

COUNTY OF FRANKLIN
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
INCLUDING SINGLE AUDIT REPORTS
FOR THE YEAR ENDED DECEMBER 31, 2012

COUNTY OF FRANKLIN
FOR THE YEAR ENDED DECEMBER 31, 2012

Executives

County Manager	Thomas J. Leitz
Treasurer	Bryon A. Varin
Deputy Treasurer	Joan L. Sherwin
County Clerk	Kip Cassavaw
County Auditor	Fran Perry
County Attorney	Jonathan J. Miller

Franklin County Legislature-January 1, 2013

Chairman	D. Billy Jones, District #2
Vice-Chairman	Gordon Crossman, District #3
Majority Leader	Guy Smith, District #1
Minority Leader	Paul A. Maroun, District #6
Legislators	Timothy Burpoe, District #7
	Marc Tim Lashomb, District #4
	Sue M. Robideau, District #5

**COUNTY OF FRANKLIN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Chairman and Members
Of the Legislature
Malone, New York 12953

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Franklin County Nursing Home, the Franklin County Industrial Development Agency, Franklin County Civic Development Corporation, the County of Franklin Solid Waste Management Authority and the Rainbow Lake Water Protection District, each of which represents 100 percent of the respective assets, net assets, and revenues of the component units. The financial statements of the Franklin County Nursing Home and the Rainbow Lake Water Protection District were not audited in accordance with *Government Auditing Standards*. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Franklin County Nursing Home, the Franklin County Industrial Development Agency, Franklin County Civic Development Corporation, the County of Franklin Solid Waste Management Authority, and the Rainbow Lake Water Protection District, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial statement presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 9 through 18 and 76 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Franklin's basic financial statements. The combining and individual nonmajor fund financial statements and NYS DOT supplemental information 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, NYS DOT supplemental information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, NYS DOT supplemental information, and the schedule of expenditures of federal awards 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 June 20, 2013, on our consideration of the County of Franklin'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 of Franklin's internal control over financial reporting and compliance.

R.A. MERCER & CO., P.C.

R.A. Mercer & Co. P.C.

Orchard Park, New York
June 20, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the County of Franklin's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on December 31, 2012. Please read it in conjunction with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The total net assets increased by \$3,184,835, from \$48,408,141 to \$51,592,976. Net assets of the Franklin County Nursing Home decreased by \$459,552 to \$1,965,919. An increase in net assets of \$3,644,387 to \$49,627,057 in the County's governmental funds, which includes a reduction in net assets of \$2,327,070 for post-employment benefit obligations (retiree health insurance).
- During the year, the County's governmental activities expenses were \$84,084,333 compared to revenues of \$87,728,720, of which \$37,526,009, or 42.8 percent, was from property and non-property tax items (sales tax), compared to 41.5 percent in 2011.
- In the County's business-type activities, operating revenues were \$7,141,393, while expenses were \$7,601,240. An additional \$295 of investment income gave the Franklin County Nursing Home a decrease in net assets of \$459,552.
- The County's component units had a combined decrease in net assets of \$387,530. The Franklin County Solid Waste Management Authority had an operating loss of \$339,587 on revenues of \$11,415,594 and expenses of \$11,755,181. It also had investment earnings of \$97,061 which resulted in a net asset decrease of \$242,526 for the Authority. The Franklin County Industrial Development Agency had a decrease in net assets of \$138,809, and the Rainbow Lake Water Protection District had a decrease in net assets of \$1,667. The Franklin County Civic Development Corporation had a decrease in net assets of \$4,528.

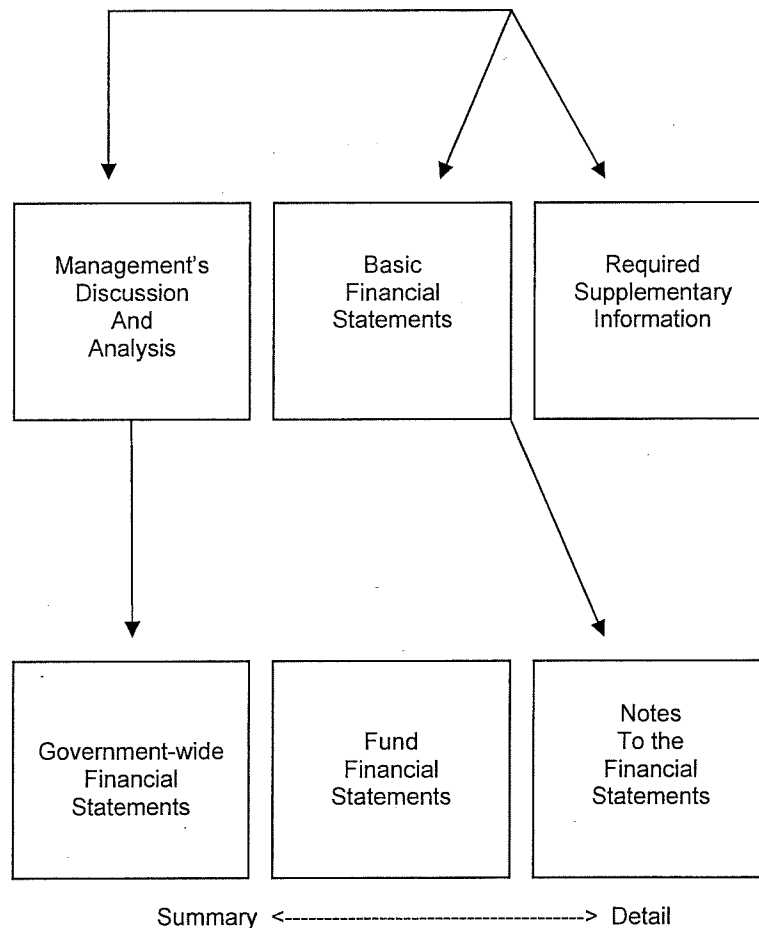
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the County:

- The first two statements are government wide financial statements which provide both long-term and short-term information about the County's overall financial status.
- The remaining statements are fund financial statements which focus on individual parts of the County government, reporting the County's operations in more detail than the government wide statements.

- Governmental funds statements tell how general government services like public safety were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities of the government, such as the Franklin County Nursing Home.
- Fiduciary fund statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Figure A-1
Required Components of
Franklin County's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining statements that provide details about our non-major governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this

overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2
Major Features of Franklin County's Government-Wide
and Fund Financial Statements

	Fund Statements			
	Government-Wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and the County's component units	The activities of the County that are not proprietary or fiduciary	Activities the County operates similar to private businesses: the Nursing Home	Instances in which the County is the trustee or agent for someone else's resources
Required financial Statements	<ul style="list-style-type: none"> Statement of net assets Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows 	<ul style="list-style-type: none"> Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the County's funds do not currently contain capital assets, although they can
Type of inflow/outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

County-Wide Statements

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

The two government wide statements report the County's net assets and how they have changed. Net assets - the difference between the County's assets and liabilities - is one way to measure the County's financial health, or position.

- Over time, increases or decreases in the County's net assets are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall health of the County it is necessary to consider additional nonfinancial factors such as changes in the County's property tax base and the condition of the County's infrastructure.

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 the police, fire, public works, and parks departments, and general administration. Property taxes, sales tax, and state and federal grants finance most of these activities.
- Business-type activities - The County charges fees to customers to help it cover the costs of certain services it provides. The County's Nursing Home is included here.
- Component units - The County includes three other entities in its report - the Franklin County Industrial Development Agency, Franklin County Civic Development Corporation, Franklin County Solid Waste Management Authority, and the Rainbow Lake Water Protection District. Although legally separate, these "component units" are important because the County is financially accountable for them. These audit reports are available at the County building.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds, although not for the County as a whole. Funds are accounting devices that the County uses to track specific sources of funding and spending.

- 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.

The County has three kinds of funds:

- Governmental funds - Most of the County's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps 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 statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary funds - Services for which the County charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government wide statements, provide both long- and short-term financial information.
 - The County's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - We use internal service funds (the other kind of proprietary fund) to report activities that provide supplies and services for the County's other programs and activities, such as the Workers' Compensation Fund.
 - Fiduciary funds - the County is the trustee, or fiduciary, and is responsible for other assets that, because of a trust arrangement, 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 assets and a statement of changes in fiduciary net assets. 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

Net Position

The County's combined net position is \$51,592,976, which is up from last years by \$3,184,835. The following is a summary of the county's net position:

Net position of the County's governmental activities increased \$3,644,387 to \$49,627,057. However, a portion of that net position is either restricted as to the purposes for which it can be used or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net position showed a \$3,954,969 deficit at the end of this year. This means that the County does have resources available to pay its obligations next year based on the full accrual basis of accounting. Based on fund accounting, the General Fund has \$422,416 in unassigned fund balance compared to \$2,825,839 in 2011.

Net assets of our business-type activities decreased by \$459,552 to fund balance of \$1,965,919.

Changes in Position

Only 19 percent of the County's revenue comes from property taxes. Another 20 percent comes from fees charged for services, and 24 percent from nonproperty tax items (sales tax). The remaining 37 percent revenues comprise state and federal aid and a small amount from investment earnings.

The total costs of all programs in governmental activities have decreased by \$6,067,828, or 6.7%. The largest portion of the County's expenses, or 44 percent, is for Economic Assistance and Opportunity, which is supported, for the most part, by state and federal revenues. The largest portion of the deficit in funding is the cost of medicaid, which is budgeted.

Governmental Activities

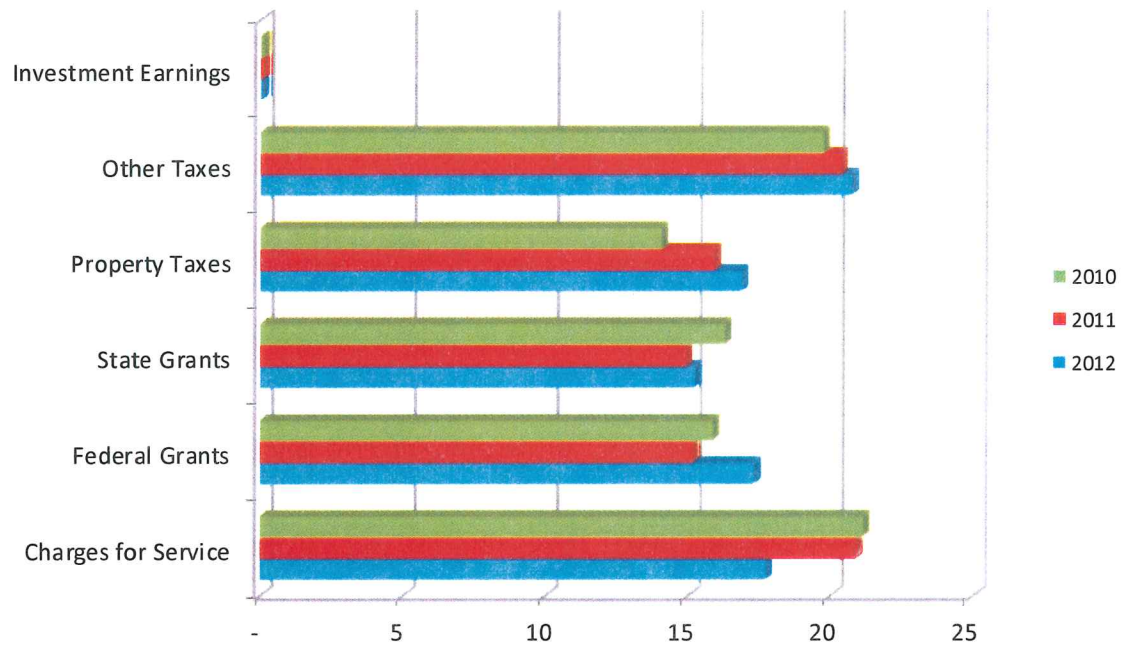
Revenues for the County's governmental activities have been steady. Increases of property taxes and additional revenues from sales tax revenue have kept the County solvent. Adjustments for Casino funds and FEMA funds have erased the deficit noted with the initial Annual Fund Report (AFR) to New York State.

Changes in Net Position
(In Millions)

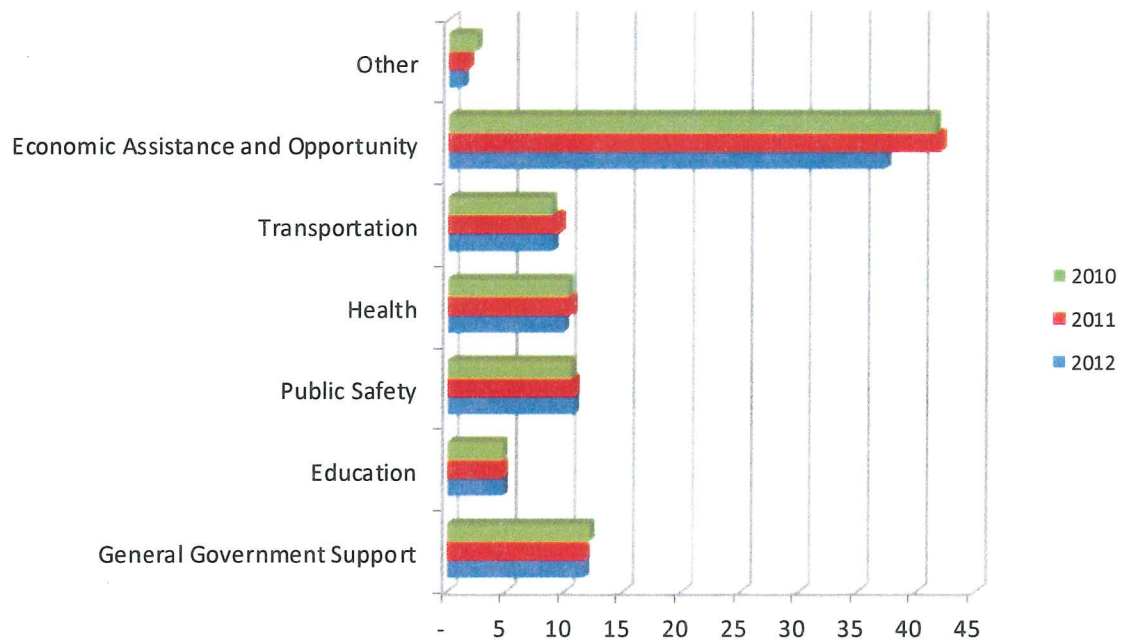
	Governmental Funds		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program Revenues						
Charges for Service	\$ 17.70	20.86	7.14	8.29	24.84	29.15
Federal Grants	17.26	15.08	-	-	17.26	15.08
State Grants	15.22	14.87	-	-	15.22	14.87
General Revenues						
Property Taxes	16.83	15.86	-	-	16.83	15.86
Other Taxes	20.70	20.29	-	-	20.70	20.29
Investment Earnings	0.02	0.03	-	-	0.02	0.03
Total Revenues	<u>87.73</u>	<u>86.99</u>	<u>7.14</u>	<u>8.29</u>	<u>94.87</u>	<u>95.28</u>
EXPENSES						
General Government Support	11.63	11.60	-	-	11.63	11.60
Education	4.65	4.56	-	-	4.65	4.56
Public Safety	10.71	10.71	-	-	10.71	10.71
Health	9.82	10.40	-	-	9.82	10.40
Transportation	8.88	9.43	-	-	8.88	9.43
Economic Assistance and Opportunity	37.23	41.90	-	-	37.23	41.90
Culture and Recreation	0.23	0.27	-	-	0.23	0.27
Home and Community Services	0.69	1.03	-	-	0.69	1.03
Unallocated Depreciation	-	-	-	-	-	-
Loss on Disposal of Equipment	0.08	0.03	-	-	0.08	0.03
Debt Service	0.17	0.22	-	-	0.17	0.22
Nursing Home	-	-	7.60	7.28	7.60	7.28
Total expenses	<u>84.09</u>	<u>90.15</u>	<u>7.60</u>	<u>7.28</u>	<u>91.69</u>	<u>97.43</u>
Transfers	-	(1.25)	-	1.25	-	-
Increase (Decrease) in Net Position	<u>\$ 3.64</u>	<u>\$ (4.41)</u>	<u>(0.46)</u>	<u>2.26</u>	<u>3.18</u>	<u>(2.15)</u>

Property tax revenues were unfavorable by \$1,797,266 compared to the final budget estimates. The County's final budget estimated revenue exceeded the actual revenue sources by \$4,791,396.

Revenues (in Millions)



Expenses (in Millions)



Business-type Activities

Revenues for the Nursing Home were down \$1,152,587, and expenses were up by \$316,429 for 2012.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As the County completed the year, its governmental funds reported a combined fund balance of \$9,604,294, slightly lower than last year.

- The County spent \$6,408,172 on capital projects during the year. This amount includes expenditures for various infrastructure improvements. These expenditures are paid for by a combination of federal and state grants and use of the general fund Capital Reserve and issuance of serial bonds.
- The County also had the New York State retirement expense increase from \$2,609,187 in 2011 to \$2,846,179 in 2012 for the primary government, we also noted increase for the component units.

General Fund Budgetary Highlights

Over the course of the year, the County Legislature revised the County budget several times. These budget amendments fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances.
- Increases in appropriations to prevent budget overruns.
- Increases for new grants or revenue.

Even with these adjustments, actual expenditures were \$4,602,862 below final budget amounts. Resources available for appropriation were \$188,534 below the final budgeted amount. As noted earlier:

- Property tax collections were \$1.7 million under budget mostly due to \$933 thousand in Indian Land claims and other deferred taxes not collected within 60 days after the year end.
- Departmental income which was not realized

The County's general fund balance of \$5,710,556 differs from the general fund's budgetary fund balance of \$5,899,090 reported in the budgetary comparison schedule principally because the over estimated revenues and reductions in expenses did not cover the budget short falls.

Capital Assets

At the end of 2012, the County had invested \$102,320,895 in a broad range of capital assets, including equipment, buildings, roads, and bridges. This amount represents a net increase (including additions and deductions) of \$6,988,502 over last year.

	Governmental	Business-type		
	Activities	Activities	2012 Total	2011 Total
Land	\$ 145,493	16,500	161,993	161,993
Buildings and Improvements	23,898,442	1,764,907	25,663,349	25,646,325
Equipment	12,207,638	2,973,477	15,181,115	14,607,040
Infrastructure	55,565,584	-	55,565,584	54,116,419
Construction-in-Progress	5,748,854	-	5,748,854	800,616
	<u>\$ 97,566,011</u>	<u>4,754,884</u>	<u>102,320,895</u>	<u>95,332,393</u>

The major additions for the year included construction in progress associated with various roads and bridges.

Long-Term Debt

At year-end, the County had \$5,105,401 in bonds, notes, retirement liabilities, and compensated absences outstanding - a decrease of \$1,398,752 over last year. More detailed information about the County's long-term liabilities is presented in the notes to the financial statements. During the year the County contracted an actuarial to calculate the liability for the unfunded post-employment benefits. The total liability is \$40,967,813, the County recorded the amortized amount of \$19,122,953 as a liability. Standard and Poor's has affirmed the "A" rating for the Franklin County, New York General Obligation, but changed the outlook to negative from stable.

Limitations on Debt

The State limits the amount of general obligation debt the County can issue to 3 percent of the assessed value of all taxable property within the County's limits. The outstanding debt is significantly below this limit.

County of Franklin Outstanding Debt

	Governmental	Business-type		
	Activities	Activities	2012 Total	2011 Total
Serial Bonds - 2009	\$ 4,110,000	-	4,110,000	4,595,000
Serial Bonds - 1998	-	-	-	855,000
Compensated Absences	995,401	-	995,401	1,054,153
Post Employment Benefit				
Obligation	<u>19,122,953</u>	<u>-</u>	<u>19,122,953</u>	<u>16,795,883</u>
Total	<u>24,228,354</u>	<u>-</u>	<u>24,228,354</u>	<u>23,300,036</u>
Due within one year	<u>1,747,744</u>	<u>-</u>	<u>1,747,744</u>	<u>3,125,003</u>
Due in more than one year	<u>\$ 22,480,610</u>	<u>-</u>	<u>22,480,610</u>	<u>20,175,033</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Franklin County, with a population of 51,599 according to the 2010 Federal Census, is in northern New York State along the Canadian border. It is also bordered by Clinton County to the east, St. Lawrence County to the west and Essex and Hamilton Counties to the south. The County's economy relies on the various government facilities and other facilities for employment. Additional leading

employers are Sunmount Hospital, Mohawk Casino, NYS Correctional Facilities and the six school districts.

In 2012, the County's 9.7% unemployment rate exceeded the state's 8.5% average rate and the nation's 8.1% average rate. The nation's economy had shown signs of improvement as levels peaked at 8.3% early in the year and then settled at 7.8% at year end. The State unemployment rate ranged between 8.2% and 8.7% while the County's unemployment rate peaked at 10.8% in February but drifted to 8.8% in the third quarter, ending the year at 9.7%. Furthermore, sales tax receipts improved by \$414 thousand (2.04%) over the previous year (\$20.550 million in 2012 and \$20.136 million in 2011).

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bryon A. Varin, Franklin County Treasurer, 355 West Main Street, Suite 140, Malone, New York, 12953.

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FINANCIAL SECTION

COUNTY OF FRANKLIN
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 3,189,140	3,954	3,193,094	934,578
Cash and Cash Equivalents, Restricted	1,635,452	19,189	1,654,641	6,008,072
Investments, Restricted	-	-	-	2,558,792
Taxes Receivable, Net	18,753,915	-	18,753,915	-
Other Receivables, Net	5,469,065	1,854,208	7,323,273	2,056,740
State and Federal Receivables	11,876,833	-	11,876,833	-
Prepaid Expenses	848,376	-	848,376	-
Due from Other Governments	422,408	-	422,408	-
Due from Other Funds	50,000	-	50,000	-
Inventory	318,800	72,569	391,369	-
Other Assets	-	14,239	14,239	51,217
Capital Assets:				
Land and Construction in Progress	5,894,347	16,500	5,910,847	588,603
Capital Assets, Net of Depreciation	42,930,890	424,336	43,355,226	5,588,464
Capitalized Preoperational and Financing Costs, Net	-	-	-	2,070,251
Total Assets	91,389,226	2,404,995	93,794,221	19,856,717
LIABILITIES				
Accounts Payable	3,731,073	175,761	3,906,834	2,410,694
Accrued Liabilities	1,186,387	117,637	1,304,024	73,130
Other Liabilities	34,561	95,678	130,239	2,309,369
Deferred Revenues	1,006,236	-	1,006,236	-
Due to Other Funds	-	50,000	50,000	-
Due to Other Governments	11,575,558	-	11,575,558	-
Long-Term Liabilities				
Due and Payable Within One Year				
Compensated Absences	99,540	-	99,540	-
Post Employments Benefit Obligation	1,143,204	-	1,143,204	-
Installment Debt	-	-	-	766,393
Bonds Payable	505,000	-	505,000	2,715,000
Due and Payable After One Year				
Compensated Absences	895,861	-	895,861	-
Post Employments Benefit Obligation	17,979,749	-	17,979,749	-
Installment Debt/Notes Payable	-	-	-	92,930
Bonds Payable	3,605,000	-	3,605,000	9,620,000
Total Liabilities	41,762,169	439,076	42,201,245	17,987,516
NET POSITION				
Invested in Capital Assets, Net of Related Debt	44,715,237	440,836	45,156,073	857,813
Restricted for:				
Capital Projects	853,688	-	853,688	-
Other Restrictions	8,696,338	-	8,696,338	-
Unrestricted (Deficit)	(4,638,206)	1,525,083	(3,113,123)	1,011,388
Total Net Position	\$ 49,627,057	1,965,919	51,592,976	1,869,201

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

COUNTY OF FRANKLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs Primary Government:	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government Support	\$ 11,630,466	10,998,515	388,990	-	(242,961)	(242,961)
Education	4,653,501	-	1,591,507	-	(3,061,994)	(3,061,994)
Public Safety	10,706,828	196,140	1,912,933	-	(8,597,755)	(8,597,755)
Health	9,824,137	3,250,738	3,628,141	-	(2,945,258)	(2,945,258)
Transportation	8,876,431	787,166	-	6,319,978	(1,769,287)	(1,769,287)
Economic Assistance and Opportunity	37,229,016	1,572,825	18,637,205	-	(17,018,986)	(17,018,986)
Culture and Recreation	227,280	-	-	-	(227,280)	(227,280)
Home and Community Services	686,092	-	-	-	(686,092)	(686,092)
Depreciation-Unallocated	-	-	-	-	-	-
Loss on Disposal of Equipment	79,471	-	-	-	(79,471)	(79,471)
Debt Service Interest	171,111	895,185	-	-	724,074	724,074
Total Governmental Activities	84,084,333	17,700,569	26,158,776	6,319,978	(33,905,010)	(33,905,010)
Business-Type Activities:						
Nursing Home	7,601,240	7,141,393	-	-	-	(459,847)
Total Primary Government	91,685,573	24,841,962	26,158,776	6,319,978	(33,905,010)	(34,364,857)
Component Units:						
IDA (FYE 12/31/12)	3,983,561	45,708	3,670,455	-	-	(267,398)
CDC (FYE 12/31/2012)	90,335	85,785	-	-	-	(4,550)
Landfill Operations (FYE 6/30/12)	11,755,181	11,415,594	-	-	-	(339,587)
Water District Operations (FYE 12/31/12)	3,667	-	-	-	-	(3,667)
Total Component Units	15,832,744	11,547,087	3,670,455	-	-	(615,202)
	\$					
General Revenues (Expenses):						
Taxes:						
Property Taxes, Levied for General Purposes					16,833,581	16,833,581
Nonproperty Tax Items, for General Purposes					20,692,428	20,692,428
Water District Tax Revenues					-	-
Restricted Investment Earnings					23,388	23,683
CDC Grant					-	-
Gain on Land					-	-
Total General Revenues					37,549,397	37,549,692
Change in Net Assets					3,644,387	(459,552)
Net Position-Beginning of the Year					45,982,670	2,425,471
Net Position-End of the Year					\$ 49,627,057	1,965,919

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

EXHIBIT C

**COUNTY OF FRANKLIN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2012**

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,416,287	339,756	1,756,043
Cash and Cash Equivalents- Restricted	1,618,411	-	1,618,411
Taxes Receivable, Net	18,753,915	-	18,753,915
Other Receivables, Net	5,371,306	96,887	5,468,193
State and Federal Receivables	9,205,989	2,670,844	11,876,833
Prepaid Expenses	843,021	5,355	848,376
Due from Other Governments	422,408	-	422,408
Due from Other Funds	-	1,816,611	1,816,611
Inventory	23,825	294,975	318,800
Total Assets	37,655,162	5,224,428	42,879,590
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts Payable	3,220,765	510,308	3,731,073
Accrued Liabilities	1,143,820	21,314	1,165,134
Other Liabilities	24,461	9,000	33,461
Deferred Revenues	14,851,319	152,140	15,003,459
Due to Other Funds	1,130,396	636,215	1,766,611
Due to Other Governments	11,573,845	1,713	11,575,558
Total Liabilities	31,944,606	1,330,690	33,275,296
Fund Balances			
Nonspendable			
Inventory	23,825	294,975	318,800
Prepays	843,021	-	843,021
Restricted For:			
Retirement	1,088,346	-	1,088,346
Health Insurance	856,336	-	856,336
Unemployment Insurance	232,416	-	232,416
Tax Stabilization	42,874	-	42,874
Capital Reserve (Mortgage Tax)	584,829	-	584,829
Other	-	47,509	47,509
Committed to:			
Committed for Future Purchases	1,000,000	-	1,000,000
Assigned To:			
Assigned Appropriated	156,876	1,142,091	1,298,967
Assigned Unappropriated	459,617	2,366,644	2,826,261
Unassigned	422,416	42,519	464,935
Total Fund Balances	5,710,556	3,893,738	9,604,294
Total Liabilities and Fund Balances	\$ 37,655,162	5,224,428	

Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	48,825,237
Internal service funds are used by management to charge the cost of workers' compensation to individual funds. The assets and liabilities of this fund are included in governmental activities in the Statement of Net Assets	1,449,910
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds.	13,997,223
Interest on debt is recorded as an expenditure in governmental funds when it is due. On the Statement of Net Assets interest is recognized as it accrues.	(21,253)
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(24,228,354)
Net Position of Governmental Activities	\$ 49,627,057

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

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

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Real Property Taxes	\$ 13,087,859	-	13,087,859
Real Property Tax Items	1,832,599	-	1,832,599
Non-Property Tax Items	20,692,428	-	20,692,428
Departmental Income	12,588,107	20,270	12,608,377
Intergovernmental Charges	6,441,259	-	6,441,259
Use of Money and Property	705,003	3,273	708,276
Fines and Forfeitures	223,856	-	223,856
Sale of Property and Compensation for Loss	719,801	68,983	788,784
Miscellaneous Local Sources	4,802,334	363,146	5,165,480
Interfund Revenues	1,841,573	1,024,076	2,865,649
State Aid	12,983,760	2,233,423	15,217,183
Federal Aid	11,309,577	5,951,994	17,261,571
Total Revenues	<u>87,228,156</u>	<u>9,665,165</u>	<u>96,893,321</u>
EXPENDITURES			
General Government Support	9,536,932	-	9,536,932
Education	4,466,917	-	4,466,917
Public Safety	10,387,655	131,758	10,519,413
Health	9,357,493	-	9,357,493
Transportation	1,189,172	10,776,460	11,965,632
Economic Assistance and Opportunity	33,710,630	2,000,549	35,711,179
Culture and Recreation	217,975	-	217,975
Home and Community Services	6,299,776	-	6,299,776
Employee Benefits	7,503,197	-	7,503,197
Debt Service (Principal and Interest)	-	1,519,829	1,519,829
Total Expenditures	<u>82,669,747</u>	<u>14,428,596</u>	<u>97,098,343</u>
Excess of Revenues Over (Under) Expenditures	<u>4,558,409</u>	<u>(4,763,431)</u>	<u>(205,022)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from Other Funds	-	6,033,962	6,033,962
Transfers to Other Funds	(4,626,521)	(1,407,441)	(6,033,962)
Net Other Financing Sources (Uses)	<u>(4,626,521)</u>	<u>4,626,521</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(68,112)	(136,910)	(205,022)
Fund Balances, Beginning of the Year	5,778,668	4,030,648	9,809,316
Fund Balances, End of the Year	<u>\$ 5,710,556</u>	<u>3,893,738</u>	<u>9,604,294</u>

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

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

Total Net Change in Fund Balances-Governmental Funds	\$ (205,022)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$7,538,569 exceed depreciation expense of \$4,324,498 in the current year. Also includes loss on sale of equipment of \$79,471.	3,134,600
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,340,000
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Because some property taxes are not collected for several months after the County's year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.	1,913,123
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In the Statement of Activities, expenses such as compensated absences and the New York State retirement incentive liability are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. For the year ended December 31, 2012, payments made to the New York State Employees' Retirement System for early retirement incentive payment exceeded amounts earned. The estimated liability for compensated absences exceeded payments by \$58,752.	58,752
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The net accrued interest decreased from the prior year by this amount.	8,718
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Estimated Net Other Post Employment Benefit Obligation for 2012.	(2,327,070)
--	-------------

An internal service fund is used by the County's management to charge the costs of workers' compensation to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	(278,714)
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Change in Net Position of Governmental Activities	\$ <u>3,644,387</u>
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COUNTY OF FRANKLIN
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF DECEMBER 31, 2012

	Enterprise Fund Nursing Home	Internal Service Fund
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 3,954	1,450,138
Cash - Resident Trust Funds	19,189	-
Other Receivables, Net	1,854,208	872
Due from Other Funds	-	-
Inventory	72,569	-
Other Current Assets	14,239	-
Total Current Assets	<u>1,964,159</u>	<u>1,451,010</u>
Capital Assets		
Land	16,500	-
Equipment	830,496	-
Buildings and Improvements	3,907,889	-
Accumulated Depreciation	<u>(4,314,049)</u>	<u>-</u>
Net Capital Assets	<u>440,836</u>	<u>-</u>
Total Assets	<u>2,404,995</u>	<u>1,451,010</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	175,761	-
Accrued Liabilities	117,637	-
Other Current Liabilities	95,678	1,100
Due to Other Funds	<u>50,000</u>	<u>-</u>
Total Current Liabilities	<u>439,076</u>	<u>1,100</u>
Total Liabilities	<u>439,076</u>	<u>1,100</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	440,836	-
Restricted for Workers' Compensation	-	400,000
Assigned Fund Balance	-	1,049,910
Unrestricted (Deficit)	<u>1,525,083</u>	<u>-</u>
Total Net Position	<u>\$ 1,965,919</u>	<u>1,449,910</u>

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

COUNTY OF FRANKLIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Enterprise Fund Nursing Home	Internal Service Fund
OPERATING REVENUES		
Net Patient Service Income	\$ 5,633,890	-
Miscellaneous Income	1,333,424	62,957
Intergovernmental Charges	-	977,864
	<hr/>	<hr/>
Total Operating Revenues	6,967,314	1,040,821
	<hr/>	<hr/>
OPERATING EXPENSES		
Salaries and Wages	3,194,918	-
Employee Benefits	2,186,412	-
Supplies	486,804	-
Professional and Contractual Services	778,848	-
Other Direct Expenses	519,817	-
Bad Debt Expense	9,224	-
General Governmental Support	-	1,290,935
Employee Benefits	-	32,539
Depreciation	136,700	-
Other- New York State Assessment	288,517	-
	<hr/>	<hr/>
Total Operating Expenses	7,601,240	1,323,474
	<hr/>	<hr/>
Income (Loss) from Operations	(633,926)	(282,653)
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES)		
Contributions from Other Funds	-	-
Contributed Services	174,079	-
Income on Investment	295	3,939
	<hr/>	<hr/>
Net Nonoperating Revenues (Expenses)	174,374	3,939
	<hr/>	<hr/>
Change in Net Position	(459,552)	(278,714)
	<hr/>	<hr/>
Total Net Position-Beginning of the Year	2,425,471	1,728,624
Total Net Position-End of the Year	\$ 1,965,919	1,449,910
	<hr/>	<hr/>

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

COUNTY OF FRANKLIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Enterprise Fund Nursing Home	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received From Patient Services	\$ 6,038,272	-
Received From Assessments Made to Other Funds	-	1,040,820
Payments to Employees	(5,365,038)	(77,976)
Payments for Workers' Compensation Claims	-	(1,245,306)
Payments to Suppliers for Goods and Services	(2,128,978)	-
Net Cash Provided By (Used In) Operating Activities	(1,455,744)	(282,462)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash Payment From Franklin County	-	-
Contributed Services	174,079	-
Net Cash Provided By (Used In) Noncapital Financing Activities	174,079	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Net Changes in Due to Other Funds	460,000	-
Interest Paid	-	-
Net Cash Used In Capital and Related Financing Activities	460,000	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property, Plant, and Equipment	(76,175)	-
Interest Received	295	3,939
Net Cash Provided By (Used In) Investing Activities	(75,880)	3,939
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(897,545)	(278,523)
Cash and Cash Equivalents-Beginning of the Year	901,499	1,728,661
Cash and Cash Equivalents-End of the Year	\$ 3,954	1,450,138
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss) From Operations	\$ (633,926)	(282,653)
Adjustments to Reconcile Net Income (Loss) from Operations to Net Cash Provided By (Used In) Operating Activities:		
Depreciation and Amortization	136,700	-
Allowance for Bad Debt	11,983	-
(Increase) Decrease in Accounts Receivable	(941,025)	-
Increase in Inventory	23,502	-
(Increase) Decrease in Prepaids	(221)	-
Increase in Accounts Payable	35,585	-
Increase in Accrued Payroll and Payroll Taxes	16,292	191
Increase (Decrease) in Due To/From Third Party Payors	(104,385)	-
Increase (Decrease) in Accrued Expenses	(249)	-
Net Cash Provided by (Used In) Operating Activities	\$ (1,455,744)	(282,462)

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

**COUNTY OF FRANKLIN
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF DECEMBER 31, 2012**

	Private- Purpose Trusts	Agency
ASSETS		
Cash and Cash Equivalents	\$ 2,387	1,857,858
Total Assets	<u>2,387</u>	<u>1,857,858</u>
LIABILITIES		
Other Liabilities	-	1,857,858
Total Liabilities	<u>-</u>	<u>1,857,858</u>
NET ASSETS		
Held In Trust For Other Purposes	\$ <u>2,387</u>	<u>-</u>

**COUNTY OF FRANKLIN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Private- Purpose Trusts
ADDITIONS	
Miscellaneous Local Sources	\$ 55,349
DEDUCTIONS	
Home and Community Services	<u>56,331</u>
Change in Net Assets	(982)
Net Assets-Beginning of the Year	<u>3,369</u>
Net Assets-End of the Year	<u>\$ 2,387</u>

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

COUNTY OF FRANKLIN
STATEMENT OF NET POSITION
COMPONENT UNITS
AS OF DECEMBER 31, 2012 AND JUNE 30, 2012

	IDA December 31, 2012	CDC December 31, 2012	SWMA June 30, 2012	RLWPD December 31, 2012	Total
ASSETS					
Cash and Cash Equivalents	\$ 743,285	14,353	171,324	5,616	934,578
Restricted Cash and Cash Equivalents	-	-	6,008,072	-	6,008,072
Restricted Investments	-	-	2,558,792	-	2,558,792
Other Receivables, Net	1,550,352	-	506,388	-	2,056,740
Other Assets	-	-	51,217	-	51,217
Land	154,794	-	433,809	-	588,603
Fixed Assets, Net of Depreciation	1,339,692	-	4,239,752	9,020	5,588,464
Capitalized Preoperational and Financing Costs, Net	-	-	2,070,251	-	2,070,251
Total Assets	3,788,123	14,353	16,039,605	14,636	19,856,717
LIABILITIES					
Accounts Payable	1,455,824	-	954,870	-	2,410,694
Accrued Liabilities	28,233	-	44,897	-	73,130
Other Liabilities	-	-	2,309,369	-	2,309,369
Long-Term Liabilities					
Due and Payable Within One Year	645,692	-	2,835,701	-	3,481,393
Due and Payable After One Year	-	-	9,712,930	-	9,712,930
Total Liabilities	2,129,749	-	15,857,767	-	17,987,516
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	848,793	-	-	9,020	857,813
Restricted Net Assets	-	-	-	-	-
Unrestricted Net Assets (Deficit)	809,581	14,353	181,838	5,616	1,011,388
Total Net Assets	\$ 1,658,374	14,353	181,838	14,636	1,869,201

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

COUNTY OF FRANKLIN
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND JUNE 30, 2012

Functions/Programs Business-Type Activities:	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-Type Activities				
					IDA	CDC	SWMA	RLWPD	Total
IDA (FYE 12/31/12) Administration	\$ 3,983,561	45,708	3,670,455	-	(267,398)				(267,398)
CDC (FYE 12/31/12) Administration	\$ 90,335	85,785	-	-		(4,550)			(4,550)
SWMA (FYE 6/30/12) Landfill Operations	11,755,181	11,415,594	-	-			(339,587)		(339,587)
RLWPD (FYE 12/31/12) Water District Operations	3,667	-	-	-				(3,667)	(3,667)
Total Component Units	\$ 15,832,744	11,547,087	3,670,455	-					(615,202)
General Revenues (Expenses):									
					-	-	-	-	-
Payments from Franklin County					-	-	-	2,000	2,000
Water District Tax Revenues					90,000	-	-	-	90,000
CDC Grant					38,389	-	-	-	38,389
Gain on Land					200	22	97,061	-	97,283
Restricted Investment Earnings					128,589	22	97,061	2,000	227,672
Total General Revenues					(138,809)	(4,528)	(242,526)	(1,667)	(387,530)
Change in Net Assets					1,797,183	18,881	424,364	16,303	2,256,731
Net Assets-Beginning of the Year (Adjusted)					1,658,374	14,353	181,838	14,636	1,869,201
Net Assets-End of the Year				\$					

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

**COUNTY OF FRANKLIN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Franklin have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. FINANCIAL REPORTING ENTITY

The County of Franklin, which was incorporated in 1808, is governed by County Law and other general laws of the State of New York and various local laws. The Franklin County Legislature, which is the legislative body responsible for the overall operation of the County of Franklin, consists of seven legislators. The Chairman of the Board serves as chief executive officer, the County manager serves as the chief operations officer, and the County treasurer serves as chief fiscal officer.

The financial reporting entity includes organizations, functions, and activities over which elected officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

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

The financial reporting entity consists of (a) the primary government which is the County of Franklin, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement No. 14 and 39.

The decision to include a potential unit in the County of Franklin's reporting entity is based on several criteria set forth in GASB Statement No. 14 and 39 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the County of Franklin's reporting entity.

1. Included in the Reporting Entity:

a. Soil and Water Conservation District

The Franklin County Legislature has declared the County to be a Soil and Water Conservation District in accordance with provisions of the Soil and Water Conservation District Law. Significant factors requiring inclusion of the Soil and

Water Conservation District in the County of Franklin's reporting entity are as follows:

- i. Members of the Board of Directors are appointed by the County Legislature.
- ii. Administrative costs of the Soil and Water Conservation District are provided primarily through County appropriations.
- iii. The County Legislature retains general oversight responsibilities, including monitoring Soil and Water Conservation District activities, through detailed reporting to the County Legislature by the district directors of its work and transactions in such form and for such periods as the Legislature may direct.

The Soil and Water Conservation District is a component unit, part of the primary government, and reported as a special revenue fund type.

b. Franklin County Nursing Home

The Franklin County Nursing Home is an operating unit of the County of Franklin. The Nursing Home is a discretely blended component unit. It is part of the primary government and reported as a proprietary fund type.

c. Franklin County Industrial Development Agency

Franklin County Industrial Development Agency is a public benefit corporation, created by the Franklin County Board of Legislators in 1970 under the provisions of Chapter 18A, encouraging economic growth and the state legislation to promote the economic welfare, recreation opportunities, and prosperity of the County's inhabitants. The Franklin County Industrial Development Agency is exempt from federal, state, and local taxes. Although the Agency was established by the Franklin County Board of Legislators, it is considered a separate entity and operates independently. Members are appointed by a municipal governing body and exercise oversight responsibility. The members have complete responsibility for management of the Agency and accountability for its fiscal matters. The Franklin County Industrial Development Agency is considered a component unit of the County of Franklin and is discretely presented.

d. Franklin County Civic Development Corporation

The Corporation was created on June 23, 2010 by the Franklin County Board of Legislators under the provisions of Chapter 18A encouraging economic growth in Franklin County, New York. The Corporation is exempt from federal, state and local income taxes. The Corporation, although established by the Franklin County Board of Legislators, is a separate entity and operated independently of Franklin County. The Franklin County Civic Development Corporation is considered a component unit of the County of Franklin and is discretely presented.

e. County of Franklin Solid Waste Management Authority

The County of Franklin Solid Waste Management Authority was created as a public benefit corporation under New York State Public Authorities Law Sec. 2041, Title 13-AA, Chapter 665 of the Laws of 1988 by the New York State Legislature, with powers to, among other things:

- i. plan, develop, and construct solid waste management facilities;
- ii. acquire interest in real and personal property and dispose of them;
- iii. receive, transport, process, dispose of, sell, store, convey, recycle, and deal with solid waste and energy generated by operation of a solid waste management facility;
- iv. contract with governments, including the County of Franklin and local governments within the County, in relation to its activities;
- v. borrow money and issue bonds; and
- vi. fix and collect rates, rentals, fees, and other charges for the use of the facilities of, or services rendered by, or any commodities furnished by, the Authority.

The Solid Waste Management Authority's Board is comprised of seven members appointed by the Legislature of Franklin County. The Authority is considered a component unit of the County and is discretely presented.

f. Rainbow Lake Water Protection District

The Rainbow Lake Water Protection District was created by New York County Law Section 264(A) on September 9, 1993, to provide a method of levying assessments on landowners within the District, all of whom are benefited from the Lake Kushaqua Dam and to provide for the study, maintenance, administration and ultimate replacement of the dam as well as to monitor the lake levels but not the quality of the water.

The Franklin County Legislature appoints seven Commissioners of the district. Five of the Commissioners are residents of the District. Of the remaining two commissioners, one is a County employee and the other is an employee of the Department of Environmental Conservation. There is no salary or compensation related to serving as a commissioner. Each commissioner is appointed to a four year term. The Rainbow Lake Water Protection District is considered a component unit of the County and is discretely presented.

Complete financial statements of individual component units can be obtained from their respective administrative offices located in Malone, New York.

2. Other Organizations Not Included in Reporting Entity

The Clinton-Essex-Franklin Library System and the North Country Community College are activities undertaken jointly with other municipalities and are excluded from these financial statements. See Note IV for additional disclosure regarding these joint ventures.

B. BASIS OF PRESENTATION

1. Government-Wide Statements

The Statement of Net Assets and the Statement of Activities present financial information about the County of Franklin's government-wide activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double

counting of internal transactions. Individual funds are not displayed, but the statements distinguish governmental activities generally financed through taxes, state aid, intergovernmental revenues, and other exchange and nonexchange transactions from business-type activities generally financed in whole or in part with fees charged to external customers. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the County's government-wide activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Accounting

The County of Franklin uses funds to report on its financial position and the results of its operations. Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The County's records its transactions in the fund types described below.

Fund Categories

- a. 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 the determination of financial position and changes in financial position (sources, uses, and balances of current financial resources). The following are the County's governmental fund types.

General Fund (Major Fund)

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

Special Revenue Funds (Nonmajor Funds)

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The Special Revenue Funds of the County include the following:

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

- ii. Road Machinery Fund - is used to account for the purchase, repair, maintenance, and storage of highway machinery, tools, and equipment pursuant to Section 133 of the Highway Law.
- iii. Special Grant Fund - is used to account for funds received under the Workforce Investment Act. The program includes revenues for and expenditures to subrecipients.
- iv. Soil and Water Conservation District - is used to account for activities performed pursuant to the Soil and Water Conservation Districts Law.

Debt Service Funds (Nonmajor Funds)

Debt Service Funds account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on general obligation long-term debt. Debt Service funds are used when legally mandated and for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness.

Capital Projects Fund (Nonmajor Fund)

The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for the acquisition or construction, or renovation of capital facilities and other capital assets other than those financed by the proprietary funds.

- b. **Proprietary Fund Statements-** used to account for ongoing organizations or activities which are similar to those often found in the private sector. The measurement focus is upon the determination of operating income, Changes in net assets, financial position, and cash flows. The following proprietary funds are utilized.

Enterprise Funds- used to account for operations (a) where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis be financed and recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate. Included are the following operations:

- i. County Home and Infirmary - The Franklin County Nursing Home follows the accounting and reporting requirements contained in the *New York State Residential Health Care Facility Accounting and Reporting Manual* issued by the New York State Department of Health. The accounting principles and concepts described in the *Hospital Audit Guide* of the American Institute of Certified Public Accountants serve as the foundation for this manual.
- ii. Internal Service Fund - is used to account for the workers' compensation benefits program. This is a proprietary fund reported with governmental activities in the governmentwide statements.

Workers' Compensation Fund - is used to account for the accumulation of resources for payment of compensation, assessments, and other obligations under the Workers' Compensation Law, Article 5.

- c. **Fiduciary Fund Statements** - used to account for assets held by the local government in a trustee or custodial capacity.

Trust and Agency funds are used for the purpose of accounting for money and property received and held in the capacity of trustee, custodian, or agent. Securities pledged by banking institutions to secure funds on deposit are not included herein since such securities are not assets of the governmental reporting entity.

Expendable Trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

- d. **Discrete Presentation**

Franklin County Industrial Development Agency

Resources received and used for economic development are accounted for in the Industrial Development Agency. The agency's financial statements are presented in separate columns in the combined financial statements and accounted for as a proprietary fund type.

Franklin County Civic Development Corporation

Resources received and used for economic development are accounted for in the Civic Development Corporation. The Corporation's financial statements are presented in separate columns in the combined financial statements and accounted for as a proprietary fund type.

County of Franklin Solid Waste Management Authority

The Solid Waste Management Authority's financial statements are prepared using the accrual basis in accordance with generally accepted accounting principles for public authorities. The Authority's financial statements for the year ended June 30, 2012, are presented in a separate column in the combined financial statements and accounted for as a proprietary fund type.

Rainbow Lake Water Protection District

The District's financial statements are presented in separate columns in the combined financial statements and accounted for as a proprietary fund type.

C. BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e., expenditures or expenses.

The financial statements of the County of Franklin are prepared in accordance with generally accepted accounting principles (GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide, proprietary fund, and component unit financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The County-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction took place. Nonexchange transactions, in which the County of Franklin gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Modified Accrual Basis - All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County of Franklin considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year, except for real property taxes, which are considered to be available if they are collected within 60 days after the end of the year.

Accrual Basis - Proprietary funds and component units are accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred. Capital assets and long-term liabilities related to these activities are recorded within the funds.

Operating income or loss reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales and services provided. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the County's policy to use unrestricted resources first, and then restricted resources as needed.

Allocation of Indirect Expenses

The County of Franklin allocates indirect expenses primarily composed of central governmental services to operating functions and programs benefitting from those services. Central services include overall County management, centralized budgetary formulation and oversight, accounting, financial reporting, payroll, procurement, contracting and oversight, investing and cash management, personnel services, and other central

administrative services. Allocations are charged to programs based on use of service determined by various allocation methodologies. These charges are reported in the statement of activities.

Component Units

- a. The Franklin County Industrial Development Agency's financial statements have been prepared in conformity with generally accepted accounting principles for industrial development agencies.
- b. The Franklin County Civic Development Corporation's financial statements have been prepared in conformity with generally accepted accounting principles.
- c. The County of Franklin Solid Waste Management Authority's financial statements are prepared using the accrual basis in accordance with generally accepted accounting principles for public authorities. The Authority follows the guidelines provided by the Financial Accounting Standards Board (FASB) except for those that conflict with or contradict Government Accounting Standards Board (GASB) pronouncements.
- d. The Rainbow Lake Water Protection District's financial statements are prepared using the accrual basis as an enterprise fund which means that the financial statements are prepared as if the district were an independent nonprofit organization.

D. BUDGETARY DATA

1. Budget Policies

The County of Franklin's budget policies are as follows:

- a. No later than October 1, the budget officer submits a tentative budget to the County Board of Legislators for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for the General Fund and Special Revenue Funds.
- b. After public hearings are conducted to obtain taxpayer comments, but no later than December 20, the Board of Legislators adopts the County budget.
- c. The budget officer is authorized to transfer certain budgeted amounts within departments or within a fund; however, all revisions that alter total appropriations of any department or fund must be approved by the Board of Legislators.
- d. Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects which remain in effect for the life of the project. Budgets are prepared for proprietary funds primarily to establish the estimated contribution required from other funds.

2. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the General and Special Revenue Funds. Encumbrances are reported as restricted, commitments, or assignments of fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. All unencumbered budget appropriations lapse at the end of each fiscal year.

E. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. ASSETS, LIABILITIES AND FUND EQUITY

1. Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand and savings instruments with an original maturity of less than three months.

2. Investments

The County of Franklin invests in authorized investment pools, funds, and U.S. Government Securities. Investments are carried at fair value. Management's intent is to hold all investments to maturity.

The County of Franklin Solid Waste Management Authority's restricted investments consist of marketable equity securities held by the bond trustee. The authority has entered into a repurchase agreement with regard to the 1995, 2000, and 2003 Debt Service Revenue Funds.

3. Receivables

All receivables of the primary government are reported at their settlement amount and, when appropriate, are reduced by the estimated portion that is expected to be uncollectible. Past-due accounts receivable of the Franklin County Industrial Development Agency, referred to below, are deemed immaterial to the financial statements of the reporting entity.

The County of Franklin Solid Waste Management Authority and the Franklin County Nursing Home consider accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If, in the future, management determines that amounts may be uncollectible, an allowance will be established and operations will be charged when that determination is made.

Bad debts are recognized by the Franklin County Industrial Development Agency in the year in which they are determined uncollectible. The Agency did not experience any loan charge-offs during the year ended December 31, 2012. No provision has been made for uncollectible accounts as required by generally accepted accounting principles.

4. Due to and Due from Other Funds

The amounts reported on the Statement of Net Assets for due to and due from other funds represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these notes.

5. Inventory

Inventory is valued at cost utilizing the first-in, first-out method in the General Fund. Inventory is stated at the lower of cost or market in the Enterprise Fund.

6. Capital Assets

Capital assets are recorded at actual (historical) or estimated historical cost. Land and vehicles were recorded at historical cost. Leased equipment was recorded at the present value of the minimum lease payments at the inception of the lease. In the case of gifts and contributions, the fair market value at the time received was used. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, ranging from 3 to 40 years, as follows:

	Estimated Useful Lives	Capitalization Threshold
Buildings	40 years	\$1,000
Infrastructure	20 years	\$1,000
Improvements	15 years	\$1,000
Furniture, Fixtures, and Equipment	3-7 years	\$1,000

Capital assets are stated at cost for the Franklin County Nursing Home, the Franklin County Industrial Development Agency, and the Rainbow Lake Water Protection District. Depreciation is provided by the straight-line method at rates sufficient to recognize the cost of such assets over their estimated useful lives.

Property, plant and equipment are also recorded at cost for the County of Franklin Solid Waste Management Authority. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited or charged to operations.

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives on the straight-line basis, except for the landfill cell, which is depreciated based on capacity used. The estimated lives used in determining depreciation for property, plant and equipment (other than the landfill cell) vary from five to twenty years.

7. Patient Trust Fund

The Enterprise Fund (Nursing Home), as trustee, holds patient funds in an escrow account. This account is maintained by Franklin County. These funds are expended at the direction of the patients for personal items.

8. Deferred Revenue

Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the County of Franklin before they have a legal claim to them, such as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the County of Franklin has legal claim to the resources, the liability for deferred revenues is removed and revenues are recognized.

Deferred revenue in the General Fund consists of taxes, which are included in taxes receivable. These taxes receivable will not be collected within 60 days after the year end. Consequently, they are classified as deferred revenue.

Loan repayments of Department of Housing and Urban Development funds are recorded as miscellaneous revenue when received by the Franklin County Industrial Development Agency.

9. Environmental and Closure Accruals

State and federal laws and regulations require that the County of Franklin Solid Waste Management Authority place a final cap on its landfills when closed and perform certain maintenance and monitoring functions at the landfill sites after closure.

The Authority maintains a reserve for closure of the regional landfill as established in the 1993 Series Bond Agreement. The balance in the reserve totaled \$1,921,323 at June 30, 2012. These funds are reported herein as restricted cash equivalents and investments.

The Authority's policy regarding closure and monitoring costs for its landfills is to accrue these costs and charge them to expense over the useful operating life of each landfill. Management believes this policy accurately matches closure and monitoring costs against revenues generated by each landfill. The accrual is based on the percentage of total landfill capacity used as of the end of each year, multiplied by the total estimated closure and monitoring costs. These estimates are generated by management, with assistance from an independent consulting and engineering firm.

10. Fair Value of Financial Instruments

For the Franklin County Solid Waste Management Authority, the carrying values of cash and cash equivalents, investments, accounts receivable, accrued interest, accounts payable and current portion of long-term debt and bonds payable approximate fair market value because of the short maturity of those instruments. The carrying values of the Authority's long-term debt and bonds payable approximate market value, as terms of the debt reflect current market rates and terms.

11. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as due within one year. The remaining portion of such obligations is reported as a liability in the governmental activity and due in more than one year. Long-term liabilities expected to be financed from proprietary fund or component unit operations are accounted for within those funds.

12. Fund Balance

There are five classifications of fund balance in the Fund Balance Statements:

a. Non-Spendable:

The non-spendable fund balances include amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the General Fund and County Road Fund. Also includes Prepaid Retirement Costs recorded in the General Fund.

b. Restricted:

The restricted fund balances include amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or law or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balances. The County has established the following restricted fund balances:

Unemployment Insurance Reserve

This reserve is used to accumulate funds to pay the cost of reimbursement to the New York State Unemployment Insurance Fund for payments made to claimants. Excess reserve amounts may be either transferred to another reserve or applied to the appropriations of the succeeding year's budget. The reserve is accounted for in the General Fund.

Health Insurance Reserve

This reserve is used to accumulate funds to pay the cost of the self-insured health insurance plan. Excess reserve amounts may be either transferred to another reserve or applied to the appropriations of the succeeding year's budget. The reserve is accounted for in the General Fund.

Tax Stabilization Reserve

This reserve is used to finance an unanticipated revenue loss or an unanticipated expenditure chargeable to the eligible portion of the annual budget. This reserve may be used to lessen or prevent projected increases in excess of 2.5 percent of

the real property tax levy needed to finance the eligible portion of the annual budget.

The contingency and tax stabilization reserve fund is limited to a balance not to exceed 10 percent of the eligible portion of the annual budget. This reserve is accounted for in the General Fund.

Reserve for Retirement

This reserve is used to accumulate funds for future payments of retirement contributions. The reserve is accounted for in the General Fund.

Capital Reserve

This reserve is used to accumulate funds to finance all or a portion of future capital projects for which bonds may be issued. Voter authorization is required for both the establishment of the reserve and payments from the reserve. The reserve is accounted for in the Capital Fund. The County has also designated a Capital reserve in the General fund for mortgage tax receipts received to be used for capital improvements with regards to County owned property.

c. Committed:

The committed portion of the fund balance includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the Board. The County committed \$1,000,000 of its fund balance as of December 31, 2012 for the cost of a natural gas pipeline expansion into Franklin County.

d. Assigned:

The assigned portion of the fund balance includes amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the General Fund and Special Revenue Funds are classified as Assigned Appropriated Fund Balance. The reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year to be potentially expended in the subsequent year. The E911 Reserve and Stop DWI are also included in the assigned unappropriated fund balance as noted by New York State. \$0 has been designated in the General Fund as the amount estimated to be appropriated to reduce taxes for the subsequent year.

e. Unassigned:

The unassigned portion of the fund balance includes all other General Fund net assets that do not meet the definition of the above four classifications and are deemed to be available for general use by the County.

Order and Use of Fund Balance:

The County's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than

the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance. The unassigned portion of the fund balance includes all other General Fund net assets that do not meet the definition of the above classification and are deemed to be available for general use by the County.

13. Net Position

The governmental and business-type activities utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position not restricted for any project or other purpose.

G. REVENUES AND EXPENDITURES

1. Real Property Taxes

County real property taxes are levied annually no later than December 31 and are due and become a lien on January 1. Taxes are collected during the period January 1 to March 31. Taxes for County purposes are levied together with taxes for town and special district purposes as a single bill. The towns and special districts receive the full amount of their levies annually out of the first amounts collected on the combined bills. The County of Franklin assumes enforcement responsibility for all taxes levied in the towns.

The County of Franklin has adopted an installment plan for delinquent taxes. After taxes are turned over by the town to the County, land owners can enroll in the installment plan having a minimum 25 percent down payment of all delinquent taxes and paying monthly installments plus interest on the remaining 75 percent. This procedure includes the County's withdrawal of foreclosure on the property. The County has also adopted an partial payment plan with a minimum of a \$100 payment for delinquent and current taxes.

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

2. Patient Service Income

The Franklin County Nursing Home reports patient service income at the estimated net realizable amounts from residents, third-party payors, and others for services rendered.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and final settlements are reported in operations in the year of settlement. Approximately 90 percent of the patient service income is derived from the Medicare and Medicaid programs.

3. Interfund Transactions

The Franklin County Nursing Home participates in a Countywide plan for general and workers' compensation insurance coverage. The nursing home also participates in a countywide plan that allocates overhead costs for central, personnel, and data processing services.

4. Revolving Funds: Industrial Development Agency

The Franklin County Industrial Development Agency has established a revolving loan fund offering low-interest loans to area businesses. The loans are approved by the governing board after giving consideration to the major criteria, i.e., enhancement of the economic environment. Revenue recognition on these loans is limited to the receipt of interest.

5. Industrial Revenue Bond and Note Transactions

Certain industrial development revenue bonds and notes issued by the Franklin County Industrial Development Agency are secured by property which is leased to companies and is retired by lease payments. The bonds and notes are not obligations of the Agency or the State of New York. The Franklin County Industrial Development Agency does not record the assets or liabilities resulting from completed bond and note issues in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond and note holders, and funds arising therefrom are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fee income is recognized immediately upon issuance of bonds and notes.

6. Insurance

Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

7. Vacation and Sick Leave and Compensatory Absences

County employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an

employee is entitled to payment for accumulated vacation, sick leave, and unused compensatory absences. Payment to employees is determined by various rates and is subject to certain limitations.

Estimated vacation and sick leave and compensatory absences accumulated by governmental fund-type employees have been recorded as long-term debt in the governmentwide funds, and for business-type employees they are recorded as an expense when earned in the proprietary fund types.

Payment of vacation and sick leave recorded as long-term debt is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation and sick leave and compensatory absences when such payments become due. The liability for compensated absences is disclosed in Note IV(B)(3)(a).

8. Post-Retirement Benefits

In addition to providing pension benefits, the County of Franklin provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the County's employees may become eligible for these benefits if they reach normal retirement age while working for the County. In 2012 the County pays a third party provider for all retirees over 65 years of age as supplemental insurance. The premiums are paid by the retired employees and are used to offset the cost incurred by the County. The County of Franklin had 76 retirees participating in the County Plan and 139 in the supplemental plan as of December 31, 2012. In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postretirement benefits expenses/expenditures and related liabilities (assets), note disclosures and required supplementary information in the financial reports of state and local government employees. The provisions of this Statement are effective for the County for periods beginning after December 15, 2007, but the County early implemented the statement in 2007. The County has had an actuarial calculation of the liability. The County will amortize the liability over 30 years.

9. Brownfield Grant

The Industrial Development Agency through the New York State Department of Environmental Conservation, has received a Brownfield Grant to evaluate its Bombay facility. The State will match up to 90% of the cost of the study. Upon the future sale or disposal of the site, New York State will be required to be repaid after the Agency recoups its 20% of costs. As of December 31, 2012, costs have been reimbursed by New York State in the amount of \$249,495.

H. New Accounting Standards

- GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that

previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure.

- GASB Statement No. 63 -"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and inflows are the consumption and acquisition of net assets by a governmental entity that is applicable to a future reporting period. This statement amends the net asset reporting requirements in Statement No. 34 -"Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

I. Accounting Standards Issued But Not Yet Implemented

- GASB Statement No. 65 -"Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning January 1, 2013 for the County. This statement is not expected to have a material effect on the financial statements of the County.
- GASB Statement No. 66 -"Technical Corrections -2012 -an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. Statements No. 54 -"Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62 -"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning January 1, 2013 for the County. This statement is not expected to have a material effect on the financial statements of the County.

- GASB Statement No. 67 -"Financial Reporting for Pension Plans -an Amendment of GASB Statement No. 25" replaces existing standards for financial reporting and note disclosure for most pension plans that are administered through trusts or equivalent arrangements. The statement specifies the required approach for measuring the pension liability of all employers and nonemployer contributing entities participating in a pension plan and details required note disclosures for financial reporting. The requirements of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning January 1, 2014 for the County. This statement is not expected to have a material effect on the financial statements of the County.
- GASB Statement No. 68 -"Accounting and Financial Reporting for Pensions -an Amendment of GASB Statement No. 27" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. The requirements of this statement are effective for periods beginning after June 15, 2014, which is the fiscal year beginning January 1, 2015 for the County. This statement is not expected to have a material effect on the financial statements of the County.
- GASB Statement No. 69 -"Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. This statement is not expected to have a material effect on the financial statements of the County.
- GASB Statement No. 70 – "Accounting and Financial Reporting for Non-exchange Financial Guarantees" requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement specifies the information required to be disclosed by governments that extend non-exchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. This statement is not expected to have a material effect on the financial statements of the County.

NOTE II - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND COUNTY-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the County-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A. TOTAL FUND BALANCES OF GOVERNMENTAL FUNDS VS. NET ASSETS OF GOVERNMENTAL ACTIVITIES

Total fund balances of the County of Franklin's governmental funds differ from "net assets" of governmental activities reported in the Statement of Net Assets. This difference primarily results from the additional long-term economic focus of the Statement of Net Assets versus the solely current financial resources focus of the governmental fund balance sheets.

The costs of building and acquiring capital assets (lands, buildings and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Assets includes those capital assets among the assets of the County as a whole, and their original costs are expensed annually over their useful lives.

Original Cost of Capital Assets	\$ 97,566,011
Accumulated Depreciation	<u>(48,740,774)</u>
	<u>\$ 48,825,237</u>

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets are taxes receivable that are offset by deferred revenue in the governmental funds, and consequently are not included in fund balance.

Adjustment of Deferred Tax Revenue	<u>\$ 13,997,223</u>
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Long-term liabilities are reported in the Statement of Net Assets, but not in the governmental funds, because they are not due and payable in the current period. Balances at year end were:

	Due in One Year	Due After One Year	Total
Bonds Payable	\$ 505,000	3,605,000	4,110,000
Compensated Absences	99,540	895,861	995,401
Post Employment Benefit Obligations	<u>1,143,204</u>	<u>17,979,749</u>	<u>19,122,953</u>
	<u>\$ 1,747,744</u>	<u>22,480,610</u>	<u>24,228,354</u>

As indicated in Note 1, the amounts reported on the Statement of Net Assets for due to and due from other funds represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts

due to and due from within the same fund type. A summary of governmental interfund receivable/payable eliminations is as follows:

	Interfund Receivable	Interfund Payable
General Fund	-	1,180,396
Special Revenue Fund	1,816,611	8,401
Capital Project Fund	-	627,814
	<u>\$ 1,816,611</u>	<u>1,816,611</u>

Interest on short- and long-term debt is recorded as an expenditure in governmental funds when it is due, and thus requires the use of current financial resources. On the Statement of Net Assets, interest is recognized as it accrues, regardless of when it is due. A summary of additional accrued interest on debt as of December 31, 2012 is as follows:

Serial Bonds	<u>\$ 21,253</u>
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B. STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE VS. STATEMENT OF ACTIVITIES

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

1. Long-Term Revenue Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

2. Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

3. Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Assets.

Differences between the governmental funds Operating Statement and Statement of Activities

Total Revenue and Other Funding Sources of Governmental Funds

Total revenue and other funding sources of governmental funds	\$ 96,893,321
Because property taxes will not be collected for several months after the County's year end, they are not considered as "available" revenues in the governmental funds.	1,913,123
Net revenues of certain internal service funds are reported with governmental activities on the Statement of Activities, net of intercompany charges.	66,896
Elimination of interfund revenue from governmental funds:	
Intergovernmental Charges - SWMA	(5,997,360)
Interdepartmental Revenue	(5,147,260)
Interfund transfers In	(6,050,874)
Interfund transfers Out	6,050,874
	<u> -</u>
Total revenues and other funding sources of governmental activities in the Statement of Activities	<u>\$ 87,728,720</u>

Total Expenditures Reported in Governmental Funds

Total expenditures reported in governmental funds	\$ 97,098,343
In the Statement of Activities, certain operating expenses (compensated absences) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The estimated liability for compensated absences was less than payments by \$58,752	(58,752)
When the purchase or construction of capital assets is financed through governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$4,324,498 and loss on disposal of equipment of \$79,471 did not exceed capital expenditures of \$7,538,570 in the current year.	(3,134,600)
Repayment of bond principal debt and long term lease are expenditures in the governmental funds, but they reduce long term liabilities in the Statement of Net Assets, and do not affect the Statement of Activities	(1,340,000)
Net operating expenses of certain internal service funds are reported with governmental activities on the Statement of Net Assets, less corresponding intercompany charges.	345,610
Home and Community Services -SWMA advances which are offset by intergovernmental charges	(5,997,360)
Interdepartmental Expenses	(5,147,260)
Estimated net Other Post Employment Benefits Obligation for 2012	2,327,070
Interest on long term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The net interest reported in the Statement of Activities is the result of accrued interest on bonds payable.	(8,718)
Total expenses of governmental activities	<u>\$ 84,084,333</u>

NOTE III - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

DEFICIT FUND BALANCE AND RETAINED EARNINGS

Component Unit: Solid Waste Management Authority

Deficit retained earnings is due to prior-year net losses, which include noncash expenses for depreciation of fixed assets and amortization of capitalized pre-operational and financing costs.

NOTE IV - DETAIL NOTES ON ALL FUNDS AND COMPONENT UNITS

A. ASSETS

1. Cash, Restricted Cash and Investments

The County investment policies are governed by state statutes. In addition, the County has its own written investment policy. County monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The County Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 100 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

a. Cash and Deposits

The County's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the County based upon how its deposits were insured or secured with collateral at December 31, 2012. The categories of credit risk are defined as follows:

Category 1 - Insured by FDIC or collateralized with securities held by the County or by its agent in the County's name.

Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the County's name.

Category 3 - Uninsured and uncollateralized.

Custody Credit Risk Category					
Type of Deposit	Total Bank Balance	1	2	3	Total Carrying Value
Demand Deposits	\$ 5,053,474	2,574,746	2,478,728	-	2,410,260
Time Deposits	4,340,387	477,915	3,862,472	-	4,262,357
Cash on Hand	-	-	-	-	35,363
Total Deposits	<u>\$ 9,393,861</u>	<u>3,052,661</u>	<u>6,341,200</u>	<u>-</u>	<u>6,707,980</u>

Reconciliation to the Statement of Net Assets and Fiduciary Fund:

Unrestricted Cash, including Time Deposits - Governmental Activity	\$ 3,189,140
Unrestricted Cash, including Time Deposits - Business-Type Activity	3,954
Restricted Cash, including Time Deposits	1,654,641
Fiduciary Fund Cash, including Time Deposits	<u>1,860,245</u>
	<u>\$ 6,707,980</u>

b. Investment Pool

The County of Franklin participates in a multi-municipal cooperation investment pool agreement pursuant to New York State General Municipal Law Article 5-G, Section 119-0, whereby it holds a portion of the investments in cooperation with other participants. At December 31, 2012, the County held \$0 in investments.

The investment pool is categorically exempt from the New York State collateralization requirements.

c. Restricted Assets

Governmental funds report restricted assets for cash deposited in bank accounts legally restricted for specified uses such as Emergency 911, unemployment and health insurance, county road projects, and bonded debt.

The following is a detail of restricted assets of the component unit Solid Waste Management Authority as of June 30, 2012:

Cash and Cash Equivalents	\$ 6,008,072
Investments, Restricted	2,558,792
Accrued Interest on Restricted Bonds	<u>16,302</u>
	<u>\$ 8,583,166</u>

Restricted cash and cash equivalents are held in money market funds and are legally restricted in use and purposes by the Authority bond document.

Investments are presented at cost which approximates current market value or the value at the date management anticipates liquidating the investment. Restricted investments consist of marketable securities held by the bond trustee. These investments will be liquidated and expended for the construction and acquisition of

capital assets, bond interest and principal payments, and environmental and closure costs in accordance with the bond trust indentures.

The Authority has entered into a repurchase agreement. The agreement requires collateralization of cash at 100 percent and securities at 103 percent. Approximately \$2,000,000 relating to the 1995, 2000 and 2003 Debt Service Reserve funds were subject to the agreement. The funds can be repurchased on demand to provide for shortfall in regularly scheduled payments of principal and interest on the bonds. The funds cannot be repurchased for reinvestment. The final repurchase date is April 1, 2015.

The Authority is required by local law to collateralize any of its cash deposits that are in excess of the Federal Deposit Insurance Corporation limit. There were no deposits that exceed the FDIC insurance at June 30, 2012.

All of the Solid Waste Management Authority's investments are either registered in the Authority's name or held in trust by a third-party custodian in the Authority's name.

	Face Value	Unamortized Premium (Discount)	Total	Fair Market Value
US Treasury Bill	\$ 24,200	-	24,200	24,200
US Treasury Note	558,000	6,000	564,000	571,359
Tri-Party Repo Bond	846,065	-	846,065	846,065
Tri-Party Repo Bond	1,124,527	-	1,124,527	1,124,520
	<u>\$ 2,552,792</u>	<u>\$ 6,000</u>	<u>\$ 2,558,792</u>	<u>\$ 2,566,144</u>

2. Taxes Receivable

At December 31, 2012, real property tax assets of \$18,908,583 are reported net of the allowance for uncollectible taxes in the amount of \$154,668. Current-year returned village and school taxes of approximately \$4,589,924 are offset by liabilities to the villages and school districts, which will be paid no later than April 1, 2013. The remaining portion of tax assets, \$14,318,659, is offset by deferred tax revenue of \$13,997,223, which represents an estimate of the county tax liens that will not be collected within the first 60 days of the subsequent year. The deferred tax revenue is recorded as income in the GASB 34 reconciliation.

3. Other Receivables, Net

The following is a list of other accounts receivable as of December 31, 2012, which are stated at net realizable value. County management considers these amounts to be fully collectible, except for Not for Profit and PHN:

General Fund

Public Health Nurses, Net	\$ 889,935
Other Department Receivables	4,981,371
Allowance for Uncollectibles	(500,000)

Special Revenue Fund

CDBG Note Receivable	67,852
Road Machinery	27,452
Soil and Water	495
County Road	1,088

Internal Service Fund

Premiums	594
Assessments	278

Total Governmental Activities	5,469,065
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Enterprise Fund

Patients	1,854,208
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Total Business Activities	1,854,208
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IDA (Component Unit)

Miscellaneous Receivables	1,550,352
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SWMA (Component Units)

Accounts Receivable, Net	490,086
Accrued Interest	16,302

Total Component Units	\$ 2,056,740
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4. Changes in Capital Assets**a. Capital Assets**

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Non-depreciable</u>				
Land	\$ 145,493	-	-	145,493
Construction in Progress	800,616	5,036,014	(87,776)	5,748,854
<u>Depreciable</u>				
Buildings	23,898,442	-	-	23,898,442
Equipment	11,692,713	1,141,166	(626,241)	12,207,638
Roads	25,982,216	281,071	-	26,263,287
Bridges	28,134,204	1,168,093	-	29,302,297
Subtotal	90,653,684	7,626,344	(714,017)	97,566,011
Accumulated Depreciation	(44,963,046)	(4,324,498)	546,770	(48,740,774)
Total	<u>\$ 45,690,638</u>	<u>3,301,846</u>	<u>(167,247)</u>	<u>48,825,237</u>

Capital assets are stated at cost. Depreciation is provided by the straight-line method at rates sufficient to write-off the cost of such assets over their estimated useful lives.

Depreciation expense of \$4,324,498 was charged to the following functions on the Statement of Activities:

General Support	\$ 1,053,344
Public Safety	224,483
Health	78,705
Transportation	2,810,425
Economic Assistance and Opportunity	36,808
Culture and Recreation	200
Home and Community Service	120,533
Unallocated	-
Total	<u>\$ 4,324,498</u>

b. Franklin County Nursing Home

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Nondepreciable</u>				
Land	\$ 16,500	-	-	16,500
<u>Depreciable</u>				
Land Improvements	36,171	929	-	37,100
Buildings	1,711,712	16,096	-	1,727,808
Fixed Equipment	2,142,981	-	-	2,142,981
Movable Equipment and Vehicles	771,345	59,151	-	830,496
Subtotal	4,678,709	76,176	-	4,754,885
Accumulated Depreciation	(4,177,349)	(136,700)	-	(4,314,049)
Total	<u>\$ 501,360</u>	<u>(60,524)</u>	<u>-</u>	<u>440,836</u>

Capital assets are stated at cost. Depreciation is provided by the straight-line method at rates sufficient to write-off the cost of such assets over their estimated useful lives. Depreciation charged to operations for the year ended December 31, 2012 was \$136,700.

c. Franklin County Industrial Development Agency

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Nondepreciable</u>				
Land	\$ 170,027	-	(15,233)	154,794
<u>Depreciable</u>				
Buildings	1,767,443	-	-	1,767,443
Office Equipment	80,007	995	-	81,002
Subtotal	2,017,477	995	(15,233)	2,003,239
Accumulated Depreciation	(461,721)	(47,033)	-	(508,754)
Total	<u>\$ 1,555,756</u>	<u>(46,038)</u>	<u>(15,233)</u>	<u>1,494,485</u>

Capital assets are stated at cost. Depreciation is computed on a straight-line basis over the estimated useful life of the related asset. Depreciation charged to operations for the year ended December 31, 2012 was \$47,033.

d. Solid Waste Management Authority

	June 30, 2011	Additions/ Deletions	June 30, 2012
<u>Nondepreciable</u>			
Land	\$ 266,460	167,349	433,809
<u>Depreciable</u>			
Land Improvements	2,040,041	-	2,040,041
Landfill Cell	13,441,201	-	13,441,201
Buildings	3,000,658	-	3,000,658
Waste Disposal Equipment, Machinery and Vehicles	2,879,750	39,181	2,918,931
Subtotal	21,361,650	39,181	21,400,831
Less: Accumulated Depreciation	(15,752,074)	(1,409,005)	(17,161,079)
Total Property, Plant and Equipment	\$ 5,876,036	(1,202,475)	4,673,561

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives on the straight-line basis. The estimated lives used in determining depreciation for property and equipment vary from five to seven years. Depreciation expense for the period ended June 30, 2012, totaled \$1,411,920.

e. Rainbow Lake Water Protection District

The County of Franklin owns the Lake Kushaqua Dam which it acquired from the Rainbow Lake Association, Inc., for \$5,000. The dam is being depreciated over the term of the repayment of the obligation to the Rainbow Lake Association, Inc. During the fiscal year ended December 31, 2006, significant improvements to the dam were begun that entail the replacement of the slotted boards as the means to control the height of the dam with mechanical gates and safety railings that can respond faster to changes of water level in the lake. A schedule of the dam and its related accumulated depreciation as of December 31, 2012, is as follows:

Dam	\$ 5,000
Dam Improvements	12,190
Less Accumulated Depreciation	(8,170)
Dam, Net	\$ 9,020

Depreciation expense was \$610 for the year ended December 31, 2012.

5. Capitalized Engineering and Financing Costs

Solid Waste Management Authority

Engineering and financing costs relate to various initial start-up costs as well as those costs incurred prior to the Authority becoming fully operational.

A summary of capitalized engineering and financing costs at June 30, 2012, is as follows:

Construction and engineering costs	\$ 3,130,013
Discount on bonds payable	200,623
Bond, Issuance costs, including	
Underwriters' discount	743,229
Deferred amount on defeased 1993 bond	1,572,481
Expansion/Ton increase costs	<u>1,413,167</u>
Subtotal	7,059,513
Amortization	<u>(4,989,262)</u>
Capitalized engineering and	
Financing Costs, Net	<u>\$ 2,070,251</u>

Authority establishment costs are amortized over 20 years on a straight-line basis, beginning June 6, 1994, the date operations began. Financing costs and the deferred amount on the defeased 1993 bond are being amortized over the life of the bond using the straight-line method. The expansion/ton increase costs are being amortized over 6 years on a straight-line basis. Amortization expense related to the establishment and expansion costs and bond issue costs totaled \$288,554 for the year ended June 30, 2012. Amortization associated with bond defeasance and discounts, recorded as interest expense, was \$83,082 for the year ended June 30, 2012.

6. Other Assets

Organization Costs (Rainbow Lake Water Protection District)

At the time that the Rainbow Lake Water Protection District was created under New York County Law Section 264(A) by the Franklin County Legislature, the District had accrued financial obligations to its professional contractors and private sponsor in the fulfillment of all legal requirements for the creation of the District as well as obtaining the ownership of the dam. These obligations were as follows:

Franklin County Attorney Office	\$ 2,500
Smith, Dwyer & Bliss, P.C., Attorneys	12,467
Rainbow Lake Association, Inc.,	
Private Sponsor	<u>19,254</u>
Total Obligations	34,221
Less: Purchase of Dam	<u>(5,000)</u>
Total Organization Costs	29,221
Less: Accumulated Amortization	<u>(29,221)</u>
Total Other Assets (Net)	<u>\$ -</u>

As provided in the enabling legislation, reimbursement or repayment of the private sponsor and the contractors may not exceed a maximum amount of \$6,000 per year. The organization costs have been fully amortized.

B. LIABILITIES

1. Pension Plan

Plan Description

The County of Franklin, the Franklin County Nursing Home, and the Solid Waste Management Authority participate in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan. These are cost-sharing multiple-employer retirement systems. The plans provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. As set forth in the New York State Retirement and Social Security Law, the Comptroller of the State of New York serves as sole trustee and administrative head of the plans. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the plans and for the custody and control of their funds. The plans issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The plans are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3 percent of their salary. Employees in the system with more than ten years of service are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The County of Franklin is required to contribute at an actuarially determined rate. The required contributions for the current year and the two preceding years were:

	County of Franklin	NCCC	Franklin County Nursing Home	Solid Waste Management Authority
2012	\$ 2,846,179	328,773	525,906	142,216
2011	\$ 2,609,187	278,674	489,240	106,333
2010	\$ 1,962,804	193,733	355,241	56,710

The NCCC reimburses the County for its share of the retirement costs. Contributions made to the plans were equal to 100 percent of the contributions required for each year.

2. Deferred Revenue

The following are deferred revenues included in the general fund:

Deferred Taxes	\$ 13,997,223
Social Services Advances and Other	<u>854,096</u>
Total	<u>\$ 14,851,319</u>

3. Long-Term Debt

The changes in the County of Franklin's long-term indebtedness during the year ended December 31, 2012 are summarized as follows:

	Balance 1/01/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Governmental Activities:					
Courthouse Serial Bonds 2009	\$ 4,595,000	-	485,000	4,110,000	505,000
Correctional Facility - Serial Bonds - 1988	855,000	-	855,000	-	-
Compensated Absences	1,054,153	-	58,752	995,401	99,540
Post Employment Benefit	<u>16,795,883</u>	<u>3,470,272</u>	<u>1,143,202</u>	<u>19,122,953</u>	<u>1,143,204</u>
Total Long-Term Debt	<u>23,300,036</u>	<u>3,470,272</u>	<u>2,541,954</u>	<u>24,228,354</u>	<u>1,747,744</u>

a. Compensated Absences

Pursuant to contractual agreements, County employees are entitled to accrue an unlimited amount of sick leave and carry forward annually 21 days (or more with written permission of department head) of vacation leave. Upon retirement, unused sick leave may be converted to additional retirement credit up to a maximum of 165 days. No payments are made for unused sick leave.

i. Governmental Activities

The liability for these fringe benefits computed at current pay rates at December 31, 2012, amounts to \$995,401 and is recorded in the governmental funds.

ii. Business-Type Activities

The costs, attributable to the various compensated absences, are recognized in the period incurred. Any liability was deemed immaterial to the financial statements of the reporting entity.

b. Other Post Employment Benefits

The County has adopted GASB 45 for the year ended December 31, 2008 and is accruing annually the liability over 30 years. The following table is based on actuarial information, using a medical benefits inflation rate of 5% to 8% and a discount rate baseline of 4%. Medical benefits are based on pre and post 65 retirement. Pre 65 benefits is full health insurance with an employee's portion, post 65 is based on supplemental insurance at a lower rate. The following schedule is in millions:

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Covered Payroll	UAL as a Percentage of Covered Payroll
1/1/2012						
General	- \$	36.6	36.6	0%	n/a	n/a
Nursing Home	-	4.4	4.4	0%	n/a	n/a
IDA	-	-	-	0%	n/a	n/a

The County has elected to amortize these costs over 30 years as allowed in GASB 43/45. The following are the Annual required contributions for 2012. The County recorded a liability for \$19,122,953 for 2012 and \$16,795,883 for 2011. This is the annual required contribution for the County of \$3,470,272 less the benefit payouts of \$1,143,202.

December 31, 2012	Annual Required Contribution	Actual Contribution Made	Percentage Contributed
General	\$ 3,060,485	n/a	n/a
Nursing Home	409,636	n/a	n/a
IDA	151	n/a	n/a

c. Serial Bonds

The County of Franklin, like most governmental units, borrows money in order to acquire land or equipment or to construct and improve buildings. This policy enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of these capital assets. The provision to be made in the future budgets for capital indebtedness represents the amount, exclusive of interest, authorized by the County to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

- i. The Courthouse Public Improvement (Serial) bonds, issued in 2009 at interest rates of 2.50 percent to 3.50 percent, have a final maturity of November 1, 2019. Interest charged to the Debt Service Fund was \$139,644 for the year ended December 31, 2012. Interest on the Bonds will be payable on May 1, 2012 and November 1, 2012 and semi-annually thereafter on each May 1 and November 1 until maturity.
- ii. The Correctional Facility serial bonds, issued in 1998 at interest rates of 3.60 percent to 4.70 percent, had a final maturity of November 1, 2012, which includes zero coupon bonds maturing November 1, 2005. Interest charged to the Debt Service Fund was \$40,185 for the year ended December 31, 2012.

d. Debt Limits

It is the opinion of the County of Franklin and its legal counsel that the courthouse lease obligation does not constitute debt for the purposes of the State Constitution and New York State Local Finance Law, nor does it have to be reported as debt on a statement pursuant to Title 9 of the Finance Law. Generally accepted accounting principles, however, require that the leases be treated as a liability regardless of their status under state law.

principles, however, require that the leases be treated as a liability regardless of their status under state law.

At December 31, 2012, the outstanding long-term indebtedness of the County aggregated \$24,228,354. Of this amount, \$4,110,000 was subject to the constitutional debt limit.

e. Maturity Schedule

The following is a summary of capital lease and bond principal maturities and interest requirements:

Specific years for payment of compensated absences are not determinable.

Year	Serial Bonds	
	Court House 2009	
	Principal	Interest
2013	505,000	127,519
2014	530,000	114,894
2015	560,000	110,319
2016	585,000	83,518
2017	620,000	65,968
2018-2019	1,310,000	68,319
Total	4,110,000	570,537

4. Long-Term Debt- Component Units

a. Notes Payable - Franklin County IDA

Note payable Franklin County Local
Development Corporation, due
September 14, 2013, interest accruing
At 5 1/4 per annum.

	\$ 645,692
	645,692
Current Portion	(645,692)
LTD	\$ -

b. Bonds Payable -Solid Waste Management Authority

A summary of the Solid Waste Management Authority's bonds payable at June 30, 2012, is as follows:

EFC Bonds to be used in defeasance of 1993 bonds

Interest is payable semi-annually at 2.82%, principal installments of \$110,000 through \$170,000 payable annually on December 15, 2005 through 2015. \$ 650,000

Solid Waste System Refunding bonds, Series 2003A

Interest payable semi-annually at 3.00% to 4.375%, principal installments of \$555,000 through \$1,095,000, payable annually on June 1, 2004 through 2015. 3,225,000

Water Pollution Control Revolving Fund Revenue Bonds, Series 1995A

Interest payable semi-annually at 2.01% to 2.89%, principal installments of \$345,000 through \$550,000, payable annually on May 15, 1996 through 2015. 1,620,000

Solid Waste System Revenue Bond Series 2008

Interest Payable semiannually at 4.28%, principal installments of \$850,000 through \$1,035,000, payable annually on June 1, 2009 through 2014. 2,030,000

Solid Waste System Revenue Bond Series 2012

Interest payable semiannually at 2.0% to 5.0% principal installments of \$200,000 through \$370,000 first payments due payable annually starting on June 1, 2015 through 2032 4,810,000

Subtotal	12,335,000
Less current installments	(2,715,000)
Total bonds Payable	<u>\$ 9,620,000</u>

In prior years the Authority defeased a portion of the 1993 Series Bonds by placing the proceeds for the 1995A Series Bonds in an irrevocable trust to provide for all future debt service payments on the 1993 bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Authority's financial statements. At June 30, 2012, \$3,875,000 in bonds outstanding are considered defeased.

The Series 2003 Bonds are not subject to redemption prior to maturity, other than Sinking Fund Redemption of the Series 2003B Bonds. The Series 2003B Bonds have a redemption price of 100 percent.

A summary of the Solid Waste Management Authority's future minimum annual maturities for bonds payable is as follows:

	<u>Principal</u>	<u>Interest</u>
For the year ending June 30,		
2013	2,715,000	475,500
2014	2,830,000	363,553
2015	2,010,000	253,360
2016	375,000	180,797
2017	210,000	174,300
2018-2022	1,130,000	784,500
2023-2027	1,360,000	551,750
2028-2032	1,705,000	210,200
	<u>\$ 12,335,000</u>	<u>2,993,960</u>

Interest expense on the above indebtedness was \$476,720 for the year ended June 30, 2012. Interest paid was \$382,868 for the year ended June 30, 2012.

c. Other Long-Term Debt- Solid Waste Management Authority

A summary of the Solid Waste Management Authority's other long-term debt at June 30, 2012, is as follows:

First Niagara, installment loan payable in semiannual installments of \$16,355 including interest at 3.124%, due January 2016, secured by equipment	\$ 122,100
First Niagara, installment loan payable in semiannual installments of \$12,991 including interest at 3.14%, due February 2013, secured by equipment	25,387
Koch Financial Corp. installment loan payable in semi-annual installments of \$15,874 including interest at 5.46%, due August 2012, secured by equipment.	15,157
Caterpillar installment loan payable in semi-annual installments of \$52,645 including interest at 4.0%, due August 2012, secured by equipment.	50,987
Total	213,631
Less Current Portion	(120,701)
Net Other Long-Term Debt	<u>\$ 92,930</u>

Interest expense incurred and paid on the above indebtedness was \$16,055 for the year ended June 30, 2012.

A summary of the Authority's future annual minimum maturities of long-term debt at June 30, 2012, is as follows:

For the year ending June 30, 2013	120,701
2014	30,038
2015	30,983
2016	31,909
	<u>\$ 213,631</u>

5. Other Liabilities

The following is a summary of other liabilities as of December 31, 2012:

a. Primary Government

Governmental Activities

Overpayments	\$ 33,461
Accrued Liabilities	<u>1,100</u>
Total Governmental Activities	34,561

Business Activities

Due to Third Party Payors	<u>95,678</u>
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Total Primary Government	<u>\$ 130,239</u>
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Fiduciary Funds

Restricted Cash and Deposits Payable	<u>\$ 1,857,858</u>
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b. Component Unit

Solid Waste Management Authority

i. Environmental and Closure Accrual for Landfill

A summary of the environmental and closure accrual, which includes the consulting engineer's estimate of the cost for environmental compliance, landfill closure, and post-closure through June 30, 2012, is as follows:

	<u>Regional Landfill</u>
Total landfill cell capacity	1,598,930 cubic yard
Total landfill cell capacity used through June 30, 2011	1,367,866 cubic yard
Percentage of total landfill capacity	86%
Estimated closure and post closure costs	\$ 3,630,909
Environmental and closure accrual	\$ 2,309,369
Anticipated closure date	2016

ii. Accrued Interest

Accrued Interest Payable	<u>\$ 44,897</u>
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6. Operating Lease

The County is obligated by an operating lease for a building located on Catherine Street, Malone, New York for the Public Health Nurses and Office of Aging. The five-year lease requires monthly payments of \$7,800 starting July 1, 2010. The County also has two additional leases for the Board of Elections and District Attorney which ended in 2012. The District Attorney exercised their option for two additional year and

the Board of Elections is paying month to month. The future minimum lease commitments as of December 31 are as follows:

Year	Catherine Street	District Attorney
2013	93,600	19,800
2014	93,600	-
2015	46,800	-
Total	<u>234,000</u>	<u>19,800</u>

C. DUE TO/FROM OTHER FUNDS

Due to/from other funds at December 31, 2012, were as follows:

	Due To	Due From
<u>Major Governmental Activities</u>		
General	\$ 1,130,396	-
<u>Other Governmental Activities</u>		
County Road	-	841,611
Road Machinery	-	975,000
Special Revenue	8,401	
Capital Projects	627,814	-
<u>Business-Type Activities</u>		
Nursing Home	50,000	-
Total	<u>\$ 1,816,611</u>	<u>1,816,611</u>

These amounts are eliminated with GASB #34. Any residual balances between governmental and business-type activities are reported in the government-wide financial statements. Noncurrent portion of long-term Nursing Home loan receivables are reported as advances and as reservations of fund balance in the governmental fund statements. However, these balances are reported as unrestricted net assets in the government-wide statements of net assets.

D. INTERFUND TRANSFERS RECONCILIATION

Operating transfers in (other sources) and operating transfers out (other uses) for the year ended December 31, 2012 were as follows:

Fund	Other Sources	Other Uses
<u>Major Governmental Activities</u>		
General	\$ -	4,626,521
<u>Other Governmental Activities</u>		
County Roads	3,387,863	1,407,441
Road Machinery	657,514	-
Capital Projects	1,363,941	-
Debt Service	624,644	-
<u>Business-Type Activities</u>		
Enterprise	-	-
	<u>\$ 6,033,962</u>	<u>6,033,962</u>

These amounts are eliminated with GASB #34. Any residual balances between governmental and business-type activities are reported in the governmentwide financial statements. Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. FUND BALANCE CLASSIFICATIONS

The following have reserved portions of their fund balances for these designated purposes:

Fund	Purpose	Balance
General	NonSpendable Fund Balance	
	Inventory	\$ 23,825
	Prepays	843,021
	Total NonSpendable Fund Balance	<u>\$ 866,846</u>
	Restricted Fund Balance	
	Retirement	\$ 1,088,346
	Hospital	856,336
	Unemployment Insurance	232,416
	Tax Stabilization	42,874
	Capital Reserve (Mortgage Tax)	584,829
	Total Restricted Fund Balance	<u>\$ 2,804,801</u>
	Committed Fund Balance	
	Committed for Gas Line	\$ 1,000,000
	Total Committed Fund Balance	<u>\$ 1,000,000</u>
	Assigned Fund Balance	
	Assigned Appropriated	\$ 156,876
	Assigned Unappropriated	459,617
	Total Assigned Fund Balance	<u>\$ 616,493</u>
Special Revenue Funds		
Road Machinery	NonSpendable Fund Balance	
	Inventory	\$ 294,975
	Total NonSpendable Fund Balance	<u>\$ 294,975</u>
Soil and Water	Restricted Fund Balance	
	Special reserve	\$ 47,509
	Total Restricted Fund Balance	<u>\$ 47,509</u>
Road Machinery Road Machinery County Roads CDBG Soil and Water	Assigned Fund Balance	
	Assigned Appropriated	\$ 288,403
	Assigned Unappropriated	677,526
	Assigned Unappropriated	1,619,000
	Assigned Unappropriated	39,452
	Assigned Unappropriated	30,666
	Total Assigned Fund Balance	<u>\$ 2,655,047</u>
Capital Projects Fund		
	Assigned Fund Balance	
	Assigned Appropriated	\$ 853,688
	Total Assigned Fund Balance	<u>\$ 853,688</u>

F. DEFERRED COMPENSATION PLAN

Employees of the County of Franklin may elect to participate in the County's deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement. The County of Franklin has adopted GASB 32 with regard to financial reporting of deferred compensation plans in accordance with IRC Section 457. The County has established Citistreet as the trustee of its existing deferred compensation plan. Since the County is not the trustee for the plan, the plan does not meet the criteria for inclusion in the County's financial statements. Therefore, at December 31, 2012, the \$6,491,882 market value of deferred compensation plan assets is no longer displayed in the Agency Fund within the financial statements.

NOTE IV - JOINT VENTURES

The following are activities undertaken jointly with other municipalities which are excluded from the financial statements. Separate financial statements are issued for such joint ventures.

A. JOINT PUBLIC LIBRARY

The Clinton-Essex-Franklin Library System is jointly sponsored by Clinton, Essex, and Franklin Counties under provisions of Article 5 of the Education Law. As a joint venture, separate financial statements are published by the library. Each County's financial participation in the joint venture for the year ended December 31, 2012, was as follows:

Clinton	\$	39,089
Essex	\$	17,025
Franklin	\$	14,205

The following is a summary of financial information included in unaudited financial statements issued for the joint venture as of and for the year ended December 31, 2012:

Total Assets	\$	1,947,204
Total Liabilities		347,727
Fund Equity:		
Reserved		1,697,657
Unreserved		(98,180)
Total Fund Equity		1,599,477
Total Revenues (2012)	\$	1,319,422
Total Expenses (2012)	\$	1,285,489

B. JOINT COMMUNITY COLLEGE

The North Country Community College is jointly sponsored by Franklin and Essex Counties under provisions of Article 126 of the Education Law. As a joint venture, separate financial statements are published by the community college. The two counties' financial participation in the joint venture for the 2011 - 2012 fiscal year is as follows:

Franklin	\$	1,190,000
Essex	\$	1,190,000

The following is a summary of the financial information in audited financial statements issued for the joint venture as of and for the year ended August 31, 2012:

Total Assets	\$ 9,554,839
Total Liabilities	<u>(4,089,502)</u>
Net Assets	<u>\$ 5,465,337</u>
Total Revenues (2011-12)	<u>\$ 16,159,794</u>
Total Expenditures (2011-12)	<u>\$ 15,763,197</u>

NOTE V - COMMITMENTS AND CONTINGENCIES

A. LITIGATION AND SUBSEQUENT EVENTS

The County has a total of 13 active tort claims pending as of December 31, 2012. The County is also named in land claims by the Akwesasne Mohawk Indians seeking the return of claimed land and money damages. County management after considering all relevant facts, including the opinion of the County attorney and outside counsel in certain instances, is of the opinion that such litigation will not, in the aggregate, have a material adverse effect on the County's financial position.

The following are unpaid taxes on Indian Land Claims as of December 31, 2012, and are recorded as Accounts Receivable and Deferred Revenue:

	School Taxes	School Interest and Penalty	Town and County Tax	Base Lien Amount
Fort Covington	\$ 174,014	15,905	337,155	607,479
Bombay	<u>1,878,432</u>	<u>171,689</u>	<u>1,263,556</u>	<u>3,986,845</u>
	<u>\$ 2,052,446</u>	<u>187,594</u>	<u>1,600,711</u>	<u>4,594,324</u>

B. SELF-INSURED HEALTH INSURANCE

The County of Franklin incurs costs related to a self-insured employee health plan. The health plan's objectives are to formulate, develop, and administer a program of health insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. RMSCO, Inc., the health plan claims administrator, bills the County for approved benefits due employees. The County of Franklin has stop-loss insurance, for medical coverage only, to provide protection for claims in excess of \$125,000 per individual and a specific insurance limit of \$375,000. Liabilities of the health plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation and recent claim settlement trends including frequency and amount payouts, and are based on a five-week lag per the health plan administrator. The balance of claim liabilities during the past fiscal year is as follows:

Unpaid Claims, Beginning of Fiscal Year	\$ 721,773
Plus: Incurred Claims (including IBNR's)	6,484,020
Less: Claim Payments	<u>(6,573,706)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 632,087</u>

C. FEDERAL AND STATE GRANTS

The local government has received grants in excess of \$30 million which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowance and a request for a return of funds to the federal and state governments. Based on past audits, the local government administration believes disallowances, if any, will be immaterial.

D. UNEMPLOYMENT INSURANCE

The County of Franklin provides unemployment insurance through direct billings from the New York State Unemployment Insurance Fund. For the year ended December 31, 2012, the County paid \$306,127 of benefits from the unemployment insurance reserve. At December 31, 2012, the County recognized a liability for unpaid, unasserted claims of \$77,038 for the fourth quarter.

E. SELF-INSURED WORKERS' COMPENSATION

The County of Franklin sponsors and participates in a self-insurance plan for workers' compensation under Local Law No. 3, 1991, pursuant to Article 5 of the Workers' Compensation Law. The self-insurance plan is open to any eligible municipality or public entity for participation. There were 24 participants, including the County of Franklin, at December 31, 2012. The County is responsible for the administration of the self-insurance plan and its reserves and accounts for this self-insurance plan on the modified accrual basis in the Workers' Compensation Fund. The designated reserved retained earnings at December 31, 2012, was \$400,000. Additionally, the County has specific excess coverage for workers' compensation and employers' liability insurance for catastrophic losses.

F. OTHER INSURANCE

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

G. SERVICES AGREEMENT AND COMMITMENTS AND CONTINGENCIES

Solid Waste Management Authority

On May 1, 1993, the Solid Waste Management Authority entered into a services agreement with the County of Franklin, whereby the County will cause to be delivered to the Authority substantially all solid waste produced within the County. This agreement commenced upon operation by the Solid Waste Management Authority and will continue until the later of (a) the twentieth anniversary of the operation commencement date, or (b)

the maturity date of outstanding Authority indebtedness, provided, however, that in no event shall the agreement have a term of greater than 25 years from the latest date of execution of the services agreement.

In consideration of the Authority's performance of certain activities relating to solid waste disposal, the County shall pay a service fee equal to the Authority's estimated debt service, plus operating and maintenance costs less estimated net investment earnings, if any, for each fiscal year, provided that in no event shall the service fee be less than zero. The County of Franklin shall pay the Authority one-twelfth of the current fiscal year's estimated service fee on the first day of each month.

Service fees paid by the County of Franklin to the Solid Waste Management Authority for the year ended June 30, 2012, totaled \$6,000,737.

The Solid Waste Management Authority is required to reimburse the County an amount equal to total tipping and user fees received in the prior month up to the aggregate estimated service fee paid by the County, as described above. Under this agreement, the Authority reimbursed the County \$6,000,737 for the year ended June 30, 2012. The Authority owed Franklin County \$464,157 at June 30, 2012 which is included in accounts payable.

Within ninety days of the end of each fiscal year, the Authority shall calculate a year-end adjustment which represents the Authority's actual service fee, calculated using the cash basis of accounting, less amounts paid by the County plus the aggregate amount of all Authority reimbursements to the County. A service fee surplus for any year end shall be maintained by the Authority in its operating cash account, provided that if such service fee surplus occurs in the final year of the services agreement, such amount shall be remitted to the County. A service fee shortfall for any year end shall be paid to the Authority by the County.

The Authority did not have any revenue sources accounting for more than 10 percent of the Authority's operating revenue.

During the year ended June 30, 2012, the Authority recognized positive cash flows from operating activities of \$1,082,284. Management is continuing to find means to insure that future cash flows from operating activities will be sufficient to allow the Authority to meet its operating costs, debt service, and intended capital improvement programs if current contracts continue. Furthermore, management expects the Authority to continue as a going concern based on its services agreement with the County, in which the Authority's future debt service and operation and maintenance costs are guaranteed by the County as described in the Authority's bond documents.

NOTE VI - NET WORKING CAPITAL

	Net Working Capital (Deficit)	Current Assets	Current Liabilities
Solid Waste Management Authority	\$ (3,122,841)	712,627	3,835,468
Civic Development Corporation	\$ 14,353	14,353	-
Industrial Development Agency	\$ 163,888	2,293,637	2,129,749
Enterprise Fund	\$ 1,525,083	1,964,159	439,076

NOTE VII - TOBACCO SETTLEMENT PAYMENTS

In January 1997, the State of New York filed a lawsuit against the tobacco industry, seeking to recover the costs that the State and local governments had incurred in treating smoking related illnesses. Under an agreement reached with the tobacco industry referred to as the Master Settlement Agreement (MSA), the State and counties are entitled to receive annual payments. Payments received under the agreement in 2012 totaled \$687,752 and are recorded in the General Fund account - Other Compensation for Loss.

NOTE VIII - TRIBE-STATE GAMING COMPACT BETWEEN ST. REGIS MOHAWK TRIBE AND STATE OF NEW YORK

In 2004, the State of New York enacted legislation providing for an appropriation of revenue from slot machines at the tribal casino located in Akwesasne. The County of Franklin and the County of St. Lawrence shall receive 50% of the negotiated 25% of the net draw from slot machines made available to the Counties by the State. Franklin County did not record a receivable for 2011 or a payable to the towns of Bombay and Fort Covington. Any future payments will be based on the new agreement between the Tribe and New York State regarding the compact and issues regarding territorial rights, including gaming exclusivity. The County recorded the receivable and payable for 2012 based on the memorandum of understanding.

The County for 2013 assigned appropriated \$1 million of the anticipated receivable toward the cost of a natural gas pipeline expansion into Franklin County.

NOTE IX – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 20, 2013 the date on which the financial statements were available to be issued.

COUNTY OF FRANKLIN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget	Actual Budgetary Basis	Variance With Final Budget Favorable (Unfavorable)
BUDGETARY FUND BALANCE - RESTATED, JANUARY 1	\$ 5,778,668	5,778,668	5,778,668	-
RESOURCES (INFLOWS):				
Real Property Taxes	14,885,125	14,885,125	13,087,859	(1,797,266)
Real Property Tax Items	1,849,303	1,849,303	1,832,599	(16,704)
Non-Property Tax Items	20,468,000	20,468,000	20,692,428	224,428
Departmental Income	13,524,742	13,815,180	12,588,107	(1,227,073)
Intergovernmental Charges	6,663,966	6,713,966	6,441,259	(272,707)
Use of Money and Property	678,506	708,506	705,003	(3,503)
Fines and Forfeitures	264,683	322,283	223,856	(98,427)
Sale of Property and Compensation for Loss	737,000	737,000	719,801	(17,199)
Miscellaneous Local Sources	5,155,389	5,453,749	4,802,334	(651,415)
Interfund Revenues	2,071,373	2,071,373	1,841,573	(229,800)
State Aid	12,682,777	14,300,276	12,983,760	(1,316,516)
Federal Aid	8,937,234	10,694,791	11,309,577	614,786
Transfers from Other Funds	-	-	-	-
Amounts Available for Appropriation	<u>87,918,098</u>	<u>92,019,552</u>	<u>87,228,156</u>	<u>(4,791,396)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General Government Support	10,697,476	11,318,103	9,536,932	1,781,171
Education	4,630,370	4,625,315	4,466,917	158,398
Public Safety	10,473,305	10,784,140	10,387,655	396,485
Health	8,898,670	9,902,193	9,357,493	544,700
Transportation	1,461,137	1,325,419	1,189,172	136,247
Economic Assistance and Opportunity	32,805,671	34,835,678	33,710,630	1,125,048
Culture and Recreation	180,171	312,321	217,975	94,346
Home and Community Services	6,269,777	6,299,777	6,299,776	1
Employee Benefits	7,869,663	7,869,663	7,503,197	366,466
Transfers to Other Funds	4,631,858	4,626,521	4,626,521	-
Total Charges to Appropriations	<u>87,918,098</u>	<u>91,899,130</u>	<u>87,296,268</u>	<u>4,602,862</u>
Budgetary Fund Balance, December 31	<u>\$ 5,778,668</u>	<u>5,899,090</u>	<u>5,710,556</u>	<u>(188,534)</u>

The accompanying independent auditors' report should be read in conjunction with these statements.

**COUNTY OF FRANKLIN
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
BUDGETARY FUND BALANCE, JANUARY 1	\$ 2,376,129	2,376,129	2,376,129	-
RESOURCES (INFLOWS):				
Departmental Income	248,500	248,500	5,769	(242,731)
Use of Money and Property	675	675	281	(394)
Sale of Property and Compensation for Loss	65,000	86,000	67,012	(18,988)
Miscellaneous Local Sources	-	-	337,457	337,457
Interfund Revenues	-	-	68,141	68,141
State Aid	1,605,000	1,648,750	1,307,289	(341,461)
Federal Aid	1,221,091	2,211,801	1,810,760	(401,041)
Transfers from Other Funds	4,007,214	4,045,377	4,045,377	-
Amounts Available for Appropriation	7,147,480	8,241,103	7,642,086	(599,017)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Public Safety	125,397	98,362	131,758	(33,396)
Transportation	4,549,675	4,852,716	4,368,288	484,428
Economic Assistance and Opportunity	1,221,091	1,905,551	1,729,963	175,588
Home and Community Services	-	-	-	-
Transfers to Other Funds	1,422,817	1,466,317	1,407,441	58,876
Total Charges to Appropriations	7,318,980	8,322,946	7,637,450	685,496
Budgetary Fund Balance, December 31	\$ 2,204,629	2,294,286	2,380,765	86,479

The accompanying independent auditors' report should be read in conjunction with these statements.

COUNTY OF FRANKLIN
NOTES TO BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - Budget-to-Actual Reconciliation

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles follows:

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE FUND</u>
Sources/Inflows of Resources:		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 87,228,156	7,642,086
Revenues not included in budgetary comparison, not part of the adopted budget, including subrecipient grants	-	6,068,456
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	-	(4,045,377)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	\$ <u>87,228,156</u>	<u>9,665,165</u>
Uses/Outflows of Resources:		
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	\$ 87,296,268	7,637,450
Expenditures not included in budgetary comparison, not part of the adopted budget, including subrecipient grants	-	8,198,587
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(4,626,521)	(1,407,441)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances- governmental funds	\$ <u>82,669,747</u>	<u>14,428,596</u>

COUNTY OF FRANKLIN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2012

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 328,368	187	11,201	339,756
Other Receivables, Net	96,887	-	-	96,887
State and Federal Receivables	780,838	-	1,890,006	2,670,844
Inventories	294,975	-	-	294,975
Prepaid Expenses	5,355	-	-	5,355
Due From Other Funds	1,816,611	-	-	1,816,611
Total Assets	<u>3,323,034</u>	<u>187</u>	<u>1,901,207</u>	<u>5,224,428</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	90,603	-	419,705	510,308
Accrued Liabilities	21,314	-	-	21,314
Due To Other Governments	1,713	-	-	1,713
Deferred Revenue	152,140	-	-	152,140
Other Liabilities	9,000	-	-	9,000
Due To Other Funds	8,401	-	627,814	636,215
Total Liabilities	<u>283,171</u>	<u>-</u>	<u>1,047,519</u>	<u>1,330,690</u>
Fund Balances				
Nonspendable:				
Inventory	294,975	-	-	294,975
Restricted:				
Other	47,509	-	-	47,509
Committed:				
Committed for Future Purchases	-	-	-	-
Assigned				
Assigned Appropriated	288,403	-	853,688	1,142,091
Assigned Unappropriated	2,366,644	-	-	2,366,644
Unassigned	42,332	187	-	42,519
Total Fund Balances	<u>3,039,863</u>	<u>187</u>	<u>853,688</u>	<u>3,893,738</u>
Total Liabilities and Fund Balances	<u>\$ 3,323,034</u>	<u>187</u>	<u>1,901,207</u>	<u>5,224,428</u>

The accompanying independent auditors' report should be read in conjunction with these statements.

COUNTY OF FRANKLIN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES				
Departmental Income	\$ 20,270	-	-	20,270
Use of Money and Property	2,051	-	1,222	3,273
Sale of Property and Compensation for Loss	68,983	-	-	68,983
Miscellaneous Local Sources	363,146	-	-	363,146
Interfund Revenues	128,891	895,185	-	1,024,076
State Aid	1,446,546	-	786,877	2,233,423
Federal Aid	1,823,891	-	4,128,103	5,951,994
Total Revenues	3,853,778	895,185	4,916,202	9,665,165
EXPENDITURES				
General Government Support	-	-	-	-
Public Safety	131,758	-	-	131,758
Transportation	4,368,288	-	6,408,172	10,776,460
Economic Assistance and Opportunity	2,000,549	-	-	2,000,549
Home and Community Services	-	-	-	-
Debt Service (Principal and Interest)	-	1,519,829	-	1,519,829
Total Expenditures	6,500,595	1,519,829	6,408,172	14,428,596
Excess of Revenues Over (Under) Expenditures	(2,646,817)	(624,644)	(1,491,970)	(4,763,431)
OTHER FINANCING SOURCES (USES)				
Proceeds From Debt	-	-	-	-
Transfers From Other Funds	4,045,377	624,644	1,363,941	6,033,962
Transfers To Other Funds	(1,407,441)	-	-	(1,407,441)
Net Other Financing Sources (Uses)	2,637,936	624,644	1,363,941	4,626,521
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(8,881)	-	(128,029)	(136,910)
Fund Balances-Beginning of the Year	3,048,744	187	981,717	4,030,648
Fund Balances-End of the Year	\$ 3,039,863	187	853,688	3,893,738

The accompanying independent auditors' report should be read in conjunction with these statements.

COUNTY OF FRANKLIN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
AS OF DECEMBER 31, 2012

	Road Machinery Fund	County Roads Fund	Special Grant Fund	CDBG Fund	Soil and Water Conservation District	Total Special Revenue Funds
ASSETS						
Cash and Cash Equivalents	\$ 48,323	31,534	13,567	120,199	114,745	328,368
Other Receivables, Net	27,452	1,088	-	67,852	495	96,887
State and Federal Receivables	-	780,838	-	-	-	780,838
Due From Other Governments	-	-	-	-	-	-
Inventories	294,975	-	-	-	-	294,975
Prepaid Expenses	-	-	-	-	5,355	5,355
Due From Other Funds	975,000	841,611	-	-	-	1,816,611
Total Assets	<u>1,345,750</u>	<u>1,655,071</u>	<u>13,567</u>	<u>188,051</u>	<u>120,595</u>	<u>3,323,034</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	81,090	9,513	-	-	-	90,603
Accrued Liabilities	3,756	17,558	-	-	-	21,314
Other Liabilities	-	9,000	-	-	-	9,000
Due To Other Governments	-	-	-	1,625	88	1,713
Deferred Revenue	-	-	5,166	146,974	-	152,140
Due To Other Funds	-	-	8,401	-	-	8,401
Total Liabilities	<u>84,846</u>	<u>36,071</u>	<u>13,567</u>	<u>148,599</u>	<u>88</u>	<u>283,171</u>
Fund Balances						
Nonspendable:						
Inventory	294,975	-	-	-	-	294,975
Restricted:						
Other	-	-	-	-	47,509	47,509
Committed:						
Committed for Future Purchases	-	-	-	-	-	-
Assigned:						
Assigned, Appropriated	288,403	-	-	-	-	288,403
Assigned, Unappropriated	677,526	1,619,000	-	39,452	30,666	2,366,644
Unassigned	-	-	-	-	42,332	42,332
Total Fund Balances	<u>1,260,904</u>	<u>1,619,000</u>	<u>-</u>	<u>39,452</u>	<u>120,507</u>	<u>3,039,863</u>
Total Liabilities and Fund Balances	<u>\$ 1,345,750</u>	<u>1,655,071</u>	<u>13,567</u>	<u>188,051</u>	<u>120,595</u>	<u>3,323,034</u>

The accompanying independent auditors' report should be read in conjunction with these statements.

COUNTY OF FRANKLIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Road Machinery Fund	County Roads Fund	Special Grant Fund	CDBG Fund	Soil and Water Conservation District	Total Special Revenue Funds
REVENUES						
Departmental Income	\$ -	5,769	-	-	14,501	20,270
Use of Money and Property	97	184	-	1,719	51	2,051
Sale of Property and Compensation for Loss	62,677	4,335	-	-	1,971	68,983
Miscellaneous Local Sources	294,993	42,464	-	3,738	21,951	363,146
Interfund Revenues	68,141	-	-	-	60,750	128,891
State Aid	-	1,307,289	-	-	139,257	1,446,546
Federal Aid	-	97,709	1,713,051	-	13,131	1,823,891
Total Revenues	425,908	1,457,750	1,713,051	5,457	251,612	3,853,778
EXPENDITURES						
Public Safety	-	131,758	-	-	-	131,758
Transportation	982,068	3,386,220	-	-	-	4,368,288
Economic Assistance and Opportunity	-	-	1,729,963	-	270,586	2,000,549
Home and Community Services	-	-	-	-	-	-
Debt Service (Principal and Interest)	-	-	-	-	-	-
Total Expenditures	982,068	3,517,978	1,729,963	-	270,586	6,500,595
Excess of Revenues Over (Under) Expenditures	(556,160)	(2,060,228)	(16,912)	5,457	(18,974)	(2,646,817)
OTHER FINANCING SOURCES (USES)						
Transfers From Other Funds	657,514	3,387,863	-	-	-	4,045,377
Transfers To Other Funds	-	(1,407,441)	-	-	-	(1,407,441)
Net Other Financing Sources	657,514	1,980,422	-	-	-	2,637,936
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	101,354	(79,806)	(16,912)	5,457	(18,974)	(8,881)
Fund Balances-Beginning of the Year	1,159,550	1,698,806	16,912	33,995	139,481	3,048,744
Fund Balances-End of the Year	\$ 1,260,904	1,619,000	-	39,452	120,507	3,039,863

The accompanying independent auditors' report should be read in conjunction with these statements.

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

Federal Funding Agency, Pass Through Agency, and Program Title	Federal CFDA Number		Expenditures 2012	Program Expenditures By Dept.
<u>U.S. Department of Agriculture:</u>				
Pass Through Agency - NYS Department of Health and Human Services				
Supplemental Nutrition Assistance Program (SNAP)Administrative Cos	10.561	* \$	500,179	
Pass Through Agency - NYS Department of Education				
National School Lunch Program	10.555		16,124	
Subtotal				\$ 516,303
<u>U.S. Department of Health & Human Services:</u>				
Pass Through Agency - NYS Office of the Aging				
Title VII, Ombudsman	93.041		5,567	
Title III-D	93.043		5,052	
Aging Cluster:				
III-B	93.044		55,527	
III-E	93.052		29,412	
Nutrition III-C	93.045		121,868	
Commodity Foods-NSIP	93.053		105,142	
Aging Cluster				311,949
Weatherization Referral and Assistance (WRAP)	93.568	*	4,998	
HIICAP	93.779		31,087	
MIPA	93.071		14,259	
Pass Through Agency - NYS Department of Family Assistance				
Social Services Block Grant (Title XX)	93.667		548,543	
Temporary Assistance for Needy Families(TANF)	93.558		3,785,573	
(INCLUDES FLEXIBLE FUND FOR FAMILY SERVICES)				
Low Income Home Energy Assistance and WRAP	93.568	*	4,186,768	
Child Care and Development Block Grant	93.575	*	1,209,932	
Child Support Enforcement (Title IV - D)	93.563		637,349	
Foster Care (Title IV-E)	93.658		864,216	
Foster Care (Title IV-E)- ARRA	93.658		1,493	
Adoption	93.659		10,432	
Pass Through Agency - NYS Health Department				
Medical Assistance Program(Medicaid; Title XIX)	93.778	*	1,611,164	
Immunization Action Plan	93.268		32,407	
Immunization Action Plan-ARRA	93.712		4,238	
Childhood Lead Poisoning Prevention	93.994		17,800	
Early Intervention Administration	84.181		39,131	
Early Intervention Administration-ARRA	84.393		816	
Federal Reimbursement/CSHCN	93.994		17,321	
Pass Through Agency - NYS Office of Mental Health				
Federal Medicaid Administrative Salary Sharing	93.778		116,858	
Pass Through Agency - NYS Department of Labor				
Temporary Assistance for Needy Families	93.558		728,838	

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SCHEDULE 7(a)**Pass Through Agency - NYS Office of Alcohol and Substance Abuse Services**

Federal Medicaid Administrative Salary Sharing	93.778	9,065	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	283,395	

Pass Through Agency - Health Research Incorporated

Public Health Emergency Preparedness Program	93.069	46,387	
HLP and Colorectal	93.283	39,962	

Pass Through Agency - National Association of County and City Health Officials

Medical Reserve Corps (MRC)	93.008	5,000	14,569,600
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U.S. Department of Labor:**Pass Through Agency - NYS Department of Labor**

Trade Adjustment Assistance (TAA)	17.245	354,679	
National Emergency Grants	17.277	12,911	
Disability Employment Initiative	17.207	125,559	

WIA Cluster:

WIA Adult Program	17.258	*	546,838
WIA Youth Activities	17.259	*	443,986
WIA Dislocated Workers	17.278	*	253,241

WIA Cluster		1,244,065	
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Pass Through Agency - NYS Office of the Aging

Title V	17.325	89,965	1,827,179
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U.S. Department of Transportation:**Pass Through Agency - NYS Department of Transportation**

Public Transportation	20.509	228,944	
Federal Aid Highway Program(HBRR/STP)	20.205	* 4,130,677	
Job Access Reverse Commute (JARC)	20.516	195,463	

Subtotal			4,555,084
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U.S. Department of Homeland Security

Disaster Grants (Presidentially Declared Disasters)	97.036	* 16,969	
Disaster Grants (Presidentially Declared Disasters)FEMA-4020-DR-NY	97.036	* 318,589	

Subtotal			335,558
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U.S. Department of Homeland Security**Pass Through Agency - New York State Division of Homeland Security**

Homeland Security Grant Program- SHSP	97.067	* 35,914	
Homeland Security Grant Program- IECGP	97.055	* 357,942	
Law Enforcement Terrorism Prevention Program (LETPP)	97.067	* 75,887	
Operation Stonegarden	97.067	* 463,641	933,384

U.S. Department of Justice:

State and Local Domestic Preparedness Technical Assistance	16.010	29,310	
Federal Equitable Sharing	16.922	164,917	
Congressional Recognition Award	16.753	117,498	

Subtotal			311,725
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Total Federal Financial Assistance Program Expenditures		\$	<u>23,048,833</u>
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* Major Program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

COUNTY OF FRANKLIN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the County of Franklin and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - BASIS OF PRESENTATION

1. REPORTING ENTITY

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs administered by Franklin County, New York, an entity as defined in the financial statements, except that it does not include the federal financial assistance programs, if any, of the Franklin County Industrial Development Agency or Franklin County Nursing Home.

2. PASS-THROUGH PROGRAMS

Where the County of Franklin 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 CFDA numbers, which may be assigned by pass-through grantors, are not maintained in the County's financial management system.

3. NONMONETARY FEDERAL PROGRAMS

The County is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements, termed "non-monetary programs". During the fiscal year ended December 31, 2012, Franklin County distributed \$11,593,254 worth of food stamps to eligible persons participating in the Food Stamps Program (CFDA Number 10.551). This amount is not included in the schedule of expenditures of federal awards, only the portion for administrative reimbursement and emergency are included

In 2008, the State started to pay for all regular HEAP payments to individuals instead of the County. For 2012, the State paid \$4,049,721 in HEAP benefits to eligible directly Franklin County residents. This amount is included in the schedule of expenditures of federal awards.

NOTE C - 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.

NOTE D - MATCHING COSTS

Matching costs, i.e., the County of Franklin's share of certain program costs, are not included in the Schedule of Expenditures of Federal Awards.

INTERNAL CONTROL AND COMPLIANCE

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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

To the Chairman and Members
Of the Legislature
Malone, New York 12953

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of County of Franklin, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise County of Franklin's basic financial statements, and have issued our report thereon dated June 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered County of Franklin'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 County of Franklin's internal control. Accordingly, we do not express an opinion on the effectiveness of County of Franklin'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 and significant deficiencies.

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

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. Items noted are 2007-01, 2006-01 (Nursing Home Audit), 2012-01 (SWMA Audit), and 2012-02 (SWMA Audit).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Franklin'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-03 (SWMA Audit).

County of Franklin's Response to Findings

The County of Franklin's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of Franklin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

R.A. MERCER & CO., P.C.

R.A. Mercer & Co., P.C.

Orchard Park, New York
June 20, 2013

R.A. MERCER & CO., P.C.

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

To the Chairman and Members
Of the Legislature
County of Franklin
Malone, New York 12953

Report on Compliance for Each Major Federal Program

We have audited County of Franklin'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 County of Franklin's major federal programs for the year ended December 31, 2012. County of Franklin's major federal programs are identified in the summary of auditor's 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 County of Franklin'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 County of Franklin'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 County of Franklin's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of County of Franklin, 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 County of Franklin'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 County of Franklin'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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-04 to be a significant deficiency.

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.

R.A. MERCER & CO., P.C.

R.A. Mercer & Co., P.C.

Orchard Park, New York
June 20, 2013

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

Section I – Summary of Auditors Results

Financial Statements

Type of auditors report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs;

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiency(ies) identified? ☒ yes ☐ none reported

Type of auditors report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §510(a) of OMB Circular A-133? ☒ yes ☐ no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance, Title XIX
20.205	Federal Aid Highway Program
93.568	Low Income Home Energy Assistance and WRAP
93.575	Child Care and Development Block Grant
97.067, 97.055 & 97.036	Homeland Security Block Grant
10.561	Supplemental Nutrition Assistance Program (SNAP)
17.258, 17.259, & 17.278	WIA Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 691,465

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II – Financial Statement Findings

2007-01 Policies and Procedures

Criteria: Policies and Procedures should be updated, documented, and made available to all employees in a manual. Such a manual would serve as an aid in training new employees, monitoring the performance of existing employees, and improving internal communications. The manual should be a tool for processing daily transactions and doing business. The policies are as follows:

- Purchasing and Accounts Payable
- Encumbrances
- Data Processing
- Fixed Assets
- Ethics

Condition: Various policies which have not been updated in many years are not applicable to changing technology and ways of doing business with the County.

Cause: Processes are not uniform throughout the County.

Recommendation: County to update and approve new policies, and enforce these new policies.

Response: Management has drafts of certain policies and will update other policies and request approval from Board of Legislature.

2006-01 Lack of Professional Accounting Staff (Nursing Home Audit)

Like many organizations without a professional accounting staff, you have relied on your independent auditors for guidance on preparation of financial statements and footnote disclosures. The professional guidance in this area clearly states that if outside auditors need to make significant adjustments to your financial statements for them to be correct, that must be communicated to management as a significant deficiency or as a material weakness.

2012-01 Deficiencies in the Design of Controls over Financial Statement Preparation (Solid Waste Management Authority)

Condition: During our review of accounts payable and search for unrecorded liabilities, we noted an unrecorded account payable for services provided prior to year end. We also proposed audit adjustments to correctly record new bond premium and issuance costs. U.S. generally accepted accounting principles are concerned with the measurement of economic activity, the time when such measurements are made and recorded, the disclosures surrounding these activities, and the preparation and presentation of summarized economic information in the form of financial statements. Without the proper recording of certain transaction, the Authority's actual economic state is not being reflected.

Effect: We proposed audit adjustments that would not have been identified as a result of the Authority's existing internal controls and, therefore, could have resulted in a misstatement of the Authority's financial statements.

Cause: There was an inadequate design of internal controls over the accounts payable process.

Management's Response: The Authority posts several invoices per year. The invoice mentioned above was for engineering with respect to the Expansion project, an asset, which has no effect to the year-end surplus/deficit. In addition, the particular vendor does not forward monthly statements which helps to ensure all invoices are received. As mentioned in the next comment, the Authority staff is small and a perfect set of controls is not possible.

2012-02 Segregation of Duties (Solid Waste Management Authority)

Condition: We noted that cash receipts are collected by the same person who has access to all of the accounting records. The Authority's bookkeeper collects all cash and deposits the receipts each day and prepares the bank reconciliations. The bookkeeper also handles cash disbursements. The bookkeeper is also responsible for entering employee time sheets and processing payroll. This represents a segregation of duties problem. The bookkeeper is also responsible for assigning user rights and passwords in the scale system.

Recommendation: Although we noted the Authority has implemented several mitigating controls to help detect errors or irregularities, due to the small size of the Authority's office staff, a perfect set of controls may not be possible. Therefore, we recommend that the Board be aware of the segregation of duties problem and continue to implement both preventative and detective controls over the business operating functions to help reduce the risk of misuse of the Authority's assets.

Management's Response: Purchases are made by supervisors. The secretary verifies that the invoices coincide with vendors statements and prepares vouchers. Normally, after vouchers are verified and signed by the Chairman of the Board, the secretary prints the checks. The Executive Director reviews the signed vouchers and signs the checks. In the absence of the Executive Director, the Treasurer has the authority to sign checks. The Executive Director opens the monthly bank statements, reviews the signatures on the canceled checks, and then initials the bank statement. The Treasurer also reviews the operating account's statements. An important control the Authority has is liability insurance in the amount of \$100,000 per employee.

The following item is considered an instance of noncompliance.

2012-03 Debt Service Fund Not Properly Funded (Solid Waste Management Authority)

Condition: At times during the fiscal year, the Debt Service Fund was not properly funded as required by the Bond Resolution. Section 606(b) of the 1993 Bond Resolution requires the Authority to deposit monthly, with the Trustee, 1/6th of the amount required to be paid on the next succeeding interest payment date and 1/12th of the amount required to be paid on the next principal payment date.

Cause: The Authority had insufficient cash flow to make the deposits as required and pay a bond installment that was coming due.

Effect: At time during the fiscal year, the Authority is not in compliance with the 1993 Bond Resolution.

Recommendation: We recommend that the Authority evaluate the Debt Service Fund on a regular basis to ensure compliance with the bond resolution throughout the year.

Management's Response: Management was dealing with a difficult cash flow situation. This required careful cash management to ensure that current cash requirements were met and to ensure funding for the bond payments. All obligations were met by year end as usual. Management continues to deal with the cash flow problem. We continue to work on increasing cash flow through increased revenue from new external sources of MSW. We hope to formulate new sources of MSW in 2012-2013.

Section III – Federal Award Findings and Questioned Costs

Federal Agency: U.S. Department of Labor

Program Name: Workforce Investment Act (WIA)

CFDA# and Program Expenditures: 17.258, 17.259, 17.278, 17.245, 17.277, 17.207

Questioned Costs: \$5,166.37

Finding 2012-04 Incomplete Monitoring of Financial Information

The County did not maintain reconciled information during the transition of this program to another County for administration. We noted the following non-compliance areas during our review:

Period of Availability of Federal Funds – the County was not allowed to have excess cash from this program over \$1,000. We noted that the bank account has over \$1,000 numerous times during the year and requisitions were not consistent with expenditures.

Allowable Costs – We noted that grants were requisitioned improperly and costs were not matching funding for various grants. Some grants were over funded and others were underfunded.

Reporting – We noted no reporting of final expenses or cash requirements. Also no final closeout of this grant has been completed.

Internal Controls

We noted that internal controls over this program were not kept up during the transition of this grant- no accounting, monitoring, or reporting was completed.

The accounting for this grant was not updated until our fieldwork in May, 2013; the County had transferred the administration to another County back in October, 2012. Final closeout of these funds has still not been completed.

Recommendation:

We recommend that the final accounting be completed and final reports be submitted to close these grants. We also recommend the County either return the excess funds or review if any other expenses are able to be requisitioned before closing the grant.

Management's Response: The County plans on completing the final accounting and submitting the final reports to close this grant. The County will also either return the excess funds or review if any other expenses are able to be requisitioned before closing the grant.

COUNTY OF FRANKLIN

SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2012

2006-01 Recordkeeping of Vacation and Sick Time

Condition: Various methods of keeping track of time were noted in different departments, or reliance on the personnel department's records. When reviewing the policy for vacation time, individuals with more than 21 days accrued was the rule, not the exception. Accrued compensated absences have increased every year in dollars and hours.

Recommendation: The County is in the process of implementing and testing a new time and attendance system with fingerprinting technology. It is recommended that the County continue its efforts in testing the system so that full implementation can occur in conjunction with the new computer upgrades.

Current Status: We are commenting on this in the Management Letter.

2007-01 Policies and Procedures

Condition: Various policies which have not been updated in many years are not applicable to changing technology and ways of doing business with the County.

Recommendation: County to update and approve new policies, and initiate controls over the new policies.

Current Status: We noted certain policies were drafted by the end of fieldwork. We are commenting on this again in 2012.

2006-01 Lack of Professional Accounting Staff (Nursing Home Audit)

Condition: Like many organizations without a professional accounting staff, you have relied on your independent auditors for guidance on preparation of financial statements and footnote disclosures. The professional guidance in this area clearly states that if outside auditors need to make significant adjustments to your financial statements for them to be correct, that must be communicated to management as a significant deficiency or as a material weakness.

Current Status: This was commented again in the December 31, 2012 audit of the Nursing Home.

2007-01 Segregation of Duties (Solid Waste Management Authority)

Condition: We noted that cash receipts are collected by the same person who has access to all of the accounting records. The Authority's bookkeeper collects all cash and deposits the receipts each day and prepares the bank reconciliations. The bookkeeper also handles cash disbursements. The bookkeeper is also responsible for entering employee time sheets and

processing payroll. This represents a segregation of duties problem. Additionally, the bookkeeper is responsible for assigning user rights and passwords in the scale system.

Recommendation: Although we noted the Authority has implemented several mitigating controls to help detect errors or irregularities, due to the small size of the Authority's office staff, a perfect set of controls may not be possible. Therefore, we recommend that the Board be aware of the segregation of duties problem and continue to implement both preventative and detective controls over the business operating functions to help reduce the risk of misuse of the Authority's assets.

Current Status: This was commented again in the June 30, 2012 audit of the Solid Waste Management Authority.

2007-02 Service Agreement with Franklin County (Solid Waste Management Authority)

Condition: The service agreement requires the Authority to reimburse the County for the lower of the tipping/user fees collected during the previous month, or the service fees paid to the Authority by the County. The reimbursement is to be made within five days of the close of the subsequent month. We noted that the Authority was reimbursing the County the entire service fee, which was sometimes higher than the tipping fees. Failure to follow the terms of the agreement could result in overpayment to the County.

Recommendation: We recommend that the Authority review the Service Agreement and adhere to the agreement.

Current Status: This finding has been cleared.

2011-02 Closure and Post Closure Funds Not Properly Funded (Solid Waste Management Authority)

Condition: The closure and Post Closure Funds were not funded in an amount sufficient to meet the requirements of the Engineer's Report for the year ended June 30, 2011. Section 606(e) of the 1993 Bond Resolution requires the Authority to make monthly deposits in an amount sufficient to fund the Post Closure and Closure Funds based on the amounts specified in the Engineer's Report.

Effect: The Post Closure and Closure funds were underfunded by approximately \$71,000.

Status: Corrected during the year.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

No prior year finding noted in December 31, 2011 report.

R.A. MERCER & CO., P.C.

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REPORT ON COMPLIANCE AND CONTROLS OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Chairman and Members
Of the Legislature
Malone, New York 12953

Compliance

We have audited the compliance of the County of Franklin with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended December 31, 2012. The programs tested are identified in the summary of audit results section of the accompanying schedule of findings and questions costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program tested is the responsibility of the County of Franklin's management. Our responsibility is to express an opinion on the County of Franklin's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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 NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above, that could have a direct and material effect on the state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the County of Franklin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County of Franklin's compliance with those requirements.

In our opinion, the County of Franklin complied in all material respects with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended December 31, 2012.

Internal Control Over Compliance

The management of the County of Franklin is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state transportation assistance programs tested. In planning and performing our audit, we considered the County of Franklin's internal control over compliance with requirements that could have a direct and material effect on

state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on the internal control over compliance in accordance with Draft part 43 of NYCRR.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of law, regulations, contracts, and grants, that would be material in relation to state transportation assistance programs tested, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the County of Franklin as of and for the year ended December 31, 2012, and have issued our report thereon dated June 20, 2013. Our audit was performed for the purpose of forming an opinion on the County of Franklin's financial statements taken as a whole. The accompanying schedule of state transportation assistance expended is presented for purposes of additional analysis as required by Draft part 43 of NYCRR, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the County of Franklin's management and the New York State Department of Transportation, however, this report is a matter of public record and its distribution is not limited.

Orchard Park, New York
June 20, 2013

R.A. MERCER & CO, P.C.

R. A. Mercer & Co, P.C.

County of Franklin
Schedule of State Transportation Assistance Expended
For the Year Ended December 31, 2012

CHIPS Capital Reimbursement Project	720000	1,253,247
Marchicelli/bond Match for Federal Aid Highway		
	PIN775270	2,961
	PIN775295	707,490
	PIN775337	<u>61,148</u>
Total		<u>2,024,846</u>

County of Franklin
Notes to Schedule of State Transportation Assistance Expended
For the Year Ended December 31, 2012

A. General

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

B. Basis of Accounting

The accompanying Schedule of State Transportation Expended is presented using the accrual basis of accounting.

C. Indirect Costs

No indirect costs allocated to any of these projects.

D. Matching Costs

For the Marchicelli program the County match is 5% of the costs as follows:

PIN775270121	\$ 987
PIN775337	20,383
PIN775295	235,830

E. Amounts Paid to Subrecipients

The County had no Subrecipients with these grants

**County of Franklin
Schedule of Findings and Questioned Costs for
State Transportation Assistance Expended
For the Year Ended December 31, 2012**

Summary of Audit Results:

Internal Control over state transportation assistance expended:

Material weakness(es) identified	No
Reportable conditions identified that are not considered to be material weakness(es)?	None reported

Tupe of auditor's report issued on compliance for programs tested:	Unqualified
--	-------------

Identification of State transportation Assistance Programs tested:

Name

CHIPS- Capital Reimbursements
State portion of Marchicelli

Compliance Findings and Questioned Costs:

No matters were reported

R.A. MERCER & CO., P.C.

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Robert W. Irwin

June 20, 2013

To the Franklin County Legislature
Franklin County

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Franklin County for the year ended December 31, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 25, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Franklin County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Reporting Entity's financial statements was:

Management's estimate of the allowance for doubtful accounts is based on past experience. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Indian Land Claims in Note V-A to the financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 20, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of County Legislature and management of Franklin County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink, appearing to read "R.A. Mercer & Co., P.C.", is written over the typed name.

R.A. Mercer & Co., P.C.

R.A. MERCER & CO., P.C.

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MANAGEMENT LETTER

To The Chairman and Members
of the Legislature
County of Franklin
Malone, New York 12953

In planning and performing our audit of the financial statements of the County of Franklin for the year ended December 31, 2012, we considered the County's internal control to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

During our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated June 20, 2013, on the financial statements of the County. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

1. Fund Balance Policy

The depletion of the unassigned fund balance over the last couple of years resulted in the County being designated as significantly stressed by the Office of the State Comptroller's Fiscal Stress Management system and has affected the cash flow of the County. Management should develop a fund balance policy that establishes reasonable amount of fund equity and also the ordering of how reserves are increased or decreased.

2. Budgeting, Reporting and Long term Planning

We recommend the County focus on the following areas of the budgeting process to assist in forecasting and monitoring fund balance, cash flow, long term planning and future borrowing:

1. Regular reporting of budget to actual revenues and expenditures by department and overall.
2. Monitoring of revenues to expenses, and matching revenues and expenditures. If revenue is not expected, is the expense warranted-restricting spending based on revenues not materializing
3. Cash flow projections during the year
4. Review of Unallocated revenues and department revenues in the budget to actual revenues
5. The budget should designate revenues from federal (80%), state (15%) and then the County Road transfer to fund the remaining project, not a large transfer from County Road. Also noted funds budgeted from fund balance, but project was 100% CHIP fund.
6. Monitoring of salaries and fringes by department. (Computer department noted that not setup for that capability)
7. Use the budget to actual information as a guide to manage cash flow and year end planning.

3. Purchasing

We noted that certain departments have purchases which do not go through the proper channels of the County. All purchases and change orders should follow the County's purchasing policy and all contracts should be centrally located to insure payments are made in accordance with those contracts. During our test of contracts, we noted that certain bids were considered to be a contract or the contract was not available. We recommend that a procedure be initiated to document compliance with the requirements for contracts and utilize a central filing system.

4. Controls Over Disbursements

During our audit we noted areas which are of concern regarding policies and procedures with regard to the County Auditor. Policies and procedures should be written to document duties and to distinguish between duties of the auditor and purchasing agent.

5. Post-Employment Benefits

Based on the calculations of the actuarial, a portion of the liability for post employment benefit health insurance for retirees relates to the Nursing Home and IDA. In the past, these costs have been included in the overall cost of the self insured health insurance plan and not separated, so retirees have reimbursed the General Fund of the County and the County bore the costs. We recommend that the County review its policies and procedures and determine if these liabilities should be the responsibility of another entity.

6. Construction in Progress

We noted that certain construction projects which were completed were not reclassified from Construction in Progress to either roads or bridge asset accounts. The Construction in Progress account should be reviewed at year end to ensure any older projects which have been completed are transferred to the proper classification of asset.

7. Recordkeeping of Vacation and Sick Time

Recordkeeping and time management for vacation, sick and personal time should be monitored at the department and the overall County levels. Various methods of keeping track of time were noted in different departments, or reliance on the personnel department's records. When reviewing the policy for vacation time, individuals with more than 21 days accrued was the rule, not the exception. Accrued compensated absences have increased every year in dollars and hours. The County is implementing the new time and attendance system with fingerprinting technology. It is recommended that the County continue its efforts in testing the system so that full implementation, but make sure policies and procedures are in place for the following:

- a. Standardized list of required participants
- b. Procedures on exceptions and adjusting time (over rides)
- c. Documentation on classes "A-D" who are required input hours and make sure these requirements are within Fair Labor Standards Act, for salaried employees.

8. Commissary Account

During our review over the controls of the commissary account, we noted that one individual records deposits, records activity, writes checks and reconciles the bank statement. We noted no errors, but we recommend that another individual review the bank statement on a monthly basis to strengthen controls.

Immaterial Instances of Noncompliance

In connection with our tests of compliance with certain provisions of the laws, regulations, contracts, and grants as of and for the year ended December 31, 2012 we noted matters we considered to be immaterial instances of noncompliance. These matters are described below, together with recommendations for improvement.

1. Public Health Nurses

We noted that the quarterly reports for the County Nurses for reimbursements from NYS for Basic and Optional Public Health Services were not filed on a timely basis. Although extension request filings from NYS were noted, the County should review procedures for the preparation and submission of reimbursement reports to ensure timely completion.

We noted that one individual is responsible for the preparation of these reports, but we recommend that another individual should be trained to prepare these reports as well.

2. Federal Highway Program and FEMA Funding

We noted during the year CHIP's and FEMA funds were comingled; also a reconciliation of FEMA funding was not completed until we requested the documentation in 2012. We noted that funding for the FEMA was less than recorded and Federal Highway program costs were not requisitioned before the close of the grant and funding was lost.

We believe that the implementation of these recommendations will provide the County with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the audit committee, members of the Board of Legislature, management, and others within the organization (or specified regulatory agency) and is not intended to be and should not be used by anyone other than these specified parties.

Orchard Park, New York
June 20, 2013

R. A. MERCER & CO., P.C.

R.A. Mercer & Co., P.C.