges, etc.) be valued and reported within the governmental activities column of the government-wide statements. The County depreciates these assets over their estimated useful lives. If a road project is considered maintenance, (i.e., a recurring cost that does not extend the road's original useful life or expand its capacity) the cost of the project is expensed as incurred.

The two government-wide financial statements report the County's net position and how they have changed. Net position, the difference between the County's assets and liabilities, is one way to measure the County's financial health. Over time, increases or decreases in the County's net position is an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the County, one must also consider additional non-financial factors, such as changes in the County's property tax base, the condition of the County's roads and infrastructure, and surpluses or deficits in services provided by the County.

The government-wide financial statements of the County are divided into three categories:

- **Governmental Activities** - Most of the County's basic services are included here, such as public safety, educational programs, public works, public health, mental health, human services, culture and recreation programs, and general administration. Property taxes, sales taxes, mortgage taxes, franchise fees, and state and federal grants finance most of these activities. Also included in the governmental activities is the County's blended component unit, the Cortland Tobacco Asset Securitization Corporation (CTASC). The Internal Service Funds' governmental activities are the Self Insurance Fund and the Workers' Compensation Fund.
- **Business-Type Activities** - The County charges fees to other funds to cover most of the costs of certain services it provides. Business-type activities include the County's Solid Waste Fund.
- **Component Units** - The County's component units report the activities of the Cortland County Industrial Development Agency (IDA), and the Cortland County Soil and Water Conservation District (SWCD) that are described in detail in the notes to the financial statements. Although legally separate, these component units are important because the County is financially accountable for them.

Fund Financial Statements

The fund financial statements provide detailed information about the County's most significant funds, not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The County Legislature establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements (Continued)

The County has three kinds of funds:

- **Governmental Funds** - Most of the County's basic services are included in governmental funds, which focus on how cash and other financial assets flow in and out of those funds and the balances remaining at year-end that are available for future allocation. The governmental funds' financial statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, there is additional information in the subsequent pages that explains the relationship or differences between them.
- **Proprietary Funds** - Proprietary funds, like the government-wide financial statements, provide both long-term and short-term financial information. The County's Solid Waste Fund is accounted for using the accrual basis of accounting, i.e., revenues are recorded when earned and expenses are recorded when incurred.
- **Fiduciary Funds** - The County is the trustee, or fiduciary, for assets that because of a trust agreement can be used only for the trust beneficiaries. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position and, when applicable, a statement of change in fiduciary net position. We exclude these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The statement of net position provides perspective of the County as a whole.

(Table 1)

Condensed Statement of Net Position December 31, 2012 and 2011 (In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS:						
Current and other assets	\$ 37,077	\$ 26,653	\$ 1,974	\$ 1,772	\$ 39,051	\$ 28,425
Capital assets, net	<u>89,647</u>	<u>82,499</u>	<u>12,055</u>	<u>13,055</u>	<u>101,702</u>	<u>95,554</u>
Total assets	<u>126,724</u>	<u>109,152</u>	<u>14,029</u>	<u>14,827</u>	<u>140,753</u>	<u>123,979</u>
LIABILITIES:						
Other liabilities	7,797	6,887	4,260	4,341	12,057	11,228
Long-term debt - due in one year	2,135	736	367	349	2,502	1,085
Long-term debt - due in more than one year	<u>51,692</u>	<u>35,511</u>	<u>10,270</u>	<u>10,637</u>	<u>61,962</u>	<u>46,148</u>
Total liabilities	<u>61,624</u>	<u>43,134</u>	<u>14,897</u>	<u>15,327</u>	<u>76,521</u>	<u>58,461</u>

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)

(Table 1) (Continued)

**Condensed Statement of Net Position
December 31, 2012 and 2011
(In Thousands)**

	Governmental <u>Activities</u>		Business-Type <u>Activities</u>		Total Primary <u>Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
NET POSITION:						
Net investment in capital assets	69,128	73,790	1,418	2,070	70,546	75,860
Restricted	5,735	2,790	1,313	478	7,048	3,268
Unrestricted	<u>(9,762)</u>	<u>(10,562)</u>	<u>(3,599)</u>	<u>(3,048)</u>	<u>(13,361)</u>	<u>(13,610)</u>
Total net position	\$ <u>65,101</u>	\$ <u>66,018</u>	\$ <u>(868)</u>	\$ <u>(500)</u>	\$ <u>64,233</u>	\$ <u>65,518</u>

Net position of the County's primary government decreased 1% from approximately \$65,518,000 to \$64,233,000 at December 31, 2012. The majority of the net position is invested in capital assets such as land, land improvements, buildings, equipment, and roads. The overall decrease in the net position of the primary government is a result of the following:

- In total, capital assets, net of accumulated depreciation, increased by approximately \$6,148,000, or 6.4%. The capital asset additions in 2012 outpaced the amount of depreciation expense.
- Serial bonds increased by \$5,000,000 in 2012 due to an additional borrowing. Payments made for serial bonds were in accordance with expected amortization schedules.
- The other postemployment benefits expense increased approximately \$5,377,000 because of the additional liability accrued based on the actuarial valuation.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)

(Table 2)

**Changes in Net Position
for the Years Ended
December 31, 2012 and 2011
(In Thousands)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES:						
Program revenues -						
Charges for services	\$ 20,569	\$ 11,289	\$ 1,736	\$ 1,844	\$ 22,305	\$ 13,133
Operating grants and contributions	27,859	22,586	11	-	27,870	22,586
Capital grants and contributions	5,298	3,565	-	-	5,298	3,565
General revenues -						
Real property taxes and items	34,388	31,156	-	-	34,388	31,156
Nonproperty tax items	28,670	26,918	-	-	28,670	26,918
Use of money and property	2,551	110	3	-	2,554	110
Miscellaneous local sources	852	122	-	4	852	126
Interfund transfers	<u>(251)</u>	<u>(739)</u>	<u>251</u>	<u>439</u>	<u>-</u>	<u>(300)</u>
Total revenues	<u>119,936</u>	<u>95,007</u>	<u>2,000</u>	<u>2,287</u>	<u>121,936</u>	<u>97,294</u>
EXPENSES:						
Program expenses -						
General governmental support	23,447	20,876	-	-	23,447	20,876
Education	4,997	3,548	-	-	4,997	3,548
Public safety	22,546	11,181	-	-	22,546	11,181
Public health	12,637	10,750	-	-	12,637	10,750
Transportation	15,995	10,282	-	-	15,995	10,282
Economic assistance	36,705	33,715	-	-	36,705	33,715
Culture and recreation	360	474	-	-	360	474
Home and community	1,519	1,795	-	-	1,519	1,795
Employee benefits	-	5,051	-	-	-	5,051
Debt interest	779	1,097	-	-	779	1,097
Business-type activities	<u>-</u>	<u>-</u>	<u>2,411</u>	<u>1,992</u>	<u>2,411</u>	<u>1,992</u>
Total expenses	<u>118,985</u>	<u>98,769</u>	<u>2,411</u>	<u>1,992</u>	<u>121,396</u>	<u>100,761</u>
Increase (decrease) in net position	<u>\$ 951</u>	<u>\$ (3,762)</u>	<u>\$ (411)</u>	<u>\$ 295</u>	<u>\$ 540</u>	<u>\$ (3,467)</u>

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE (Continued)

Governmental Activities

- General Governmental Support - Includes expenses of the County Legislature, County Offices and administration, contracted professional services, buildings and grounds maintenance, and insurance. The approximate \$2,571,000 increase from 2011 was due to the additional claims in workers' compensation and increases in employee wages and benefits.
- Education - Includes working with people to assist in job preparation, job skills, and job placement.
- Public Safety - Includes the expenses for the Sheriff and Safety Inspection Departments. The increase of approximately \$11,365,000 in this category was primarily due to increased expenditures related to the interoperable communication project.
- Transportation - Includes salaries for employees in the transportation department and the cost of repairing and maintaining County roads and sidewalks. The increase of approximately \$5,700,000 million was because of certain projects in 2012 that did not occur in 2011; including road, bridge, and culvert improvement projects.
- Public Health - Includes services provided for public and mental health.
- Economic Assistance - Includes expenses for the County's counseling services, nutrition program, and community development.
- Culture and Recreation - Includes the costs associated with maintaining the County's historical society, as well as costs related to youth development programs.
- Home and Community Services - Includes the salaries for employees and costs associated with maintaining the County's zoning, environmental, and planning boards.
- Debt Interest - Includes the transactions associated with the payment of interest and other related charges to debt for improvements to the County.
- Depreciation - Includes expenses for capital assets allocated among their remaining useful lives.

THE COUNTY'S MAJOR GOVERNMENTAL FUNDS

The focus of the governmental fund financial statements is on the major funds. The County's main operating fund, the General Fund, is always reported as a major fund. Other individual funds are reported as major funds when assets, liabilities, revenues, or expenses exceed certain thresholds. For the year ended December 31, 2012, the County's County Road Fund, Special Grant Fund, Road Machinery Fund, and Capital Projects Fund are reported as major funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

- The County's original expenditure budget of \$96,176,970 differs from the General Fund's revised budget of \$99,755,851. This increase was due to the budgetary amendments made during the year.
- Total revenues in the General Fund were approximately \$3,088,000 less than the final budget. This negative variance was primarily due to shortfalls in State and Federal Aid of approximately \$1,902,000 and \$991,000, respectfully. The decrease in aid is due to a decrease from New York State budget cuts and the loss of Recovery Act funds. However, the County was approximately \$908,000 more than budgeted on its nonproperty tax items due to an increase in sales tax.
- The General Fund's actual expenditures were approximately \$7.6 million less than the final budget. This was due primarily to the positive effects of cost containment efforts made throughout the year.

CAPITAL ASSETS AND SHORT AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

At December 31, 2012, the primary government of the County had approximately \$102 million invested in land, buildings, land improvements, infrastructure, and machinery, equipment, and vehicles net of accumulated depreciation. There were approximately \$14.8 million of capital additions during the year offset by \$5.5 million of depreciation expense. In addition, the County obtained a capital lease for \$10.9 million which is reflected as a capital asset addition and an addition to long-term liabilities.

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

Long-Term Liabilities

At December 31, 2012, the County had \$64,463,664 in long-term liabilities, as follows:

	<u>2012</u>	<u>2011</u> (As restated)
Serial bonds, excluding CTASC	\$ 23,935,000	\$ 19,695,000
CTASC serial bonds, net	12,553,988	12,505,769
Capital lease	7,220,745	-
Early termination benefits	259,672	346,229
Other postemployment benefits	18,773,285	13,396,683
Compensated absences	<u>1,720,974</u>	<u>1,706,588</u>
Total	<u>\$ 64,463,664</u>	<u>\$ 47,650,269</u>

The amount of principal paid on outstanding serial bonds was approximately \$975,000 in 2012. The County borrowed \$5,000,000 in serial bonds during 2012. In addition, the actuarial valuation of the other postemployment benefits liability increased by approximately \$5.4 million during 2012. The County also entered into a new agreement with Motorola for certain cell towers and related equipment in 2012 for \$10,914,213. The County paid \$3,693,468 in principal payments for this lease during 2012. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements.

CONTACTING THE COUNTY'S FINANCE DEPARTMENT

These financial statements are designed to report and provide the County's citizens, taxpayers, customers, investors, and creditors with a general overview of the County's financial operations and to demonstrate the County's accountability for the money it receives. If you have any questions about these statements or need additional financial information, contact the County of Cortland, County Administrator, 60 Central Avenue, Cortland, New York 13045.

COUNTY OF CORTLAND, NEW YORK

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	Proprietary
ASSETS				
Cash and cash equivalents	\$ 12,457,869	\$ 473,434	\$ 12,931,303	\$ 1,786,841
Cash and cash equivalents - restricted	1,060,269	1,313,195	2,373,464	1,024,006
Accounts receivable	-	169,550	169,550	25,306
Taxes receivable, net	6,871,040	-	6,871,040	-
State and federal aid receivable	11,063,884	-	11,063,884	-
Investment in Business Park Land	-	-	-	1,278,776
Investment in Railroad Land	-	-	-	209,818
Due from other governments	3,824,011	-	3,824,011	-
Prepaid expenses and other assets	1,098,543	17,804	1,116,347	1,473
Tobacco settlement receivables	701,788	-	701,788	-
Capital assets, net	<u>89,647,054</u>	<u>12,054,755</u>	<u>101,701,809</u>	<u>-</u>
Total assets	<u>126,724,458</u>	<u>14,028,738</u>	<u>140,753,196</u>	<u>4,326,220</u>
LIABILITIES				
Accounts payable	3,492,555	25,293	3,517,848	192
Accrued liabilities	798,005	584	798,589	-
Due to other funds, net	3,387	18,305	21,692	-
Due to other governments	3,145,752	-	3,145,752	-
Closure and post-closure liability	-	4,215,930	4,215,930	-
Unearned revenue	357,176	-	357,176	1,124,006
Long-term liabilities -				
Due within one year	2,134,684	366,990	2,501,674	-
Due in more than one year	<u>51,692,310</u>	<u>10,269,680</u>	<u>61,961,990</u>	<u>1,150,000</u>
Total liabilities	<u>61,623,869</u>	<u>14,896,782</u>	<u>76,520,651</u>	<u>2,274,198</u>
NET POSITION				
Net investment in capital assets	69,127,981	1,418,085	70,546,066	338,594
Restricted -				
Debt service	816,189	-	816,189	-
Law	4,918,764	1,313,195	6,231,959	-
Grantors	-	-	-	1,024,006
Unrestricted	<u>(9,762,345)</u>	<u>(3,599,324)</u>	<u>(13,361,669)</u>	<u>689,422</u>
Total net position	<u>\$ 65,100,589</u>	<u>\$ (868,044)</u>	<u>\$ 64,232,545</u>	<u>\$ 2,052,022</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position							Component Units
	Program Revenue		Primary Government			Total	Proprietary	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities			
PRIMARY GOVERNMENT:								
Governmental activities -								
General government support	\$ 23,446,740	\$ 13,893,040	\$ 8,235,306	\$ -	\$ (1,318,394)	\$ -	\$ (1,318,394)	
Education	4,997,016	-	1,291,635	-	(3,705,381)	-	(3,705,381)	
Public safety	22,545,899	682,076	295,162	4,084,260	(17,484,401)	-	(17,484,401)	
Public health	12,636,832	3,129,205	62,847	362,214	(9,082,566)	-	(9,082,566)	
Transportation	15,994,976	1,096,545	1,304,109	851,862	(12,742,460)	-	(12,742,460)	
Economic assistance and opportunity	36,705,275	1,755,418	16,547,807	-	(18,402,050)	-	(18,402,050)	
Culture and recreation	359,689	7,900	122,446	-	(229,343)	-	(229,343)	
Home and community services	1,519,388	4,758	-	-	(1,514,630)	-	(1,514,630)	
Interest	779,399	-	-	-	(779,399)	-	(779,399)	
Total governmental activities	118,985,214	20,568,942	27,859,312	5,298,336	(65,258,624)	-	(65,258,624)	
Business-type activities -								
Solid Waste Fund	2,411,421	1,735,584	10,979	-	(664,858)	-	(664,858)	
Total business-type activities	2,411,421	1,735,584	10,979	-	(664,858)	-	(664,858)	
Total primary government	\$ 121,396,635	\$ 22,304,526	\$ 27,870,291	\$ 5,298,336	\$ (65,258,624)	\$ (664,858)	\$ (65,923,482)	
COMPONENT UNITS:								
Proprietary -								
Industrial Development Agency	3,322,121	50,390	-	-	-	-	(3,271,731)	
Soil and Water Conservation District	1,134,465	47,264	832,806	-	-	-	(254,395)	
Total component units	\$ 4,456,586	\$ 97,654	\$ 832,806	\$ -	-	-	\$ (3,526,126)	
GENERAL REVENUES:								
Real property taxes and real property tax items					34,387,514	-	34,387,514	
Nonproperty tax items					28,669,632	-	28,669,632	
Sale of property and compensation for loss					53,002	-	53,002	
Use of money and property					2,551,124	2,602	2,553,726	2,709
Intergovernmental transfer					(250,800)	250,800	-	274,000
Miscellaneous					798,878	-	798,878	9,365
Total general revenues					66,209,350	253,402	66,462,752	286,074
Change in net position					950,726	(411,456)	539,270	(3,240,052)
Net position - beginning of year, as previously reported					66,017,923	(499,990)	65,517,933	5,292,074
Prior period adjustments (Note 2)					(1,868,060)	43,402	(1,824,658)	-
Net position - beginning of year, as restated					64,149,863	(456,588)	63,693,275	5,292,074
Net position - end of year					65,100,589	(868,044)	64,232,545	2,052,022

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

Special Revenue Funds

	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund	Total
ASSETS						
Cash and cash equivalents - unrestricted	\$ 4,148,391	\$ 900,219	\$ 44,428	\$ 1,022,404	\$ 3,593,819	\$ 9,709,261
Cash and cash equivalents - restricted	1,060,269	-	-	-	-	1,060,269
Due from Federal and State governments	9,806,133	739,960	6,419	227,971	283,401	11,063,884
Taxes receivable	6,871,040	-	-	-	-	6,871,040
Due from other governments	754,891	-	-	-	-	754,891
Prepaid expenditures	992,829	83,458	-	20,030	-	1,096,317
Due from other funds	1,019,720	450,620	420	152,585	830,703	2,454,048
Total assets	\$ 24,653,273	\$ 2,174,257	\$ 51,267	\$ 1,422,990	\$ 4,707,923	\$ 33,009,710

LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES

LIABILITIES:						
Accounts payable	\$ 2,400,139	\$ 279,502	\$ -	\$ 165,035	\$ 2,814	\$ 2,847,490
Accrued liabilities	534,684	57,915	-	10,292	-	602,891
Due to other funds	2,086,255	599,070	420	21,589	665,680	3,373,014
Due to other governments	3,145,752	-	-	-	-	3,145,752
Unearned revenues	306,335	-	50,841	-	-	357,176
Total liabilities	8,473,165	936,487	51,261	196,916	668,494	10,326,323
DEFERRED INFLOWS:						
Unearned taxes	1,839,419	-	-	-	-	1,839,419
Total deferred inflows	1,839,419	-	-	-	-	1,839,419
FUND BALANCES:						
Nonspendable	992,829	83,458	-	20,030	-	1,096,317
Restricted	2,087,958	37,657	-	25,519	3,583,819	5,734,953
Assigned	1,837,857	1,116,655	6	1,180,525	455,610	4,590,653
Unassigned	9,422,045	-	-	-	-	9,422,045
Total fund balances	14,340,689	1,237,770	6	1,226,074	4,039,429	20,843,968
Total liabilities, deferred inflows, and fund balances	\$ 24,653,273	\$ 2,174,257	\$ 51,267	\$ 1,422,990	\$ 4,707,923	\$ 33,009,710

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Total fund balance - governmental funds \$ 20,843,968

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not current financial resources and; therefore, are not reported in the funds.

	\$ 158,370,203	
Cost of capital assets	(68,723,149)	
Accumulated depreciation	(68,723,149)	89,647,054

Revenue related to the tax levy is recognized when earned in the statement of activities and change in net position, but deferred in the fund statements if collection is anticipated to exceed sixty days after year-end. 1,839,419

Tobacco settlement revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are unearned in the funds. 701,788

Amounts due from other governments will be collected in the future and therefore is not available to pay for current period expenditures and is not accrued in the governmental funds. 3,069,120

Accrued interest on long-term debt, including serial bonds, is an expense in the funds when paid, but a liability in the statement of net position when incurred. (193,859)

The net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of net position. 3,020,093

Bonds payable and other noncurrent liabilities are not due and payable in the current period and; therefore, are not reported in the funds.

	\$ (13,298,330)	
Bonds payable - County	(12,553,988)	
Bonds payable - CTASC	(1,720,974)	
Compensated absences	(7,220,745)	
Capital lease	(18,773,285)	
Other postemployment benefits	(259,672)	
Early termination benefits	(259,672)	(53,826,994)

Total net position of governmental activities \$ 65,100,589

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds					Total
	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund	
REVENUES:						
Real property taxes and tax items	\$ 32,548,095	\$ -	\$ -	\$ -	\$ -	\$ 32,548,095
Nonproperty tax items	28,669,632	-	-	-	-	28,669,632
Departmental income	8,011,206	3,648	-	-	-	8,014,854
Intergovernmental charges	12,839	528,155	-	292,638	-	833,632
Use of money and property	290,070	26,049	18	2,233,538	20	2,549,695
Fines and forfeitures	173,483	-	-	-	-	173,483
Interfund revenue	-	62,076	-	276,868	-	338,944
Sale of property and compensation for loss	23,805	39	-	29,158	-	53,002
Miscellaneous	1,450,795	711	-	-	-	1,451,506
State aid	13,595,480	1,354,912	-	-	4,339,097	19,289,489
Federal aid	9,794,840	-	726,583	-	3,346,736	13,868,159
Total revenues	94,570,245	1,975,590	726,601	2,832,202	7,685,853	107,790,491
EXPENDITURES:						
General governmental support	20,738,388	-	-	-	-	20,738,388
Education	3,715,287	-	-	-	-	3,715,287
Public safety	11,629,297	220,834	-	-	352,105	12,202,236
Public health	10,731,556	-	-	-	-	10,731,556
Transportation	802,483	7,865,248	-	2,498,604	1,258,159	12,424,494
Economic assistance and opportunity	33,350,699	-	726,640	-	-	34,077,339
Culture and recreation	253,358	-	-	-	39,996	293,354
Home and community services	1,069,346	-	-	-	-	1,069,346
Employee benefits	2,923,867	-	-	-	-	2,923,867
Debt service -						
Principal	515,080	41,570	-	69,040	3,693,468	4,319,158
Interest	718,069	40,063	-	80,218	306,532	1,144,882
Total expenditures	86,447,410	8,167,715	726,640	2,647,862	5,650,260	103,639,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,122,835	(6,192,125)	(39)	184,340	2,035,593	4,150,604
OTHER FINANCING SOURCES (USES):						
Proceeds from issuance of bonds	-	1,600,000	-	-	3,400,000	5,000,000
Operating transfers - in	938,074	5,129,133	-	-	794,592	6,861,799
Operating transfers - out	(5,748,430)	-	-	(224,550)	(1,139,619)	(7,112,599)
Total other financing sources (uses)	(4,810,356)	6,729,133	-	(224,550)	3,054,973	4,749,200
CHANGE IN FUND BALANCE	3,312,479	537,008	(39)	(40,210)	5,090,566	8,899,804
FUND BALANCE - beginning of year, as previously reported	9,978,476	700,762	45	1,266,284	(1,051,137)	10,894,430
Prior period adjustments (Note 2)	1,049,734	-	-	-	-	1,049,734
FUND BALANCE - beginning of year, as restated	11,028,210	700,762	45	1,266,284	(1,051,137)	11,944,164
FUND BALANCE - end of year	\$ 14,340,689	\$ 1,237,770	\$ 6	\$ 1,226,074	\$ 4,039,429	\$ 20,843,968

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

Net change in fund balances - governmental funds \$ 8,899,804

Amounts reported for governmental activities in the statement of activities and change in net position are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources.

Also, depreciation expense is recorded in the statement of activities over the estimated useful lives of the assets, but not as a change in fund balance of the governmental funds as there is no cash outlay associated with the expense.

Capital additions	\$ 14,827,426	
Depreciation	<u>(5,536,467)</u>	
		9,290,959

Losses on disposal of assets are reported in the statement of activities and change in net position, but are not included in the governmental funds. (22,428)

Current year payments on amounts due from other governments are recorded as a reduction to the outstanding balance on the statement of net position. (285,000)

Unearned tax revenues are recorded on the modified accrual basis, but are not reported in the government-wide financial statements. 1,839,419

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 625,690

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 3,693,468

Borrowing new bond principal is an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. (5,000,000)

Capital lease is not recorded in the governmental funds, but is recorded in the statement of net position. (10,914,213)

Tobacco settlement revenues will not be collected for several months after the County's fiscal year-end; therefore, they are not considered "available" revenues and are unearned in the governmental funds. This represents the current year change. (367,628)

The change in net position of the internal service funds are not included in the fund financial statements, but are included in the governmental activities of the statement of activities and change in net position. 28,435

Some expenses reported in the statement of activities and change in net position do not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.

Change in accrued interest payable	\$ 365,483	
Accretion on CTASC bonds	(258,468)	
Bond discount	(4,751)	
Early termination benefits	86,557	
Compensated absences	(1,649,999)	
Other postemployment benefits	<u>(5,376,602)</u>	
		<u>(6,837,780)</u>

Change in net position of governmental activities \$ 950,726

COUNTY OF CORTLAND, NEW YORK

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
DECEMBER 31, 2012

	<u>Solid Waste Fund</u>	<u>Internal Service Funds</u>
ASSETS		
Cash and cash equivalents	\$ 473,434	\$ 2,748,608
Cash and cash equivalents - restricted	1,313,195	-
Accounts receivable, net	169,550	-
Due from other funds	6,014	919,327
Prepaid expenses	17,804	2,226
Capital assets, net	<u>12,054,755</u>	<u>-</u>
Total assets	<u>14,034,752</u>	<u>3,670,161</u>
LIABILITIES		
Accounts payable	25,293	645,065
Accrued liabilities	584	1,255
Due to other funds	24,319	3,748
Closure and post-closure liability	4,215,930	-
Long-term liabilities -		
Due within one year	366,990	-
Due after one year	<u>10,269,680</u>	<u>-</u>
Total liabilities	<u>14,902,796</u>	<u>650,068</u>
NET POSITION		
Net investment in capital assets	1,418,085	-
Restricted	1,313,195	-
Unrestricted	<u>(3,599,324)</u>	<u>3,020,093</u>
Total net position	<u>\$ (868,044)</u>	<u>\$ 3,020,093</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Solid Waste Fund</u>	<u>Internal Service Funds</u>
REVENUES:		
Charges for services	\$ 1,735,584	\$ 2,730,118
Interfund revenues	-	8,500,339
Operating grants	<u>10,979</u>	<u>-</u>
Total operating revenues	<u>1,746,563</u>	<u>11,230,457</u>
OPERATING EXPENSES:		
Personal services	277,779	50,721
Administrative fees	-	9,500,229
Insurance claims	-	352,055
Workers compensation	-	907,349
Contractual services	516,553	363,327
Depreciation	980,159	-
Interest	480,630	-
Employee benefits	<u>156,300</u>	<u>29,770</u>
Total operating expenses	<u>2,411,421</u>	<u>11,203,451</u>
Operating income (loss)	<u>(664,858)</u>	<u>27,006</u>
NON-OPERATING REVENUES:		
Use of money and property	<u>2,602</u>	<u>1,429</u>
Total non-operating revenues	<u>2,602</u>	<u>1,429</u>
INCOME (LOSS) BEFORE TRANSFERS	(662,256)	28,435
OPERATING TRANSFERS - IN	<u>250,800</u>	<u>-</u>
CHANGE IN NET POSITION	(411,456)	28,435
NET POSITION - beginning of year, as previously reported	(499,990)	2,991,658
Prior period adjustments (Note 2)	<u>43,402</u>	<u>-</u>
NET POSITION - beginning of year, as restated	<u>(456,588)</u>	<u>2,991,658</u>
NET POSITION - end of year	<u>\$ (868,044)</u>	<u>\$ 3,020,093</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Solid Waste Fund</u>	<u>Internal Service Funds</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from providing services	\$ 1,756,885	\$ 11,899,812
Cash payments for contractual expenses	(1,149,058)	(10,970,190)
Cash payments for salaries and benefits	(434,079)	(80,491)
Operating transfers from other funds	<u>250,800</u>	<u>-</u>
Net cash flow from operating activities	<u>424,548</u>	<u>849,131</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Use of money and property	<u>2,602</u>	<u>1,429</u>
Net cash flow from investing activities	<u>2,602</u>	<u>1,429</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on bonds	(349,310)	-
Purchase of capital assets	<u>(1,850)</u>	<u>-</u>
Net cash flow from capital and related financing activities	<u>(351,160)</u>	<u>-</u>
CHANGE IN CASH AND CASH EQUIVALENTS	75,990	850,560
CASH AND CASH EQUIVALENTS - beginning of year	<u>397,444</u>	<u>1,898,048</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 473,434</u>	<u>\$ 2,748,608</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (664,858)	\$ 27,006
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	980,159	-
Transfers from other funds	250,800	-
Changes in:		
Accounts receivable	16,336	669,355
Restricted cash	(142,024)	-
Due from other funds	(6,014)	-
Prepaid expenses	(1,843)	(483)
Due to other funds	7,720	3,748
Closure and postclosure liabilities	(9,101)	-
Accrued liabilities	(15,139)	221
Accounts payable	<u>8,512</u>	<u>149,284</u>
NET CASH FLOW FROM OPERATING ACTIVITIES	<u>\$ 424,548</u>	<u>\$ 849,131</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2012**

	Agency Fund
ASSETS	
Cash and cash equivalents	\$ 1,011,945
Due from other funds	21,782
Investments	<u>198</u>
Total assets	<u>\$ 1,033,925</u>
LIABILITIES	
Due to other funds	\$ 90
Agency liabilities	<u>1,033,835</u>
Total liabilities	<u>\$ 1,033,925</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF NET POSITION - COMPONENT UNITS
DECEMBER 31, 2012**

	Cortland County Industrial Development <u>Agency</u>	Cortland County Soil and Water Conservation <u>District</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 224,716	\$ 1,562,125	\$ 1,786,841
Cash and cash equivalents - restricted	-	1,024,006	1,024,006
Accounts receivable	25,306	-	25,306
Investment in Business Park Land	1,278,776	-	1,278,776
Investment in Railroad Land	209,818	-	209,818
Prepaid expenses	1,115	-	1,115
Other	-	358	358
	<u>1,739,731</u>	<u>2,586,489</u>	<u>4,326,220</u>
Total assets			
LIABILITIES			
Accounts payable	192	-	192
Unearned revenue	100,000	1,024,006	1,124,006
Mortgage payable	1,150,000	-	1,150,000
	<u>1,250,192</u>	<u>1,024,006</u>	<u>2,274,198</u>
Total current liabilities			
NET POSITION			
Net investment in capital assets	338,594	-	338,594
Restricted	-	1,024,006	1,024,006
Unrestricted	150,945	538,477	689,422
	<u>489,539</u>	<u>1,562,483</u>	<u>2,052,022</u>
Total net position			

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION - COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Cortland County Industrial Development <u>Agency</u>	Cortland County Soil and Water Conservation <u>District</u>	<u>Total</u>
OPERATING REVENUE:			
Charges for services	\$ 50,390	\$ 47,264	\$ 97,654
Allocation from County of Cortland, New York	-	274,000	274,000
Rent and lease income	4,500	-	4,500
Miscellaneous	-	4,865	4,865
Federal and state grants	-	832,806	832,806
	<u>54,890</u>	<u>1,158,935</u>	<u>1,213,825</u>
Total operating revenue			
OPERATING EXPENSES:			
Professional and administrative	23,632	-	23,632
Business Park	397	-	397
Direct grants	-	495,215	495,215
Salaries and benefits	-	521,710	521,710
General and administrative	-	68,350	68,350
Natural resources	-	18,965	18,965
Miscellaneous	-	30,225	30,225
	<u>24,029</u>	<u>1,134,465</u>	<u>1,158,494</u>
Total operating expenses			
INCOME BEFORE NON-OPERATING REVENUE AND (EXPENSES)	<u>30,861</u>	<u>24,470</u>	<u>55,331</u>
NON-OPERATING REVENUE (EXPENSES):			
Interest income	78	2,631	2,709
Conveyance of property - Town of Cortlandville	(3,297,495)	-	(3,297,495)
Interest expense	(597)	-	(597)
	<u>(3,298,014)</u>	<u>2,631</u>	<u>(3,295,383)</u>
Total non-operating revenue (expenses)			
CHANGE IN NET POSITION	<u>(3,267,153)</u>	<u>27,101</u>	<u>(3,240,052)</u>
NET POSITION - beginning of year	<u>3,756,692</u>	<u>1,535,382</u>	<u>5,292,074</u>
NET POSITION - end of year	<u>\$ 489,539</u>	<u>\$ 1,562,483</u>	<u>\$ 2,052,022</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF CASH FLOWS - COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Cortland County Industrial Development Agency	Cortland County Soil and Water Conservation District	Total
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from providing services	\$ 30,975	\$ 52,129	\$ 83,104
Cash received from grants and Cortland County	227,961	697,757	925,718
Cash payments for contractual expenses	(40,731)	(613,113)	(653,844)
Cash payments for business park expenses	(397)	-	(397)
Cash payments for salaries and benefits	-	(521,710)	(521,710)
	<u>217,808</u>	<u>(384,937)</u>	<u>(167,129)</u>
Net cash flow from operating activities			
CASH FLOW FROM INVESTING ACTIVITIES:			
Principal paid on line of credit	(237,000)	-	(237,000)
Interest expense	(597)	-	(597)
Business Park Land improvements	(27,083)	-	(27,083)
Refund of business park improvements	27,067	-	27,067
Purchase option deposit	100,000	-	100,000
Interest income	78	2,631	2,709
	<u>(137,535)</u>	<u>2,631</u>	<u>(134,904)</u>
Net cash flow from investing activities			
CHANGE IN CASH AND CASH EQUIVALENTS	80,273	(382,306)	(302,033)
CASH AND CASH EQUIVALENTS - beginning of year	<u>144,443</u>	<u>1,944,431</u>	<u>2,088,874</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 224,716</u>	<u>\$ 1,562,125</u>	<u>\$ 1,786,841</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:			
Operating income	\$ 30,861	\$ 24,470	\$ 55,331
Changes in:			
Accounts receivable	204,046	-	204,046
Unearned revenue	-	614,957	614,957
Restricted cash	-	(1,024,006)	(1,024,006)
Other assets	-	(358)	(358)
Prepaid expenses	(71)	-	(71)
Accounts payable	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 217,808</u>	<u>\$ (384,937)</u>	<u>\$ (167,129)</u>

The accompanying notes are an integral part of these statements.

COUNTY OF CORTLAND, NEW YORK

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The County of Cortland, New York (the County), incorporated in 1808, is governed by County Law, other general laws of the State of New York, and various local laws and ordinances. The County is a municipal corporation governed by the Board of Legislators. The County Board of Legislators, which is the legislative body responsible for the overall operations of the County, consists of nineteen elected officials. The Chairman of the Board of Legislators serves as Chief Executive Officer and the County Treasurer serves as Chief Fiscal Officer.

The County provides the following basic services: law enforcement, educational assistance for County residents attending community services, maintenance of County roads and general administration.

Financial Reporting Entity

The accompanying basic financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). All governmental activities performed by the County are its direct responsibility.

The financial reporting entity consists of (a) the primary government which is the County, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the County's financial statements to be misleading or incomplete as set forth under generally accepted accounting principles. A component unit is included in the County's reporting entity if it is both fiscally dependent on the County and there is a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government.

The basic financial statements have been prepared primarily from accounts maintained by the County. Additional data has been derived from reports prescribed by the County Treasurer and prepared by component units based on independent or subsidiary accounting systems maintained by their respective business offices.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Entity (Continued)

The accompanying financial statements present the activities of the County as well as the component units and other entities determined to be includable in the County's financial reporting entity. The County is not a component unit of another reporting entity. The decision to include a potential component unit in the County's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. Based on application of these criteria, the following is a brief description of certain entities included in the County's reporting entity:

- **Discretely Presented Component Units**

1. **Cortland County Industrial Development Agency**

The Cortland County Industrial Development Agency (the Agency) is a public benefit corporation created in 1974 by state legislation to promote the economic welfare, recreational opportunities, and the prosperity of the County's inhabitants.

The County Legislature appoints the directors of the Agency. However, the directors of the Agency have sole control over the management and operation of the Agency. Further, Agency finances are generated by project revenue bonds and such bonds are secured only to the extent of the assets acquired for the related project. The County is not liable for Agency bonds or notes. The Agency is a proprietary fund type and presented discretely as a component unit of the County.

Financial statements of the Agency may be obtained from its administrative office at: Cortland County Industrial Development Agency, 37 Church Street, Cortland, New York 13045.

2. **Cortland County Soil and Water Conservation District**

The Cortland County Soil and Water Conservation District (the District) was established in accordance with Soil and Water Conservation District Law, to provide for conservation of soil and water resources. Members of the District's Board of Directors are appointed by the County Legislature. However, the directors of the District have sole control over the management and the operation of the District. The District is a proprietary fund type and presented discretely as a component unit of the County.

- **Component Unit - Blended**

Cortland Tobacco Asset Securitization Corporation (CTASC) is a special purpose, bankruptcy-remote local development corporation organized under the Not-For-Profit Corporation Law of the State of New York. CTASC is considered a governmental fund-type component unit (blended presentation) of the County in accordance with generally accepted accounting principles and is reported as part of the General Fund. Separate audited financial statements for CTASC may be obtained by contacting CTASC directly by addressing the County Administrator, 60 Central Avenue, Cortland, NY 13045.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

- **Government - Wide Financial Statements**

The County's basic financial statements include both government-wide (reporting the County as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The County's police, maintenance of county roads, public works, health, educational activities, human services, and general administrative services are classified as governmental activities. The County's Solid Waste Fund is classified as a business-type activity. Fiduciary funds are excluded from the government-wide statements.

In the government-wide statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net position is reported in three parts: net investment in capital assets; restricted net position; and unrestricted net position. The County first utilizes restricted net position and resources to finance qualifying activities.

The government-wide statement of activities and change in net position reports both the gross and net cost of each of the County's functions and business-type activities. The functions are supported by general government revenues, i.e., real property taxes, real property tax items, nonproperty taxes, certain intergovernmental charges, use of money and property, sale of property and compensation for loss, and state and federal aid. The statement of activities reduces gross expenses, including depreciation, by related program revenues, and operating and capital grants. Program revenues must be directly associated with the function or segment. Operating grants include operating-specific and discretionary grants while capital grants reflect capital-specific grants. All direct expenses incurred are charged to the corresponding function. Capital asset additions that cannot be identified with a specific function are allocated based on total expenses by program.

The County allocates indirect costs to all County funds except the General Fund. In addition, interfund activity within the government-wide statements has been eliminated.

The government-wide focus is on the sustainability of the County as a whole entity and the change in the County's net position resulting from the current year's activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, component units, and fiduciary funds. Each fund is accounted for by providing a separate self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

1. Governmental Funds

Governmental funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is upon determination of financial position and changes in financial position, rather than upon the flow of economic resources.

The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column. Nonmajor funds are summarized into a single column. Generally accepted accounting principles set forth minimum criteria (percentage of assets/deferred outflows, liabilities/deferred inflows, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds; however, the County can elect to report any fund as a major fund.

a) Major Governmental Funds

- **General Fund**

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those to be accounted for in another fund. In addition, the Cortland Tobacco Asset Securitization Corporation (the CTASC) is a not-for-profit corporation established for the purpose of acquiring from the County all or any of the rights, titles, and interests of the County under the Master Settlement Agreement with respect to tobacco related litigation between various settling states and participating manufacturers. The CTASC is an instrumentality of, but separate and apart from, the County. Although legally separate, for financial reporting purposes, the CTASC is blended with the General Fund as its purpose is to solely serve the County.

- **County Road Fund**

This fund is used to account for expenditures for repair and maintenance of County roads in accordance with New York State laws.

- **Special Grant Fund**

This fund is used to account for various state and federally aided programs.

- **Road Machinery Fund**

This fund is used to account for purchases, rentals, repairs, maintenance, and storage of highway machinery, tools, and equipment in accordance with New York State laws.

- **Capital Projects Fund**

This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities or equipment not being financed by proprietary or nonexpendable trust funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- **Fund Financial Statements (Continued)**

2. Proprietary Fund Types (Business-Type Activities)

The County's proprietary funds are prepared in conformity with accounting principles generally accepted in the United States as set forth by the Governmental Accounting Standards Board.

Proprietary funds include the following fund types:

- **Enterprise Funds**

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. Revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred, if measurable. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions.

Enterprise funds include the following:

- a. **Solid Waste Fund**

This fund was established by law to account for solid waste activities, including the County landfill operations and recycling activities.

- **Internal Service Funds**

The Internal Service Funds are used to account principally for the County's risk management activities. The County is self-insured for certain risks and the internal service funds utilized are the following:

- a. **Workers' Compensation Fund**

This fund accounts for the accumulation of resources for payment of compensation assessments and other obligations under Workers' Compensation Law, Article 5.

- b. **Self-Insurance Fund**

This fund is used to account for the accumulation of resources for payment of unemployment insurance as authorized by Section 6M of the General Municipal Law.

3. Fiduciary Fund

This fund is used to account for fiduciary activities. Fiduciary activities are those in which the County acts as trustee or agent for resources that belong to others. These activities are not included in the government-wide financial statements because their resources do not belong to the County and are not available to be used.

- **Agency Fund**

This fund is custodial in nature and does not present results of operations or have measurement focus. These funds are monies received and held in the capacity of a trustee, custodian, or agent. The Agency Fund is accounted for using the modified accrual basis of accounting. There is currently no expendable, nonexpendable, or pension trust funds reported by the County.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

- **Accrual Basis**

The government-wide, business-type, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the County gives or receives value without directly receiving or giving equal value in exchange, include real property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied.

- **Modified Accrual Basis**

The governmental funds financial statements are presented using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Available" means collectible within the current period. Material revenues that are to be accrued include real property taxes and nonproperty tax items to be collected within 60 days after year-end. Expenditures are generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources. Where expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made, and anticipated to be received within the next reporting period.

Assets, Liabilities, and Equity

- **Cash and Cash Equivalents**

For financial statement purposes, all highly liquid investments having maturities of three months or less are considered cash equivalents and include cash on hand, demand deposits, and short-term certificates of deposit.

- **Accounts Receivable and State and Federal Aid Receivable**

All receivables are shown at gross value since they are deemed fully collectible.

- **Interfund Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund receivables/payables or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

• **Property Taxes**

The authority for levying taxes for the support of County and town government, inclusive of special districts, and for relieved unpaid school taxes, has been delegated by the State Legislature to the governing board of the County through various provisions of the Real Property Tax Law. For purposes of both County and town taxes, the value of real property is listed and established by the towns for each parcel of real property therein. Amounts to be raised by taxes are determined from balanced budgets of the County and the towns. Unpaid school taxes are purchased from each school district and village and added to tax levies and until paid, are counted among the assets of the County. The County thus acquires all rights, title, and interest in any unpaid balances. Any such taxes remaining unpaid at the time of the tax sale are sold along with any other unpaid taxes subject to County enforcement.

Real property taxes are levied on or before December 31 on the full-assessed value of all real property located within the County and become a lien on January 1. Taxes for County purposes apportioned to the area of the County outside the City of Cortland, New York (the City) are levied together with taxes for town and special district purposes as a single bill. The towns and special districts receive the full amount of their levies annually out of the first enforcement responsibility for all taxes levied in the towns. The collection of County taxes levied on properties within the City is enforced by the City; the County receives the full amount of such taxes within the year of the levy.

• **Capital Assets**

Capital assets which include buildings, machinery and equipment, and infrastructure (i.e. roads, bridges, and similar items), purchased or acquired, are reported at historical cost or estimated historical cost. Donated assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed as occurred.

Generally accepted accounting principles require the County to report and depreciate new infrastructure assets. Infrastructure assets include such items as: roads, bridges, underground pipe (other than related utilities), etc. These infrastructure assets are the largest asset class of the County.

Depreciation on all assets is provided on the straight-line basis over the following useful lives as follows:

a. **Primary Government**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements	10 - 20 years
Buildings and improvements	50 years
Machinery and equipment	5 - 15 years
Infrastructure	20 - 65 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

- **Capital Assets (Continued)**

- b. Enterprise Funds - Solid Waste Fund**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements	10 - 20 years
Buildings and improvements	50 years
Equipment and fixtures	5 - 15 years

- c. Component Units Discretely Presented**

- 1. Soil and Water Conservation District and Cortland County Industrial Development Agency**

<u>Description</u>	<u>Estimated Useful Life</u>
Land improvements/infrastructure	50 years
Buildings	40 years
Furniture, fixtures and equipment	3 - 15 years

- **Compensated Absences**

County employees are granted vacation, sick leave, and compensatory leave benefits as defined in agreements between the County and the representative collective bargaining units. An individual who leaves the employ of the County is entitled to be paid for unused vacation leave and compensatory leave. Upon retirement, the unused sick leave may be applied towards additional service credit pursuant to the Retirement and Social Security Law; therefore, no payments are made for unused sick leave.

Vacation and compensatory leave is accrued when incurred in the statement of net position and is reported as a liability in the government-wide financial statements.

- **Unearned Revenue**

Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when the County receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met or when the County has legal claim to the resources, the unearned revenue is recognized as revenue.

- **Long-Term Obligations**

Long-term obligations represent the County's future obligations or future economic outflows. The liabilities are reported as due within one year or due in more than one year in the statement of net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

- **Net Position/Fund Balance Classifications**

Government-Wide Statements

Equity is classified as net position and displayed in three components as follows:

- **Net investment in capital assets** - This class represents the cost, or fair value if donated, of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by the outstanding balances on any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** - This class consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** - All other net position that does not meet the definition of "restricted" or "net investment in capital assets" is considered to be unrestricted.

Fund Balances - Fund Financial Statements

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

- **Nonspendable Fund Balances**
These are amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- **Restricted Fund Balances**
These are amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

The County developed a tax stabilization reserve which has a balance of \$1,052,429 at December 31, 2012 and is included in restricted fund balance. The County's Legislature has the authority for establishing this reserve and can add or reduce the stabilization amount by board resolution. The County may utilize the tax stabilization reserve for purposes developed through the budget process.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

- **Net Position/Fund Balance Classifications (Continued)**

Fund Balances - Fund Financial Statements (Continued)

- **Committed Fund Balances**

These are amounts that can be used only for specific purposes determined by a formal action of the County Legislature to year-end. The County Legislature is the highest level of decision-making authority for the County. Commitments may be established, modified, or rescinded only through resolutions approved by the County Legislature.

- **Assigned Fund Balances**

These are amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. It is at the discretion of the County Legislature to make assignments as it sees fit.

- **Unassigned Fund Balances**

These are all other spendable amounts.

Absent a County-wide policy, when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

- **Interfund Transfers**

Interfund transfers generally are recorded as operating transfers in or out, except for the following types of transactions: interfund revenues, which are recorded as revenues of the performing fund and expenditures of the requesting fund or reimbursements for services performed, which are recorded as a reduction of expenditures in the performing fund and an expenditure of the requesting fund. Transfers between governmental funds are reported at net as part of the reconciliation to the government-wide financial statements. Transfers between governmental funds and fiduciary funds are not offset in the government-wide financial statements, since fiduciary funds are not included in the government-wide financial statements.

- **Labor Relations**

Certain County employees are covered by collective bargaining units and the remainder is governed by County Board and Civil Service rules and regulations.

- **Estimates**

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

X 2. PRIOR PERIOD ADJUSTMENTS

The financial statements for the year ended December 31, 2011 were improperly presented in the fund financial statements because sales tax was understated in the General Fund by \$1,049,734. This error occurred because a sales tax payment was recorded in revenue in 2012 instead of 2011. Accounts receivable was understated by \$66,176 in the Solid Waste Fund because of a credit balance account that the County was carrying in prior years. Additionally, capital assets were overstated in the Solid Waste Fund by \$22,774 because of inconsistent and inaccurate capital asset schedules.

The government-wide financial statements for the year ended December 31, 2011 were improperly presented because capital assets were overstated by \$2,120,590 due to inconsistent and inaccurate capital asset schedules. Also, long-term liabilities were understated by \$417,204 resulting from the failure to record certain compensatory time nor was a liability for early termination benefits approved by the County in 2010 recognized. In addition, long-term receivables were overstated by \$380,000 because a gift to Tompkins Community College was incorrectly recorded as a receivable in a prior period.

The effect of the restatement as of January 1, 2012 is as follows:

	<u>As Previously Reported</u>	<u>Restated</u>
Governmental activities:		
Net position, beginning of year	\$ 66,017,923	\$ 64,149,863
Business type activities:		
Net position, beginning of year	\$ (499,990)	\$ (456,588)
General Fund:		
Fund balance, beginning of year	\$ 9,978,476	\$ 11,028,210
Solid Waste Fund:		
Net position, beginning of year	\$ (499,990)	\$ (456,588)

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

- **Budget Policies**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year-end. For capital projects, project length financial plans are developed for each project. Budgets are prepared for Enterprise Funds to control expenditures, and establish user charges.

The County employs the following budgetary procedures:

- a) No later than November 15, the budget officer submits a tentative budget to the legislature for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing them. The budget is prepared on a departmental basis.
- b) After public hearings are conducted to obtain taxpayer comments, but no later than December 20, the legislature adopts the annual budget.
- c) All revisions that alter appropriations of any department or fund must be approved by the legislature.
- d) Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects.
- e) No budgets are approved for the Special Grant Fund, Workers' Compensation Fund, and Self-Insurance Fund.

Solid Waste Fund

The deficit of the Solid Waste Fund was approximately \$868,000 at December 31, 2012. This deficit results from the recognition of closure and post-closure liabilities.

Cortland Tobacco Asset Securitization Corporation

The net position deficit of the Corporation was approximately \$10.9 million at December 31, 2012. This deficit results from full accrual accounting which requires the recording of the full amount of the bonds payable at the time the bonds are issued, while the revenue is recognized as it becomes available to pay the bond debt. It is expected that the deficit will decline as the revenues related to the tobacco settlements are received.

- **Budget Reconciliation/Budget Modifications**

A reconciliation of expenditures for the 2012 General Fund budget is as follows:

Original adopted budget	\$ 96,176,970
Amendments	<u>3,578,881</u>
Final revised budget	<u>\$ 99,755,851</u>

4. DEPOSITS AND INVESTMENTS

State statutes govern the County's investment policies. The County has its own written deposit and investment policy, which is compliant with Section 39 of the General Municipal Law. County monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within New York State. The County Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and its agencies, repurchase agreements, and general obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities. At year-end, demand deposits and certificates of deposit for the County were entirely covered by FDIC insurance or collateral held by trust companies located within the State.

At December 31, 2012, cash and cash equivalents consisted of demand deposit accounts, money market accounts, and savings accounts.

Investment and Deposit Policy

The County follows an investment and deposit policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conform with federal, state, and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the County Treasurer.

Interest Rate Risk

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

Credit Risk

The County's policy is to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with the County's investment and deposit policy, all deposits of the County including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act shall be secured by a pledge of securities with an aggregate value of 100% of the aggregate amount of deposits. The County restricts the securities to the following eligible items:

- Obligations issued, fully insured, or guaranteed as to the payment of principal and interest, by the United States, an agency thereof, or a United States government sponsored corporation.
- Obligations issued, fully guaranteed by the International Bank for Reconstruction and Development, the InterAmerican Development Bank, and the Asian Development Bank.

4. DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits (Continued)

- Obligations partially insured or guaranteed by any agency of the United States.
- Obligations issued or fully insured or guaranteed by New York State, obligations issued by a municipal corporation, school district, or district corporation of New York State.
- Obligations issued by a state other than New York State rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations issued by Puerto Rico rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations of counties, cities, and other governmental entities of a state other than the State of New York having the power to levy taxes that are backed by the full faith and credit of such governmental entity and rated in one of the three highest rating categories by at least one nationally recognized statistical rating organization.
- Obligations of domestic corporations rated in one of the two highest rating categories by at least one nationally recognized statically rating organization.
- Any mortgage related securities, as defined in the Securities Exchange Act of 1934, as amended, which may be purchased by banks under the limitations established by regulatory agencies.
- Commercial paper and bankers' acceptances issued by a bank, other than the bank, rated in the highest short term category by at least one nationally recognized statistical rating organization and having maturities of not longer than sixty days from the date they are pledged.
- Zero coupon obligations of the United States government marketed as "Treasury strips"

Primary Government, Including Internal Service Funds and Fiduciary Funds

At December 31, 2012, the bank balance of the County's cash and cash equivalents of its primary government, including Internal Service Funds and Fiduciary Funds, was exposed to custodial credit risk as follows:

<u>Description</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	<u>\$ 19,520,092</u>	<u>\$ 16,316,712</u>
Category 1: Covered by FDIC insurance	\$ 2,191,806	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the County's name	<u>18,266,029</u>	
	<u>\$ 20,457,835</u>	

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

4. DEPOSITS AND INVESTMENTS (Continued)

• **Discretely Presented Component Units**

a. Soil and Water Conservation District

At December 31, 2012, the bank balance of the District's cash and cash equivalents was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents	\$ 2,602,127	\$ 2,586,131
Category 1: Covered by FDIC Insurance	\$ 310,900	
Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name	<u>2,650,095</u>	
	<u>\$ 2,960,995</u>	

Restricted cash of the District held for grantor organizations is \$1,024,006.

b. Cortland County Industrial Development Agency

The bank balance of the Agency's cash and cash equivalents and its exposure to custodial credit risk have been disclosed in the Agency's separately issued financial statements.

5. RECEIVABLES

Primary Government

The County's receivables for its governmental and proprietary funds are stated at net realizable value and consisted of the following at December 31, 2012:

Real property and other taxes, net	\$ 6,871,040
Federal and state aid	11,063,884
Due from other governments	754,891
Solid waste accounts receivable	<u>169,550</u>
	<u>\$ 18,859,365</u>

Property Taxes

Property taxes levied for 2012 are recorded as receivables, net of the amount estimated to be uncollectible. The property taxes collected during 2012, and expected to be collected within the first sixty days of 2013, are recognized as revenue in 2012. Current and delinquent property taxes receivable estimated to be collectible subsequent to the first sixty days of 2013 is reflected as a deferred inflow. At December 31, 2012, the County's general fund had recorded \$1,839,419 of real property tax revenue as a deferred inflow.

The County has estimated the taxes receivable that it has deemed to be uncollectible and has recorded approximately \$125,000 in an allowance for doubtful accounts. Taxes receivable are shown net of this allowance on the statement of net position.

5. RECEIVABLES (Continued)

Receivables - Discretely Presented - Component Units

Receivables for component units, which are stated at net realizable value, consisted of the following at December 31, 2012. The County's management has deemed the amounts to be fully collectible:

a. Cortland County Industrial Development Agency

Accounts receivable \$ 25,306

6. CAPITAL ASSETS

Governmental Activities

Capital asset activity for the County's governmental activities was as follows for the year ended December 31, 2012:

	Balance 1/01/12 (as restated)	Additions	Deletions	Transfers	Balance 12/31/12
Capital assets not being depreciated:					
Land	\$ 1,221,700	\$ -	\$ -	\$ -	\$ 1,221,700
Construction in progress	<u>8,313,491</u>	<u>679,358</u>	<u>-</u>	<u>(6,223,752)</u>	<u>2,769,097</u>
Total capital assets not being depreciated	<u>9,535,191</u>	<u>679,358</u>	<u>-</u>	<u>-</u>	<u>3,990,797</u>
Capital assets being depreciated:					
Buildings and improvements	25,936,571	-	-	2,189,353	28,125,924
Capital lease (Note 10)	-	10,914,213	-	-	10,914,213
Machinery and equipment	13,328,477	1,442,982	(64,947)	-	14,706,512
Infrastructure	<u>94,807,485</u>	<u>1,790,873</u>	<u>-</u>	<u>4,034,399</u>	<u>100,632,757</u>
Total cost of capital assets being depreciated	<u>134,072,533</u>	<u>14,148,068</u>	<u>(64,947)</u>	<u>6,223,752</u>	<u>154,379,406</u>
Less accumulated depreciation:					
Buildings and improvements	(19,488,179)	(450,200)	-	-	(19,938,379)
Machinery and equipment	(8,022,325)	(441,898)	42,519	-	(8,421,704)
Infrastructure	<u>(35,718,697)</u>	<u>(4,644,369)</u>	<u>-</u>	<u>-</u>	<u>(40,363,066)</u>
Total accumulated depreciation	<u>(63,229,201)</u>	<u>(5,536,467)</u>	<u>42,519</u>	<u>-</u>	<u>(68,723,149)</u>
Total depreciable capital assets, net	<u>70,843,332</u>	<u>8,611,601</u>	<u>(22,428)</u>	<u>6,223,752</u>	<u>85,656,257</u>
Governmental activities capital assets, net	<u>\$ 80,378,523</u>	<u>\$ 9,290,959</u>	<u>\$ (22,428)</u>	<u>\$ -</u>	<u>\$ 89,647,054</u>

Governmental activities depreciation expense:

Transportation	\$ 4,096,986
Public safety	498,282
General government	442,917
Home and community	376,480
Economic assistance and opportunity	49,828
Public health	33,219
Culture and recreation	27,682
Education	<u>11,073</u>
Total depreciation expense	<u>\$ 5,536,467</u>

6. CAPITAL ASSETS (Continued)

Business-Type Activities

Capital asset activity for the County's business-type activities was as follows for the year ended December 31, 2012:

	Balance 1/01/12 (as restated)	Additions	Deletions	Transfers	Balance 12/31/12
Capital assets not being depreciated:					
Land	\$ 176,300	\$ -	\$ -	\$ -	\$ 176,300
Total capital assets not being depreciated	<u>176,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>176,300</u>
Capital assets being depreciated:					
Buildings and improvements	2,303,685	-	-	-	2,303,685
Land improvements	19,909,964	-	-	-	19,909,964
Equipment and fixtures	<u>2,216,902</u>	<u>1,850</u>	<u>-</u>	<u>-</u>	<u>2,218,752</u>
Total cost of capital assets being depreciated	<u>24,430,551</u>	<u>1,850</u>	<u>-</u>	<u>-</u>	<u>24,432,401</u>
Less accumulated depreciation:					
Buildings and improvements	(453,055)	(76,790)	-	-	(529,845)
Land improvements	(9,481,894)	(735,418)	-	-	(10,217,312)
Equipment and fixtures	<u>(1,638,838)</u>	<u>(167,951)</u>	<u>-</u>	<u>-</u>	<u>(1,806,789)</u>
Total accumulated depreciation	<u>(11,573,787)</u>	<u>(980,159)</u>	<u>-</u>	<u>-</u>	<u>(12,553,946)</u>
Total depreciable capital assets, net	<u>12,856,764</u>	<u>(978,309)</u>	<u>-</u>	<u>-</u>	<u>11,878,455</u>
Total capital assets, net	<u>\$ 13,033,064</u>	<u>\$ (978,309)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,054,755</u>

Discretely Presented Component Units

- Cortland County Industrial Development Agency -

The Agency had \$1,488,594 invested in Business Park Land and Railroad Land at December 31, 2012. There were no additions or deletions associated with these properties during the year.

7. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

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

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 \$2,759,327 to the Plan for current premiums. Plan members receiving benefits may be required to contribute to the Plan depending on their collective bargaining unit. The Retirement Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan. There were approximately 702 participants in the County's Retirement Plan for the year ended December 31, 2012.

Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years.

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

Normal cost	\$ 3,173,849
Amortization of UAAL	4,878,838
Interest	<u>322,107</u>
Total annual required contribution	8,374,794
Interest on net OPEB obligation	535,867
Adjustment to annual required contribution	<u>(774,732)</u>
Annual OPEB cost	8,135,929
Contributions made	<u>(2,759,327)</u>
Increase in net OPEB obligation	5,376,602
NET OPEB obligation - January 1, 2012	<u>13,396,683</u>
NET OPEB obligation - December 31, 2012	<u>\$ 18,773,285</u>

7. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Trend Information

The following table provides trend information for the Retirement Plan:

Year	Annual OPEB	Actual Employer	Percent	Net OPEB
<u>Ended</u>	<u>Cost</u>	<u>Contribution</u>	<u>Contributed</u>	<u>Obligation</u>
2012	\$8,135,929	\$2,759,327	33.9%	\$18,773,285
2011	\$5,998,769	\$3,072,828	51.2%	\$13,396,683
2010	\$6,611,399	\$2,930,014	44.3%	\$10,470,742

Schedule of Funding Progress

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of Retirement Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to approximate the funding of the Retirement Plan.

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
1/1/2012	12/31/12	\$ -	\$ 87,739,563	\$ 87,739,563	0.0%	\$ 9,225,812	951.1%
1/1/2011	12/31/11	\$ -	\$ 65,717,960	\$ 65,717,960	0.0%	Not available	
1/1/2010	12/31/10	\$ -	\$ 65,717,960	\$ 65,717,960	0.0%	Not available	

Actuarial Methods and Assumptions

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

In the January 1, 2012 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Medical care cost trend rate	10.0% or 7.5% initially, depending on age, reduced by decrements each year to an ultimate rate of 5.0% in 2016.
Unfunded actuarial accrued liability:	
Amortization period	30 years initially
Amortization method	Level dollar
Amortization basis	Open

* As the plan is unfunded, the assumed discount rate considers that the County's investment assets are low risk in nature, such as money market funds or certificates of deposit.

7. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

8. INTERFUND BALANCES

Interfund receivables and payables between governmental activities are eliminated on the statement of net position. The County typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

Net interfund balances at December 31, 2012 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 1,019,720	\$ 2,086,255
County road fund	450,620	599,070
Special grant fund	420	420
Road machinery fund	152,585	21,589
Capital projects fund	830,703	665,680
Solid waste fund	6,014	24,319
Internal service funds	919,327	3,748
Agency fund	<u>21,782</u>	<u>90</u>
Total	<u>\$ 3,401,171</u>	<u>\$ 3,401,171</u>

Interfund transfers for the year ended December 31, 2012 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 938,074	\$ 5,748,430
County road	5,129,133	-
Capital projects	794,592	1,139,619
Solid waste	250,800	-
Road machinery	<u>-</u>	<u>224,550</u>
	<u>\$ 7,112,599</u>	<u>\$ 7,112,599</u>

9. FINANCING ARRANGEMENTS

Serial Bonds - Excluding CTASC

The County borrows money in order to acquire land or high cost 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 are full faith and credit debt of the County. 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.

Serial Bonds - CTASC

The original purchase price for the County's future rights, title and interest in the TSRs was financed through the issuance of Series 2001 Bonds in the amount of \$10,640,000 with interest at rates ranging from 4.27% to 5.75%. The 2001 Bonds were sold at a discount of \$123,538, for a net issue price of \$10,516,462. The discount is amortized over the maturity period of the bonds using the straight-line method. The bonds mature from June 1, 2006 until June 1, 2043 under term restructuring and from June 1, 2002 until June 1, 2027 under the super sinker payment schedule.

The second bond issue was issued November 29, 2005 and are capital appreciation bonds. These bonds are subordinate bonds to the original issue bonds detailed above and cannot be defeased until the original issue bonds are paid in full. These bonds were issued in different series with different interest and maturity rates. These bonds shall accrue interest at their stated rates from the series 2005 delivery date, which interest shall accrue and not be payable, compounded semiannually, until maturity. Interest accrued for the year ended December 31, 2012 was \$258,468. During 2012, no principal or interest payments were made. The value of the bonds increase based upon the interest accrued over the life of the bonds. The total value of the bonds issued at November 29, 2005 was \$4,185,259.

Summary of Long-Term Obligations

The following is a summary of all long-term obligations outstanding at December 31, 2012:

	Balance January 1 (as restated)	Increases	Decreases	Balance December 31	Due in One Year
Governmental activities:					
Serial Bonds - excluding CTASC	\$ 8,709,020	\$ 5,000,000	\$ (410,690)	\$ 13,298,330	\$ 498,010
Serial Bonds - CTASC	12,505,769	263,219	(215,000)	12,553,988	325,000
Compensated absences	1,706,588	14,386	-	1,720,974	430,244
Capital lease (Note 10)	-	10,914,213	(3,693,468)	7,220,745	794,873
Early termination benefits (Note 11)	346,229	-	(86,557)	259,672	86,557
Other postemployment benefits	<u>13,396,683</u>	<u>8,135,929</u>	<u>(2,759,327)</u>	<u>18,773,285</u>	<u>-</u>
Total governmental activities	<u>36,664,289</u>	<u>24,327,747</u>	<u>(7,165,042)</u>	<u>53,826,994</u>	<u>2,134,684</u>
Business-type activities:					
Serial Bonds	<u>10,985,980</u>	<u>-</u>	<u>(349,310)</u>	<u>10,636,670</u>	<u>366,990</u>
Total primary government	<u>\$ 47,650,269</u>	<u>\$ 24,327,747</u>	<u>\$ (7,514,352)</u>	<u>\$ 64,463,664</u>	<u>\$ 2,501,674</u>

9. FINANCING ARRANGEMENTS (Continued)

Summary of Long-Term Obligations (Continued)

The following is a summary of maturity of the long-term indebtedness:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2012 Payments</u>	<u>Outstanding December 31</u>
Serial Bonds - excluding CTASC -					
Real property	2004	2019	4.38 - 4.50%	\$ 35,000	\$ 285,000
Public improvement	2007	2028	3.88 - 4.00%	355,000	8,375,000
Public improvement	2008	2032	4.00 - 5.00%	310,000	10,275,000
Public improvement	2012	2038	2.75 - 3.25%	-	<u>5,000,000</u>
					<u>\$ 23,935,000</u>

The following is a summary of maturing debt service requirements for general obligation serial bonds-excluding CTASC:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 865,000	\$ 954,066
2014	900,000	918,904
2015	930,000	882,111
2016	975,000	843,836
2017	1,030,000	803,529
2018 - 2022	5,615,000	3,358,245
2023 - 2027	6,825,000	2,104,873
2028 - 2032	5,265,000	791,304
2033 - 2037	1,255,000	167,348
2038	<u>275,000</u>	<u>8,938</u>
	<u>\$ 23,935,000</u>	<u>\$ 10,833,154</u>

The following is a summary of maturity of the long-term indebtedness of the CTASC:

	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>2012 Payments</u>	<u>Outstanding December 31</u>
Serial Bonds - CTASC					
Series 2001	2001	2027	4.30 - 5.75%	\$ 215,000	\$ 8,440,000
Series 2005	2005	2060	6.00 - 7.15%	-	4,185,259
Bond discount					<u>(71,271)</u>
					<u>\$ 12,553,988</u>

9. FINANCING ARRANGEMENTS (Continued)

Summary of Long-Term Obligations (Continued)

The following is a summary of maturing debt service requirements for the CTASC. Principal and interest payments for the Series 2001 Bonds are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 325,000	\$ 469,630
2014	340,000	450,511
2015	355,000	439,668
2016	375,000	427,350
2017	390,000	400,950
2018 - 2022	2,800,000	1,524,700
2023 - 2027	<u>3,855,000</u>	<u>560,400</u>
	<u>\$ 8,440,000</u>	<u>\$ 4,273,209</u>

The Series 2005 Bonds are capital appreciation bonds, upon which the investment return on the investment principal is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on these bonds other than their respective maturity dates, at which time a single payment is made representing principal and investment return. Such payments are as follows:

	<u>Principal</u>	<u>Interest</u>
Series S1 payable June 2038	\$ 713,160	\$ 2,947,369
Series S2 payable June 2050	730,966	9,197,816
Series S3 payable June 2055	649,493	16,117,354
Series S4A payable June 2060	<u>734,367</u>	<u>32,192,723</u>
	<u>\$ 2,827,986</u>	<u>\$ 60,455,262</u>

Interest on long-term debt for the year was composed of:

Interest paid	\$ 1,144,882
Plus: Interest accrued in the current year	193,859
Less: Interest accrued in the prior year	<u>(559,342)</u>
Total interest expense	<u>\$ 779,399</u>

10. CAPITAL LEASE

The County and Motorola Solutions, Inc. (Motorola) entered into an agreement in 2012 which provides for Motorola, as agent of the County, to construct cell towers and related equipment which will be owned by the County at the end of the lease. The County entered into this lease as of January 1, 2012. The lease expires on January 15, 2022.

This lease is defined as a capital lease and the related cell towers are recorded as an asset that will be amortized over the term of the lease. The lease obligation is shown as a liability with the related interest expense reported as non-operating expenses.

The payment terms under this lease are as follows for the years ended December 31:

	<u>Principal</u>	<u>Interest</u>
2013	\$ 794,873	\$ 48,809
2014	620,383	223,299
2015	641,941	201,741
2016	664,249	179,433
2017	687,331	156,351
2018 - 2022	<u>3,811,968</u>	<u>406,443</u>
	<u>\$ 7,220,745</u>	<u>\$ 1,216,076</u>

11. TERMINATION BENEFITS

During 2010, the County approved a one-time early retirement incentive plan, known as the 2010-2011 Retirement Incentive Program (the Program), for all employees. This Program was initiated by the New York State and Local Employees' Retirement System (the System) and has two different incentive programs, Part A and Part B. To be eligible for Parts A and B under the Program, employees were required to have 10 years of service with the County and be at least 50 years of age but not yet 55 years of age. The commencement of the open period was October 1, 2010 and eligible employees under both Part A and B of the Program were required to retire by December 29, 2010.

Employees taking advantage of Part A of the Program received approximately one month of additional service credit for each year of service, up to a maximum of three additional years of service credit. Employees taking advantage of Part B of the Program were allowed to retire at age 55 without a benefit reduction.

During the year ended December 31, 2010, fifteen employees elected early retirement under Part A of the Program. The estimated present value of the benefits provided to the retirees under the Program is reported as a liability to the County of \$259,672 and is included in long term liabilities in the statement of net position at December 31, 2012. The County will fund the system in three remaining installments of approximately \$86,600 over the next three years.

12. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The County participates in the System. This is a cost-sharing multiple-employer public employee retirement system. The System provides 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 (the Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues 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 Employees' Retirement System, 110 State Street, Albany, NY 12244.

Funding Policy

Membership, benefits, and employer and employee obligations to contribute are described in the NYSRSSL using the tier concept. Pension legislation established tier membership by the date a member last joined the Retirement System. They are as follows:

- Tier 1 - Those persons who last became members of the System before July 1, 1973.
- Tier 2 - Those persons who last became members on or after July 1, 1973, but before July 27, 1976.
- Tier 3 - Generally those persons who are State correction officers who last became members on or after July 27, 1976, and all others who last became members on or after July 27, 1976, but before September 1, 1983.
- Tier 4 - Generally, except for correction officers, those persons who last became members on or after September 1, 1983.
- Tier 5 - Those persons who last became members of the System on or after January 1, 2010.
- Tier 6 - Those persons who last became members of the System on or after April 1, 2012.

The System is noncontributory for the employee who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in the System contribute 3% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Employees who joined on or after April 1, 2012 contribute 3% of their reportable salary.

The System cannot be diminished or impaired. Benefits can be reduced for future membership only by an act of the New York State Legislature. The County contributed 100% of the required contributions for the current year and two preceding years as follows:

2012	\$ 4,357,681
2011	\$ 3,779,401
2010	\$ 2,736,987

13. LANDFILL CLOSURE AND POST CLOSURE COSTS

The County has three landfills that it maintains: the West Side, Pine Tree, and Old Cortland County landfills. The West Side landfill is the only one that is active; the other two are closed. Based on a survey completed by Barton & Loguidice, the total remaining air space capacity of the West Side landfill is 1,264,002 tons, or approximately 24.7 years of remaining site life.

State and federal laws and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. Landfill activity is reported in the Solid Waste Fund, an enterprise fund.

The County has a total of \$4,215,930 reported as landfill closure and postclosure care liability which represents the cumulative amount reported to date. The total cost consists of total post closure and closure costs of \$3,609,814 of the West Side landfill; \$292,512 for the Pine Tree landfill; and \$313,604 of the Old Cortland County landfill. The County recognized the remaining estimated cost of closure and postclosure care of \$4,215,930 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012 for the West Side, Pine Tree, and Old Cortland County landfills. The County expects to close the West Side landfill in the year 2038. Actual closure and post-closure costs may be higher due to inflation, changes in technology, or changes in regulations.

14. FUND BALANCES

As of December 31, 2012, fund balances were composed of the following:

	General Fund	County Road Fund	Special Grant Fund	Road Machinery Fund	Capital Projects Fund
Nonspendable	\$ 992,829	\$ 83,458	\$ -	\$ 20,030	\$ -
Restricted -					
Debt service	816,189	-	-	-	-
Law	1,271,769	37,657	-	25,519	3,583,819
Assigned					
Other spendable amounts	1,837,857	1,116,655	6	1,180,525	455,610
Unassigned	<u>9,422,045</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$14,340,689</u>	<u>\$ 1,237,770</u>	<u>\$ 6</u>	<u>\$ 1,226,074</u>	<u>\$ 4,039,429</u>

15. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial coverage for the past three years.

The County's self-insurance coverage applies to medical, dental, and vision insurance and workers' compensation. The County has excess liability insurance protection up to \$1,000,000 for a single incident with coverage that is effective in the event that a single loss exceeds \$1,000,000. The excess insurance covers workers' compensation claims with a specific excess limit of \$10,000,000 and employer's liability limit of \$1,000,000. The specific deductible on workers' compensation is \$375,000 per occurrence. The excess insurance also covers property damage for all County buildings and their contents, as well as all other County assets with a deductible of \$100,000. Any public works equipment, which is not licensed or cannot be licensed per New York State regulations, has a \$1,000 deductible per occurrence. Various County funds paid \$7,975,791 to the Self Insurance Fund during the year ended December 31, 2012, for the cost of these services. Various County funds were also charged \$524,548 by the Workers' Compensation Fund during the year ended December 31, 2012 for those services.

The County's estimated claims liability at December 31 of each year is based on the anticipated final outcome of each claim, analyzed on a case-by-case basis. The liability related to workers' compensation estimated claims is based on factors such as number of lost days, scheduled awards, and the percentage loss of use related to specific bodily injuries. General liability claims are estimated based on many factors including past experience, damages, and other factors consistently applied within the jurisdiction. All claims are analyzed by the County's insurance carrier who acts as the Self Insurance Fund's administrator. The Self Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related allocated claims.

The County's Self-Insurance Fund had net position of \$2,919,681 at December 31, 2012, which is included in the County's Internal Service Funds.

The County's Workers' Compensation Fund had net position of \$100,412 at December 31, 2012, which is included in the County's Internal Service Funds.

County employees are entitled to coverage under the New York State Unemployment Insurance Law. The County has elected to discharge its liability to the New York State Unemployment Insurance Fund by the benefit reimbursement method; a dollar-for-dollar reimbursement to the fund for benefits paid from the fund to former County employees and charged to the County's account.

16. FEDERAL AND STATE FUNDED PROGRAMS

The County participates in a number of Federal and New York State grant and assistance programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial. Expenditures disallowed by completed audits have generally been immaterial in nature and, accordingly, have been reflected as adjustments to revenues in the year the expenditure was determined to be unallowable.

Third-party payers, especially government funders, have substantially increased their scrutiny of payments made to their designated service providers. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulation compliance, etc. The stated purpose for these reviews is to recover reimbursements, which the payers believe may have been inappropriate.

The County has reviewed its internal records and policies with respect to such matters. However, due to the nature of these matters, it is difficult to estimate the ultimate liability, if any, which it may incur related to such matters.

17. CONTINGENCIES

The County is the defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's counsel that resolution of these matters will not have a material effect on the financial condition of the County government.

18. JOINT VENTURE

The Tompkins-Cortland Community College (the College) was established by joint action of the Legislative Boards of Cortland and Tompkins Counties. The College operates under authority of Article 126 of the Education Law and the Rules and Regulations of the State University Trustees. It is administered by a ten member Board of Trustees, five of whom are appointed by the legislative boards of the two counties under an apportionment made between the two by the State University Trustees. The College's annual operating budget is subject to approval by both County legislative boards. Ownership of existing capital facilities and capital expenses are shared in proportion of the student population of each County. Subsidies to meet operational expenses are shared in the ratio of resident students in attendance.

The County contributed approximately \$1,574,000 and \$140,000 to the College in 2012 for operations and debt, respectively.

The County also advanced funds to the College for its campus master plan, and at December 31, 2012, the College owes the County \$3,069,120. These funds will be paid by the College each year until 2026 under a long-term payment plan. This amount is recorded as a long-term receivable in the statement of net position.

X19. **IMPACT OF FUTURE GASB PRONOUNCEMENTS**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. This standard modifies requirements for inclusion of component units in the County's financial statements. This standard provides additional guidance on blending component units. The County is required to adopt the provisions of Statement No. 61 for the year ending December 31, 2013. The County's management has not yet assessed the impact of this statement on its future financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This standard improves accounting and financial reporting by clarifying guidance regarding risk financing, operating lease payments, and accounting for loans. The County is required to adopt the provisions of Statement No. 66 for the year ending December 31, 2013. The County's management has not yet assessed the impact of this statement on its future financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*. This standard improves accounting and financial reporting by expanding disclosures and required supplementary information of state and local governmental pension plans. The County is required to adopt the provisions of Statement No. 67 for the year ending December 31, 2014. The County's management has not yet assessed the impact of this statement on its future financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Reporting for Pension Plans*. This standard improves accounting and financial reporting by requiring governments to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits through additional disclosures and required supplementary information. The County is required to adopt the provisions of Statement No. 68 for the year ending December 31, 2015. The County's management has not yet assessed the impact of this statement on its future financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES:				
Real property taxes and tax items	\$ 33,430,886	\$ 33,430,886	\$ 32,548,095	\$ (882,791)
Nonproperty tax items	27,302,802	27,761,749	28,669,632	907,883
Departmental income	7,520,724	8,499,447	8,011,206	(488,241)
Intergovernmental charges	-	-	12,839	12,839
Use of money and property	78,000	78,000	290,070	212,070
Fines and forfeitures	-	-	173,483	173,483
Sale of property and compensation for loss	-	-	23,805	23,805
Miscellaneous	1,604,570	1,604,570	1,450,795	(153,775)
State aid	14,060,147	15,497,107	13,595,480	(1,901,627)
Federal aid	10,300,587	10,786,344	9,794,840	(991,504)
Total revenues	<u>94,297,716</u>	<u>97,658,103</u>	<u>94,570,245</u>	<u>(3,087,858)</u>
EXPENDITURES:				
General governmental support	21,195,791	21,992,090	20,738,388	1,253,702
Education	5,019,624	4,952,112	3,715,267	1,236,845
Public safety	12,630,020	12,259,011	11,629,297	629,714
Public health	10,024,791	11,261,762	10,731,556	530,206
Transportation	752,750	1,360,711	802,483	558,228
Economic assistance and opportunity	35,433,756	35,481,845	33,350,699	2,131,146
Culture and recreation	975,167	1,039,724	253,358	786,366
Home and community services	1,675,810	2,302,036	1,069,346	1,232,690
Employee benefits	2,884,327	2,884,327	2,923,867	(39,540)
Debt service	533,586	533,585	1,233,149	(699,564)
Total expenditures	<u>91,125,622</u>	<u>94,067,203</u>	<u>86,447,410</u>	<u>7,619,793</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,172,094</u>	<u>3,590,900</u>	<u>8,122,835</u>	<u>4,531,935</u>
OTHER FINANCING SOURCES (USES):				
Appropriated fund balance	1,879,254	2,097,748	-	(2,097,748)
Operating transfers - in	-	-	938,074	938,074
Operating transfers - out	(5,051,348)	(5,688,648)	(5,748,430)	(59,782)
Total other financing sources (uses)	<u>(3,172,094)</u>	<u>(3,590,900)</u>	<u>(4,810,356)</u>	<u>(1,219,456)</u>
CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>3,312,479</u>	<u>3,312,479</u>
FUND BALANCE - beginning of year, as previously reported	9,978,476	9,978,476	9,978,476	-
Prior period adjustments (Note 2)	-	-	1,049,734	1,049,734
FUND BALANCE - beginning of year, as restated	<u>9,978,476</u>	<u>9,978,476</u>	<u>11,028,210</u>	<u>1,049,734</u>
FUND BALANCE - end of year	<u>\$ 9,978,476</u>	<u>\$ 9,978,476</u>	<u>\$ 14,340,689</u>	<u>\$ 4,362,213</u>

The accompanying notes are an integral part of this supplementary information.

COUNTY OF CORTLAND, NEW YORK

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES -
BUDGET AND ACTUAL - COUNTY ROAD
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts (Budgetary Basis)</u>	Variance with Final Budget Positive (Negative)
REVENUES:				
Departmental income	\$ 9,050	\$ 23,050	\$ 3,648	\$ (19,402)
Intergovernmental charges	-	-	528,155	528,155
Use of money and property	1,500	1,500	26,049	24,549
Interfund revenues	-	-	62,076	62,076
Sale of property and compensation for loss	-	-	39	39
Miscellaneous	4,000	1,582,477	711	(1,581,766)
State aid	<u>2,108,359</u>	<u>2,108,359</u>	<u>1,354,912</u>	<u>(753,447)</u>
Total revenues	<u>2,122,909</u>	<u>3,715,386</u>	<u>1,975,590</u>	<u>(1,739,796)</u>
EXPENDITURES:				
Public safety	-	-	220,834	(220,834)
Transportation	7,417,781	9,212,803	7,865,248	1,347,555
Debt service	<u>81,633</u>	<u>81,633</u>	<u>81,633</u>	<u>-</u>
Total expenditures	<u>7,499,414</u>	<u>9,294,436</u>	<u>8,167,715</u>	<u>1,126,721</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(5,376,505)</u>	<u>(5,579,050)</u>	<u>(6,192,125)</u>	<u>(613,075)</u>
OTHER FINANCING SOURCES:				
Proceeds from issuance of bonds	-	-	1,600,000	1,600,000
Appropriated fund balance	17,917	397,917	-	(397,917)
Operating transfers - in	<u>5,358,588</u>	<u>5,181,133</u>	<u>5,129,133</u>	<u>(52,000)</u>
Total other financing sources	<u>5,376,505</u>	<u>5,579,050</u>	<u>6,729,133</u>	<u>1,150,083</u>
CHANGE IN FUND BALANCE	-	-	537,008	537,008
FUND BALANCE - beginning of year	<u>700,762</u>	<u>700,762</u>	<u>700,762</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 700,762</u>	<u>\$ 700,762</u>	<u>\$ 1,237,770</u>	<u>\$ 537,008</u>

The accompanying notes are an integral part of this supplementary information.

SECTION B

OMB CIRCULAR A-133

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

September 20, 2013

To the County Legislature of the
County of Cortland, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Cortland, New York (the County) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2013. Our report includes a reference to other auditors who audited the financial statements of the Cortland County Industrial Development Agency (the Agency) and the Cortland Tobacco Asset Securitization Corporation (CTASC), as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (Findings 2012-1, 2012-2, 2012-3).

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(Continued)

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

(Continued)

Internal Control Over Financial Reporting (Continued)

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free 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*.

County's Response to Findings

The County's responses to the findings identified in our audit are described in this report. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Bonadio & Co., LLP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

September 20, 2013

To the County Legislature of the
County of Cortland, New York:

Report on Compliance for Each Major Federal Program

We have audited the County of Cortland, New York's (the County's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

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 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 for 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.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

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 a 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.

Bonadio & Co., LLP

COUNTY OF CORTLAND, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through NYS Department of Social Services - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	\$ <u>804,585</u>
Total U.S. Department of Agriculture			<u>804,585</u>
U.S. Department of Labor:			
Passed through NYS Department of Social Services - WIA Cluster			
WIA Adult Program	17.258	N/A	150,317
ARRA - WIA Dislocated Workers	17.260	N/A	7,554
WIA Dislocated Worker Formula Grants	17.278	N/A	165,725
WIA Youth Activities	17.259	N/A	<u>165,552</u>
<i>Subtotal-WIA Cluster</i>			<u>489,148</u>
Senior Community Service Employment Program	17.235	N/A	<u>47,200</u>
Trade Adjustment Assistance	17.245	N/A	<u>104,376</u>
Total U.S. Department of Labor			<u>640,724</u>
U.S. Department of Homeland Security:			
Passed Through NYS Division of Criminal Justice Services - Homeland Security Grant Program	97.067	N/A	<u>84,260</u>
Total U.S. Department of Homeland Security			<u>84,260</u>
U.S. Department of Transportation:			
Passed through the NYS Department of Transportation - Transit Services Programs Cluster			
Job Access Reverse Commute Program	20.205	C003869	130,596
New Freedom Program	20.521	C003869	<u>25,000</u>
<i>Subtotal-Transit Services Programs Cluster</i>			<u>155,596</u>
Passed through the NYS Division of Criminal Justice - State and Community Highway Safety	20.600	T523399	<u>10,892</u>
Airport Improvement Program	20.106	N/A	<u>703,124</u>
Highway Planning and Construction	20.205	N/A	<u>148,738</u>
Total U.S. Department of Transportation			<u>1,018,350</u>
U.S. Department of Education:			
Passed through the NYS Department of Education - Special Education Grants to States	84.027	N/A	<u>62,349</u>
Total U.S. Department of Education			<u>62,349</u>

(Continued)

COUNTY OF CORTLAND, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)

Federal Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed through NYS Office of the Aging -			
Special Programs for the Aging - Title IIID -			
Disease Prevention and Health Promotion Services	93.043	N/A	3,852
National Family Caregiver Support - Title III-E	93.052	N/A	28,412
Special Programs for the Aging - Title VII - Chapter 2 -			
Long Term Care Ombudsman Services for Older Individuals	93.042	N/A	<u>13,253</u>
			<u>45,517</u>
Special Programs of the Aging Cluster -			
Special Programs for the Aging - Title IIIB - Grants for			
Supportive Services and Senior Centers	93.044	N/A	48,859
Special Programs for the Aging - Title IIIC- Nutrition Services	93.045	N/A	104,241
Nutrition Services Incentive Program	93.053	N/A	<u>84,760</u>
			<u>237,860</u>
			<u>283,377</u>
Total NYS Office of the Aging			
Passed through NYS Department of Health -			
Family Planning Services			
	93.217	C023180-08	76,915
Children's Health Insurance Program	93.767	N/A	27,440
Immunization Grants	93.268	C023241	<u>8,700</u>
			<u>113,055</u>
Maternal and Child Health Services Block Grant to the States			
	93.994	C027019/020602	51,448
Public Health Emergency Preparedness	93.069	1596-08/09	<u>53,500</u>
			<u>218,003</u>
Total NYS Department of Health			
Passed through NYS Department of Social Services -			
Temporary Assistance for Needy Families			
	93.558	N/A	<u>3,887,574</u>
Child Support Enforcement			
	93.563	N/A	376,042
ARRA-Child Support Enforcement	93.563	N/A	<u>58,446</u>
			<u>434,488</u>
<i>Subtotal-Child Support Enforcement</i>			
Foster Care - Title IV-E	93.658	N/A	685,054
ARRA-Foster Care - Title IV-E	93.658	N/A	<u>16,502</u>
			<u>701,556</u>
<i>Subtotal-Foster Care - Title IV-E</i>			
Adoption Assistance	93.659	N/A	355,504
ARRA-Adoption Assistance	93.659	N/A	<u>6,615</u>
			<u>362,119</u>
<i>Subtotal-Adoption Assistance</i>			
Medical Assistance Program	93.778	N/A	930,126
Child Care and Development Block Grant	93.575	N/A	1,084,501
Low-Income Home Energy Assistance	93.568	N/A	2,612,209
Centers for Disease Control and Prevention - Investigations and			
Technical Assistance	93.283	N/A	23,206
Social Services Block Grant	93.667	N/A	1,159,226
Chafee Foster Care Independence Program	93.674	N/A	<u>20,826</u>
			<u>11,215,831</u>
Total NYS Department of Social Services			
Passed through NYS Department of Alcohol and			
Substance Abuse Services -			
Block Grants for Prevention and Treatment of			
Substance Abuse	93.959	N/A	<u>220,048</u>
			<u>220,048</u>
Total NYS Department of Alcohol and Substance Abuse Services			
			<u>11,937,259</u>
Total U.S. Department of Health and Human Services			
			<u>\$ 14,547,527</u>
Total Expenditures of Federal Awards			

Note: Bold items denote major programs.

COUNTY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS DECEMBER 31, 2012

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of federal awards programs administered by the County of Cortland, New York (the County), an entity as defined in the basic financial statements, except that it does not include the federal financial assistance programs, if any, of the Cortland County Industrial Development Agency, Cortland Tobacco Asset Securitization Corporation, and the Cortland County Soil and Water Conservation District.

2. PASS-THROUGH PROGRAMS

Where the County receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than the CFDA numbers, which may be assigned by pass-through grantors are not maintained in the County's financial management system. The County has identified certain pass-through identifying numbers and included them in the schedule of expenditures of federal awards, as available.

3. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented in conformity with accounting principles generally accepted in the United States and the amounts presented are derived from the County's general ledger. For programs with funding ceilings and caps, federal expenditures are only recorded and presented in the schedule of expenditures of federal awards up to such amounts.

4. NONMONETARY FEDERAL PROGRAMS

The County is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed "nonmonetary programs." New York State makes payments of benefits directly to third parties on behalf of eligible persons participating in the Low-Income Home Energy Assistance Program (CFDA Number 93.568). Included in the amount presented on the schedule of expenditures of federal awards is \$2,585,267 in direct payments for the Low-Income Home Energy Assistance Program.

5. INDIRECT COSTS

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

6. MATCHING COSTS

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

COUNTY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. The independent auditor's report expresses an unqualified opinion on the basic financial statements of the County of Cortland, New York (the County).
2. Material weaknesses are reported relating to the audit of the basic financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the County were disclosed during the audit.
4. No material weaknesses or significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance.
5. The independent auditor's report on compliance for the County's major federal award programs expresses an unqualified opinion.
6. There are no audit findings relative to major federal award programs for the County.
7. The programs tested as major programs were:
 - CFDA No. 93.568 Low-Income Home Energy Assistance
 - CFDA No. 93.563 Child Support Enforcement
 - CFDA No. 93.563 ARRA-Child Support Enforcement
 - CFDA No. 93.558 Temporary Assistance for Needy Families
8. The threshold for distinguishing Types A and B programs was \$436,426.
9. The County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2012-1: Prior Period Adjustments

Condition: The County required several prior period adjustments in order to properly state beginning fund balance and net position.

Criteria: Generally accepted accounting principles required certain transactions to be recorded differently than they were recorded in 2011.

Cause: The internal controls of the County did not catch the material errors.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Finding 2012-1: Prior Period Adjustments (Continued)

Effect: The financial statements for the year ended December 31, 2011 were improperly presented in the fund financial statements because sales tax was understated in the General Fund by \$1,049,734; accounts receivable was understated by \$66,176 in the Solid Waste Fund; and capital assets were overstated in the Solid Waste Fund by \$22,774.

The financial statements for the year ended December 31, 2011 were improperly presented in the government-wide financial statements because capital assets were overstated by \$2,120,590; long-term liabilities were understated by \$417,204; and long-term receivables were overstated by \$380,000.

Recommendation: We recommend that the County review its year-end close of its financials to ensure that transactions are recorded properly.

Management Response: Management and the County Legislature will work with its accounting firm to ensure that transactions are recorded properly in the future.

Finding 2012-2: Capital Assets

Condition: There is no centralized listing of capital assets at the County. In some cases, listings of capital assets are maintained on excel spreadsheets, which are vulnerable to mathematical errors.

Criteria: The County is required to track its capital assets in accordance with generally accepted accounting principles.

Cause: There were two main listings maintained; one by the prior auditor and one by management. These two listings did not match as of December 31, 2011.

Effect: The financial statements for the year ended December 31, 2011 were improperly presented in the government-wide financial statements because capital assets were overstated by \$2,120,590. In addition, capital assets in the Solid Waste Fund were overstated by \$22,774.

Recommendation: We recommend that the County maintain one main capital asset listing and update it quarterly. We also recommend that the County maintain this capital asset listing in capital asset software that will keep track of asset additions, retirements, and depreciation to ease the manual record keeping that is required with Excel spreadsheets.

Management Response: Management and the County Legislature will work with its accounting firm to ensure that capital assets are recorded properly in the future.

Finding 2012-3: Installment Tax Agreements

Condition: The County allows for overdue taxpayers to pay their taxes with installment agreements.

Criteria: The County is required to track these agreements to ensure that the taxpayers are current on their agreements.

Cause: The County has not tracked these agreements properly during 2012.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Finding 2012-3: Installment Tax Agreements (Continued)

Effect: Out of 10 selections, 8 taxpayers were not current on their payments in accordance with the payment schedules being maintained in their files. In addition, 8 of 10 selections did not have adequate supporting documentation in order to determine if the taxpayers were paying the correct amount as stated in the payment schedules.

Recommendation: We recommend that the County track these payments on a monthly basis and to enforce all payment and penalty terms contained in the agreements. Failure to do so has both a cash flow and a revenue impact to the County. We also recommend that the County adequately documents the installment payments to ensure accuracy.

Management Response: Management and the County Legislature will implement a plan to track these payments on a regular basis going forward.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

September 20, 2013

To the County Legislature of the
County of Cortland, New York:

Report on Compliance of the State Transportation Assistance Program

We have audited the County of Cortland, New York's (the County's) compliance with the types of compliance requirements described in the Draft Part 43 of the New York State Codification of Rules and Regulations (NYSCRR) that could have a direct and material effect on the County's state transportation assistance program tested for the year ended December 31, 2012. The County's State Transportation Assistance program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs for state transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state transportation assistance program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's state transportation assistance program 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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYSCRR. Those standards and Draft Part 43 of NYSCRR 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 the state transportation assistance 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 for the state transportation assistance program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on State Transportation Assistance 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 its state transportation assistance program for the year ended December 31, 2012.

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(Continued)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF THE STATE
TRANSPORTATION ASSISTANCE PROGRAM; AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE**
(Continued)

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 the state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYSCRR, but not for the purpose of expressing an opinion 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 the state transportation assistance 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 the state transportation assistance program will not be prevented, or detected and corrected, on a 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 the state transportation assistance 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 Draft Part 43 of NYSCRR. Accordingly, this report is not suitable for any other purpose.

Bonadio & Co., LLP

COUNTY OF CORTLAND, NEW YORK

**SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Program Title</u>	<u>NYS DOT Contract/ Ref. Number</u>	<u>Expenditures</u>
Consolidated Local Street and Highway Program (CHIPS)	001-01/001-02	\$ 1,353,579
Snow and Ice Control on State Highways - Indexed Lump Sum	002-02	512,837
Highway Project	D033306	89,110
Marchiselli Program - State Bridge Aid	D033492	19,832
FAA Grant - NavAids Construction	3-36-0017-20-12	4,522
FAA Grant - SRE-NavAids Design	3-36-0017-18-11	1,573
FAA Grant - Obstruction Removal	3-36-0017-19-11	1,405
FAA Grant - LA Phase II	3-36-0017-16-10	<u>800</u>
		<u>\$ 1,983,658</u>

Bolded program represents a major program.

COUNTY OF CORTLAND, NEW YORK

NOTES TO SCHEDULE OF STATE TRANSPORTATION ASSISTANCE EXPENDED DECEMBER 31, 2012

1. GENERAL

The accompanying Schedule of State Transportation Assistance Expended of the County of Cortland, New York (the County) presents the activity of all financial assistance programs provided by the New York State Department of Transportation.

2. BASIS OF ACCOUNTING

The accompanying Schedule of State Transportation Assistance Expended is presented in conformity with accounting principles generally accepted in the United States.

3. INDIRECT COSTS

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

4. MATCHING COSTS

Amounts identified as Marchicelli Program - State Bridge Aid represent matching costs for the federally aided programs.

COUNTY OF CORTLAND, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR STATE TRANSPORTATION ASSISTANCE EXPENDED FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDIT RESULTS

1. Internal control over state transportation assistance expended:
 - No material weaknesses were identified.
2. The independent auditor's report on compliance for state transportation assistance expended for the County expressed an unqualified opinion and did not disclose any material noncompliance with the state transportation program tested.
3. The program tested was:
 - Consolidated Local Street and Highway Improvement Program (CHIPS)

B. FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

There were no current year findings and there were no prior year findings.

C. COMPLIANCE FINDINGS AND QUESTIONED COSTS

There were no current year findings.