

COUNTY OF SCHUYLER
Watkins Glen, New York
FINANCIAL STATEMENTS
December 31, 2005

COUNTY OF SCHUYLER
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FOR THE YEAR ENDED DECEMBER 31, 2005

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INDEPENDENT AUDITOR'S REPORT

Schuyler County Legislature
County of Schuyler
Watkins Glen, New York

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Schuyler, New York, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Schuyler, New York, as of December 31, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 5, 2006 on our consideration of the County of Schuyler, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and the Analysis pages 2-2i and the Budgetary Comparison Schedules and Notes to Required Supplementary Information on pages 31-34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Schuyler, New York's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the County of Schuyler, New York. 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.

Cuschi, Dieterhagen, Little, Mikalson & Company, LLP

July 5, 2006
Ithaca, New York

**COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Our discussion and analysis of the County of Schuyler's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2005. Please read this information in conjunction with the County's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$25,085,311 (net assets). Of this amount, \$7,718,571 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's overall net assets increased by \$526,012, or 2.14%, while unrestricted net assets increased by \$925,688, or 13.63%.
- During the year, the County's revenues increased by \$1,463,551 to \$29,596,261 from \$28,132,710 in 2004.
- Expenses of \$29,070,249 increased by \$851,254, from \$28,218,995 in the prior year.
- Revenues exceeded expenditures in the Governmental Funds by \$3,128,840, bringing fund balances to \$9,844,327 at December 31, 2005, largely as a result of net STASC proceeds in the amount of \$1,442,582.
- The General Fund recorded an increase of \$3,087,236 in 2005, largely as a result of the above mentioned STASC proceeds, and ended the year with a fund balance of \$8,913,516. Of this fund balance, \$425,756 was reserved for future expenditures, and \$8,487,760 was unreserved.
- The County's long-term obligations at year end were \$5,004,214, a net increase of \$1,425,755 from 2004 primarily as a result of the issuance of STASC Bonds in the amount of \$1,573,852.

USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 3 through 5a) provide information about the County as a whole and present a longer-term view of the County's finances. Fund financial statements start on page 6. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide statements by providing information about the County's most significant funds. The remaining statements provide financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside the government. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's Major Fund budgets for the year.

In addition to the basic financial statements, the annual report contains other information in the form of combining statements for those funds that are not considered Major Funds and, therefore, are not presented individually in the basic financial statements.

Reporting the County as a Whole

Analysis of the County as a whole begins on page 3, with the government-wide statements. The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer the question of whether the County, as a whole, is better off or worse off as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

These two statements report the County's net assets and changes in them. The County's net assets, the difference between assets and liabilities, are one way to measure the County's financial health, or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. One needs to consider other nonfinancial factors, however, such as changes in the County's property tax base and the condition of the County's roads, to assess the overall health of the County.

In the Statement of Net Assets and the Statement of Activities, the County reports:

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

Component Units: The County includes three separate legal entities in its report - the Schuyler County Industrial Development Agency, the Soil and Water Conservation District, and the Schuyler Tobacco Asset Securitization Corporation (STASC). The STASC is reported as a blended component unit with the County's Governmental Activities. The other two component units are reported discretely. Although legally separate, these component units are important because the County is financially accountable for them. Complete financial statements for the Industrial Development Agency can be obtained from their administrative office at 2 North Franklin Street, Suite 330, Watkins Glen, New York 14891. Financial statements for the STASC can be obtained from Schuyler County, 105 9th Street, Watkins Glen, New York 14891. Soil and Water Conservation District financial information may be obtained from Schuyler County Soil and Water Conservation District, 208 Broadway, Montour Falls, New York, 14865.

Reporting the County's Most Significant Funds

Fund Financial Statements

Analysis of the County's Major Funds begins on page 6. The fund financial statements provide detailed information about the most significant funds - not the County as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes and grants. The County reports its activities in Governmental Funds.

Governmental Funds: All of the County's services are reported in the Governmental Funds which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual accounting* which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the County's general governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. The relationship (or differences) between Governmental *Activities* (reported in the government-wide statements) and Governmental *Funds* is explained in a reconciliation following the fund financial statements.

The County as Trustee: The County is the trustee, or fiduciary, for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. All of the County's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 10. We exclude these activities from the County's other financial statements because the County cannot use these assets to finance its operations. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

THE COUNTY AS A WHOLE

The County's net assets for fiscal year ended December 31, 2005 increased \$526,012, from \$24,559,299 to \$25,085,311. In contrast, last year's net assets decreased by \$86,285.

The largest portion of the County's net assets, \$16,329,097 or (65.09%), reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the County's net assets, \$1,037,643, (4.14%), represents resources that are subject to external restrictions on how they may be used and are reported as restricted net assets. These net assets consist of unspent funds that are restricted for public safety and debt service.

The remaining category of total net assets, unrestricted net assets of \$7,718,571, 30.77%, may be used to meet the government's ongoing obligations and services to creditors and citizens. Of these net assets, the County has appropriated \$1,196,226 for 2006 expenses and reserved another \$1,146,883 for specific purposes.

Our analysis below focuses on the net assets (Figure 1), and changes in net assets (Figure 2), of the County's Governmental Activities.

Figure 1 - Net Assets

<i>Current assets</i>	\$ 11,171,365	\$ 13,335,616	\$ 2,164,251
<i>Capital assets, net</i>	20,270,288	19,514,097	(756,191)
<i>Other noncurrent assets</i>	451,293	520,056	68,763
<i>Current liabilities</i>	3,894,629	3,426,676	(467,953)
<i>Noncurrent liabilities</i>	3,439,018	4,857,782	1,418,764
<i>Invested in capital assets, net of debt</i>	16,980,288	16,329,097	(651,191)
<i>Restricted</i>	786,128	1,037,643	251,515
<i>Unrestricted</i>	6,792,883	7,718,571	925,688

The County's current assets increased \$2,164,251, or 19.37% due to an increase in cash on hand at year end as a result of the net proceeds of the STASC 2005 bond issue of \$1,442,582. Capital assets, net, decreased 3.73% due to depreciation expense greater than capital asset additions. Noncurrent liabilities increased \$1,418,764, or 41.25% primarily as a result of the aforementioned STASC bond debt issue of \$1,573,852.

Invested in capital assets, net of debt, decreased due to a decrease in debt related to capital assets offset by depreciation expense greater than capital asset additions.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

The County's total revenues increased by 5.20%, while the total cost of all programs and services increased by 3.02%, with no new programs added this year. Our analysis in Figure 2 separately considers the operations of Governmental Activities.

Figure 2 - Changes in Net Assets

REVENUES			
Program Revenues:			
Charges for services	\$ 4,247,543	\$ 4,662,059	\$ 414,516
Operating grants and contributions	8,215,558	8,467,842	252,284
Capital grants	751,967	933,835	181,868
General Revenues:			
Property taxes and tax items	8,172,993	8,594,661	421,668
Sales and other taxes	5,825,252	6,096,835	271,583
Tobacco settlement	426,818	283,730	(143,088)
Use of money and property	293,107	359,094	65,987
Other	199,472	198,205	(1,267)
PROGRAM EXPENSES			
General government	3,759,240	3,979,581	220,341
Education	1,084,440	1,125,577	41,137
Public safety	3,374,618	3,628,756	254,138
Public health	4,237,090	4,377,413	140,323
Transportation	3,957,179	4,140,353	183,174
Economic assistance and opportunity	10,825,770	10,731,152	(94,618)
Culture and recreation	304,267	315,421	11,154
Home and community	458,844	551,554	92,710
Interest on long-term debt	217,547	220,442	2,895
(DECREASE) INCREASE IN NET ASSETS	\$ (86,285)	\$ 526,012	\$ 612,297

Charges for services were up 9.76% from 2004 primarily due to an increase in mental health patients. Operating and capital grants and contributions, mostly received from State and Federal sources, increased by \$434,152, primarily due to an increase in State and Federal funding. Property taxes increased \$421,668 due to an increase in the tax levy in 2005. Sales and other taxes increased \$271,583 due to improved economic conditions in the County.

General government, education, public safety, public health, home and community and culture and recreation expenses increased primarily due to increases in compensation rates and increased expenditures of operating and capital grants received in 2005. The increase in transportation expenses is mostly the result of depreciation of infrastructure and equipment.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

Figures 3 and 4 show the source of revenues for 2005 and 2004.

Figure 3 - Revenues by Source
Governmental Activities
2005

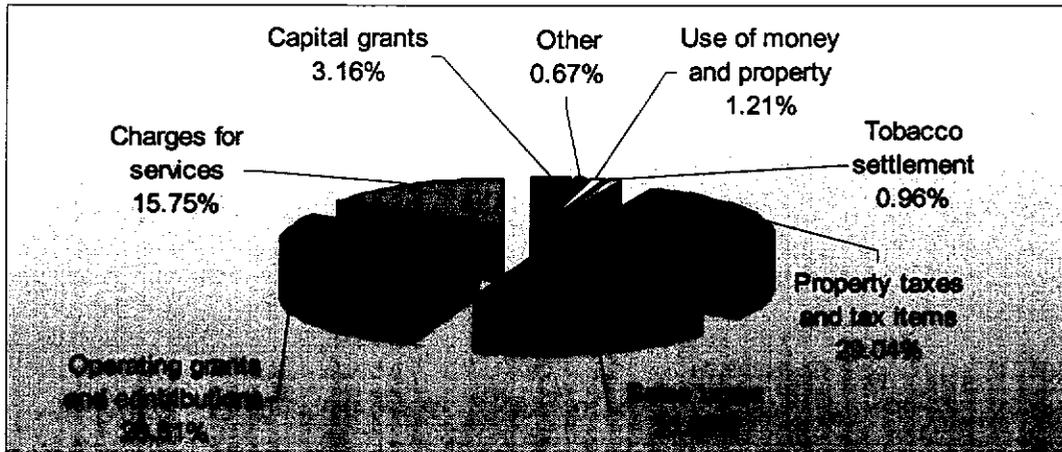
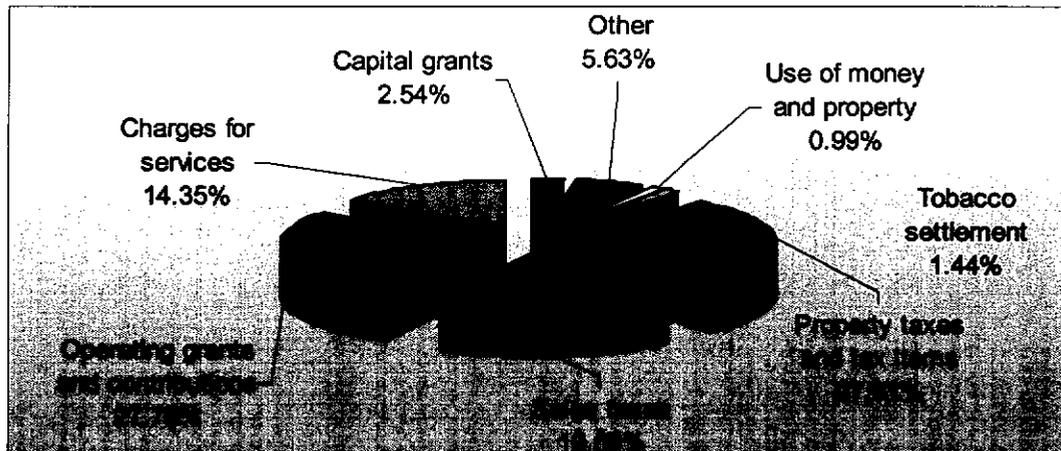


Figure 4 - Revenues by Source
Governmental Activities
2004



The cost of all Governmental Activities this year was \$29,070,249. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County property and other tax revenues was \$15,006,513, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the County's governmental program revenues were \$14,063,736.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

The total cost versus revenue generated by activities for the County's largest programs is presented below. The difference between the cost and revenue shows the financial burden that was placed on the County's taxpayers by each of these functions.

Figure 5 - Net Program Cost
Governmental Activities
2005

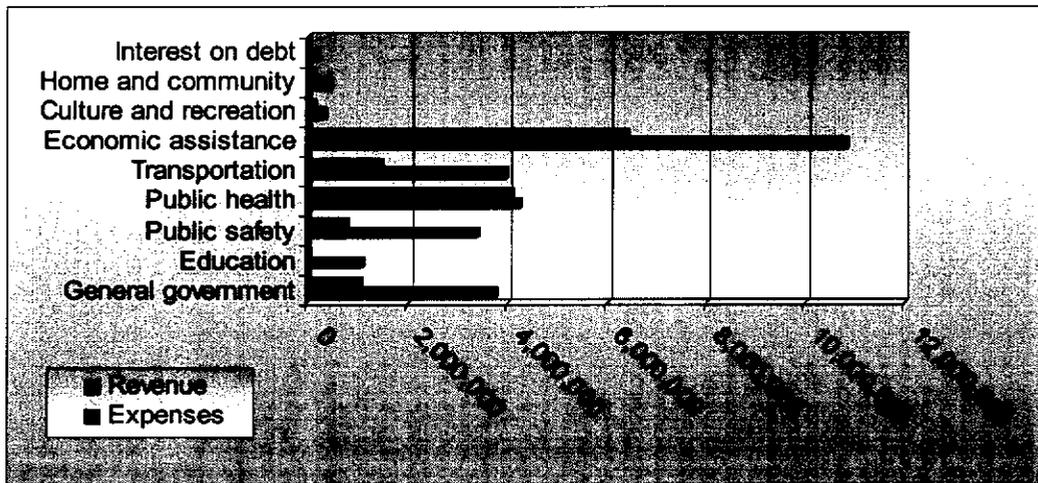
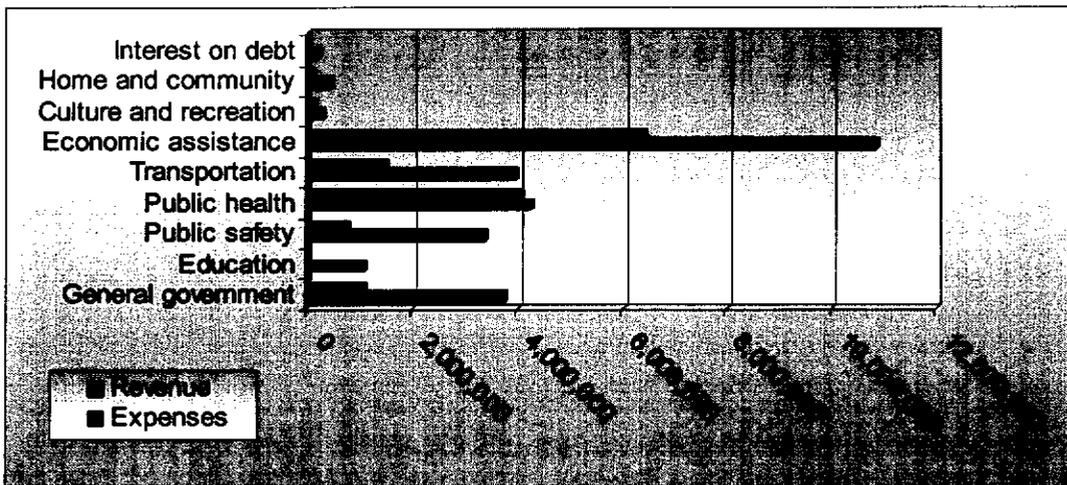


Figure 6 - Net Program Cost
Governmental Activities
2004



COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

THE COUNTY'S FUNDS

As the County completed the year, its Governmental Funds, as presented in the balance sheets on pages 6 - 6a reported a combined fund balance of \$9,844,327, which is \$3,128,840, or 46.59%, higher than last year's total fund balance largely the result of the STASC proceeds of \$1,442,582. Of this amount, \$1,146,883 is reserved for future expenditures and \$1,196,226 is net designated for 2006 expenditures, leaving \$7,501,218 in unreserved and undesignated fund balance. Figure 7 shows the changes in fund balance for the County's Governmental Funds.

Figure 7
Governmental Funds
Fund Balance at Years Ended

<i>General Fund</i>	\$ 5,826,280	\$ 8,913,516	\$ 3,087,236
<i>County Road Fund</i>	375,330	376,629	1,299
<i>Special Grant Fund</i>	(20,114)	(19,356)	758
<i>Capital Project Fund</i>	(170,721)	(144,411)	26,310
<i>Road Machinery Fund</i>	42,131	34,363	(7,768)
<i>STASC Debt Service Fund</i>	662,581	683,586	21,005

This year's total change in fund balance is an increase of 46.59%, compared to a 2.04% increase in 2004. The primary reasons for the 52.99% increase in the fund balance of General Fund are the transfer of netproceeds of obligations from STASC of \$1,442,582 and a decrease of \$992,154 in transfers to other funds. Additionally, the County recognized an additional \$506,312 in tax revenue which had been deferred in prior years.

The deficits in the Capital Project Fund and the Special Grant Fund will be reduced upon the transfer of funds from the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the County Legislature revised the County budget several times. These budget amendments consist of budget transfers between functions, which did not increase the overall budget. In addition to these transfers, the County Legislature increased the overall budget to provide for unspent appropriations from the previous year (encumbrances) and various grants where the majority of the funding came from federal and state sources.

Even with these adjustments, the actual charges to appropriations (expenditures) were below the final budget amounts. The most significant positive variances occurred in the County's Public Health, Public Safety, and Economic Assistance and Opportunity accounts. Resources available for appropriation were \$2,308,817 above the final budgeted amount primarily due to proceeds of obligations transferred from the STASC. Sales taxes and sales of property offset shortfalls in other areas.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

Figure 8
Budgetary Comparison Schedule - General Fund
December 31, 2005

REVENUES AND OTHER FINANCING SOURCES				
<i>Real property taxes and tax items</i>	\$ 8,493,526	\$ 8,493,526	\$ 9,138,243	\$ 644,717
<i>Nonproperty tax items</i>	5,920,000	5,920,000	6,096,835	176,835
<i>Departmental income and intergovernmental charges</i>	3,888,202	3,962,169	4,245,172	283,003
<i>Use of money and property</i>	281,894	281,894	321,590	39,696
<i>State sources</i>	4,648,404	4,970,911	4,571,656	(399,255)
<i>Federal sources</i>	3,382,322	3,697,030	3,742,693	45,663
<i>Other</i>	165,281	157,833	225,256	67,423
<i>Other financing sources</i>	-0-	-0-	1,450,735	1,450,735
EXPENDITURES AND OTHER FINANCING USES				
<i>General government</i>	\$ 3,028,844	\$ 3,199,998	\$ 3,152,758	\$ 47,240
<i>Education</i>	1,210,000	1,210,000	1,125,577	84,423
<i>Public safety</i>	2,702,268	3,049,719	2,749,800	299,919
<i>Public health</i>	3,673,523	4,179,298	3,653,055	526,243
<i>Transportation</i>	180,954	187,977	187,977	-0-
<i>Economic assistance and opportunity</i>	10,843,556	11,063,111	9,924,636	1,138,475
<i>Culture and recreation</i>	216,047	262,281	222,841	39,440
<i>Home and community</i>	463,477	474,526	408,585	65,941
<i>Employee benefits</i>	3,263,882	3,367,299	3,170,805	196,494
<i>Debt service</i>	53,310	53,310	53,310	-0-
<i>Other financing uses</i>	2,098,868	2,098,868	2,098,868	-0-
<i>Excess of Revenues and Other Financing Sources</i>	\$ -0-	\$ -0-	\$ 3,043,968	\$ 3,043,968

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2005, the County had capital assets of \$19,514,097, net of accumulated depreciation of \$22,257,149, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net decrease (including additions and deductions) of \$756,191 over last year.

Figure 9
Capital Assets, Net of Depreciation

<i>Land</i>	\$ 502,870	\$ 502,870	\$ -0-
<i>Construction-in-progress</i>	669,487	837,803	168,316
<i>Buildings and improvements</i>	5,391,463	5,200,369	(191,094)
<i>Land improvements</i>	1,286,589	1,253,695	(32,894)
<i>Machinery and equipment</i>	1,599,187	1,731,649	132,462
<i>Infrastructure</i>	10,820,692	9,987,711	(832,981)

This year's additions consisted of:

Construction-in-progress	\$ 168,316
Buildings	90,839
Machinery and equipment	680,870
Infrastructure	628,484
Total Additions	1,568,509
Less: Depreciation	(2,247,756)
Disposals, net	(76,944)
Total net change	\$ (756,191)

Debt Administration

Total long-term liabilities increased in 2005 by \$1,425,755 to \$5,004,214, largely due to the net STASC issue of \$1,539,234 net of debt service payments of \$99,756, at December 31, 2005, as shown in Figure 10. Of this amount, \$285,000 was subject to the constitutional debt limit and represented .61% of the County's statutory debt limit. Tobacco settlement pass-through bonds are debt of the Schuyler Tobacco Asset Securitization Corporation (STASC), under which the County's future tobacco settlement proceeds were securitized. The County is not responsible for this debt in the event the STASC were to default in repayment of the bonds.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2005

Figure 10
Outstanding Debt at Years Ended

<i>Serial bonds</i>	\$ 320,000	\$ 285,000	\$ (35,000)
<i>Compensated absences</i>	395,488	381,765	(13,723)
<i>Tobacco settlement pass-through bonds, net</i>	2,862,971	4,337,449	1,474,478

The County's Moody's bond rating is currently A, which did not change from the prior year. More detailed information about the County's long-term liabilities is presented in Note 2-B-2 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County will continue to be challenged with balancing the growth in mandated programs and the ability to finance the same through growth in the tax base and revenue streams. Given the current rate of growth in leading economic indicators it should be a goal to fund any mandated increases without increasing property taxes.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the County of Schuyler's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about the report or need any additional financial information, contact Margaret Starbuck, Treasurer, Schuyler County, 105 9th Street, Watkins Glen, New York 14891.

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 5,590,229	\$ 264,784	\$ 74,742
Restricted cash	1,232,873		130,425
Investments			
Taxes receivable, net	1,798,572		
Accounts receivable, net	767,543	33,602	
Loans receivable - Current portion	10,000		85,317
Due from state and federal governments	3,453,869		
Due from other governments	240,254		
Balances between primary government and component units			
Prepaid expenses	214,997	9,626	
Inventories	27,279		
Other			
Total Current Assets	13,335,616	308,012	290,484
Noncurrent Assets:			
Restricted cash and cash equivalents	271,157		
Loans receivable, long-term portion	120,000		340,834
Unamortized bond issue costs	128,899		
Land and construction in progress	1,340,673		
Depreciable capital assets, net	18,173,424	21,623	
Total Noncurrent Assets	20,034,153	21,623	340,834
Total Assets	33,369,769	329,635	631,318
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	676,831	8,344	
Accrued liabilities	243,035		
Bond Anticipation Notes payable			
Interest payable	15,249		
Due to other governments	1,775,670		
Retained percentages			
Overpayments			
Deferred revenue	102,045		
Other	467,414		
Long-term obligations due within one year:			
Loans payable			8,344
Bonds payable	108,255		
Compensated absences	38,177		
Total Current Liabilities	3,426,676	8,344	8,344

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
(CONTINUED)
DECEMBER 31, 2005

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
Total current liabilities brought forward	\$ 3,426,676	\$ 8,344	\$ 8,344
Noncurrent Liabilities:			
Long-term obligations due after one year:			
Accreted interest payable	9,555		
Loans payable			48,055
Bonds payable	4,504,639		
Compensated absences	343,588		
Total Noncurrent Liabilities	4,857,782	-0-	48,055
Total Liabilities	8,284,458	8,344	56,399
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	16,329,097	21,623	
Restricted for:			
Community development			130,425
Debt service	683,586		
Public safety	354,057		
Unrestricted	7,718,571	299,668	444,494
Total Net Assets	\$ 25,085,311	\$ 321,291	\$ 574,919

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government:				
Government Activities:				
General governmental support	\$ 3,979,581	\$ 956,165	\$ 264,773	\$ _____
Education	1,125,577	_____	39,602	_____
Public safety	3,628,756	495,771	316,706	_____
Public health	4,377,413	2,141,143	1,501,695	_____
Transportation	4,140,353	432,108	117,568	807,376
Economic assistance and opportunity	10,731,152	594,268	5,982,937	_____
Culture and recreation	315,421	4,252	113,706	126,459
Home and community services	551,554	38,352	130,855	_____
Interest on debt	220,442	_____	_____	_____
Total Governmental Activities	\$ 29,070,249	\$ 4,662,059	\$ 8,467,842	\$ 933,835
Component Units:				
Soil and Water Conservation	\$ 398,771	\$ 14,183	\$ 334,219	\$ _____
Industrial Development Agency	8,472	6,356	_____	_____
Total Component Units	\$ 407,243	\$ 20,539	\$ 334,219	\$ -0-

Net (Expense) and Changes in Net Assets brought forward

GENERAL REVENUES:

Taxes:

Property taxes, levied for general purposes

Property tax items

Sales and other taxes

Tobacco settlement payments

Grants and contributions not restricted to
specific programs

Use of money and property

Miscellaneous

Sale of property and compensation for loss

Total General Revenues

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Assets

Primary Government	Component Units	
Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
\$ (2,758,643)	\$	\$
(1,085,975)		
(2,816,279)		
(734,575)		
(2,783,301)		
(4,153,947)		
(71,004)		
(382,347)		
(220,442)		
(15,006,513)		
	(50,369)	
		(2,116)
	(50,369)	(2,116)
(15,006,513)	(50,369)	(2,116)
8,108,946		
485,715		
6,096,835		
283,730		
359,094	2,072	19,220
121,749	10,455	
76,456		
15,532,525	12,527	19,220
526,012	(37,842)	17,104
24,559,299	359,133	557,815
\$ 25,085,311	\$ 321,291	\$ 574,919

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	Major Funds		
	General Fund	Special Revenue Funds	
		County Road Fund	Special Grant Fund
<u>ASSETS</u>			
Assets:			
Cash and cash equivalents - Unrestricted	\$ 3,787,618	\$ 1,150,620	\$ 479,570
- Restricted	382,488		84,525
Taxes receivable (net)	1,798,572		
Due from other funds	2,935,322	702,264	
Due from State and Federal governments	3,364,054	22,815	
Due from other governments	240,254		
Other receivables, net	462,981	392	958
Prepaid expenses	210,255		
Inventories	27,279		
Loans receivable			130,000
Total Assets	\$ 13,208,823	\$ 1,876,091	\$ 695,053
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 618,156	\$ 34,920	\$ 2
Accrued liabilities	220,680	13,907	
Due to other funds	662,562	1,450,635	545,736
Due to other governments	1,646,398		129,272
Other liabilities	467,414		
Landfill closure and postclosure care costs			
Deferred revenues	680,097		39,399
Total Liabilities	4,295,307	1,499,462	714,409
Fund Balances:			
Fund Balances - Reserved:			
Encumbrances	43,268		
Miscellaneous special reserves	382,488		
Debt service			
Capital			
Total Reserved	425,756	-0-	-0-
Fund Balances - Unreserved, Appropriated, Reported in:			
General Fund	1,196,226		
Special Revenue Funds			
Fund Balances - Unreserved, Reported in:			
General Fund	7,291,534		
Special Revenue Funds		376,629	(19,356)
Capital Projects Funds			
Total Unreserved	8,487,760	376,629	(19,356)
Total Fund Balances	8,913,516	376,629	(19,356)
Total Liabilities and Fund Balances	\$ 13,208,823	\$ 1,876,091	\$ 695,053

See Independent Auditor's Report and Notes to Financial Statements

<u>Major Funds</u>	<u>Total</u>	<u>Total</u>
<u>Capital Project</u>	<u>Non-Major</u>	<u>Governmental</u>
<u>Fund</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
\$	\$	\$
	172,421	5,590,229
765,860	271,157	1,504,030
		1,798,572
155,404	51,618	3,844,608
	67,000	3,453,869
		240,254
	303,212	767,543
	4,742	214,997
		27,279
		130,000
\$ 921,264	\$ 870,150	\$ 17,571,381
\$	\$	\$
	23,753	676,831
	8,448	243,035
1,065,675	120,000	3,844,608
		1,775,670
		467,414
		-0-
		719,496
1,065,675	152,201	7,727,054
		43,268
	37,541	420,029
	683,586	683,586
		-0-
-0-	721,127	1,146,883
		1,196,226
		-0-
		7,291,534
	(3,178)	354,095
(144,411)		(144,411)
(144,411)	(3,178)	8,697,444
(144,411)	717,949	9,844,327
\$ 921,264	\$ 870,150	\$ 17,571,381

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 694,530	\$ 1,091,826	\$ 187,680	\$ 8,818,076
		67,418	152,638
		37,541	454,429
		356,892	397,415
-0-	-0-	461,851	1,004,482
			900,000
			4,038,591
(20,114)		(62,828)	292,388
	(170,721)		(170,721)
(20,114)	(170,721)	(62,828)	5,060,258
(20,114)	(170,721)	399,023	6,064,740
\$ 674,416	\$ 921,105	\$ 586,703	\$ 14,882,816

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2004

Total Governmental Fund Balances \$ 6,064,740

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

Capital assets, net of accumulated depreciation of \$20,442,617, used in governmental activities are not financial resources and, therefore, are not reported in the funds. 20,270,288

Certain prepaid expenses recorded in the statement of net assets are not required to be reported in the fund financial statements. This is the amount of employee retirement system payments that are prepaid at year end. 215,368

Certain accrued expenses, such as interest on debt, reported in the statement of net assets do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. Similarly, unamortized bond issue costs are not recognized as assets in the fund financial statements.

Accrued interest payable	\$	(15,949)	
Unamortized bond issuance costs - STASC		<u>44,169</u>	<u>28,220</u>

Certain revenues are deferred in governmental funds due to applying the "availability" criterion to receivables for the modified accrual basis of accounting. However, these deferred revenues are considered revenues in the statement of activities due to applying the full accrual basis of accounting. 1,123,763

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. See Note 2-B-2.

Serial bonds payable	\$	(320,000)	
Tobacco settlement pass-through bonds		(2,862,971)	
Compensated absences		<u>(395,488)</u>	<u>(3,578,459)</u>

Net Assets of Governmental Activities \$ 24,123,920

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General</u>	<u>County Road Fund</u>
<u>REVENUES</u>		
Real property taxes	\$ 7,762,064	\$
Real property tax items	396,033	
Nonproperty tax items	5,825,252	
Departmental income	3,542,428	
Intergovernmental charges	176,986	
Use of money and property	267,333	910
Licenses and permits		
Fines and forfeitures	66,562	290
Sale of property and compensation for loss	292,638	501
Miscellaneous local sources	36,422	128,673
Interfund revenues		
State sources	4,853,057	594,489
Federal sources	3,230,274	157,478
Total Revenues	26,449,049	882,341
<u>EXPENDITURES</u>		
General governmental support	2,786,698	
Education	1,084,440	
Public safety	2,452,077	
Public health	3,466,467	
Transportation	183,465	1,812,233
Economic assistance and opportunity	9,969,555	
Culture and recreation	212,817	
Home and community services	394,628	
Employee benefits	3,236,021	345,782
Debt service - principal and interest	55,849	4,363
Capital outlay		
Total Expenditures	23,842,017	2,162,378
Excess of Revenues (Expenditures)	2,607,032	(1,280,037)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		1,777,478
Interfund transfers (out)	(3,091,022)	(189,926)
Long-term debt issued		
Total Other Financing (Uses) Sources	(3,091,022)	1,587,552
Excess of Revenues (Expenditures) and Other Financing Sources (Uses)	(483,990)	307,515
Fund Balances, Beginning	5,965,212	67,815
Fund Balances, Ending	\$ 5,481,222	\$ 375,330

See Independent Auditors' Report and Notes to Financial Statements

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 7,762,064
			396,033
			5,825,252
			3,542,428
		253,606	430,592
2,009	2,730	20,125	293,107
			66,852
		19,181	312,320
		304,859	469,954
		180,000	180,000
			5,447,546
13,693			3,401,445
15,702	2,730	777,771	28,127,593
		27,513	2,814,211
			1,084,440
			2,452,077
			3,466,467
		976,312	2,972,010
			9,969,555
			212,817
51,235			445,863
		58,800	3,640,603
		263,460	323,672
	624,706		624,706
51,235	624,706	1,326,085	28,006,421
(35,533)	(621,976)	(548,314)	121,172
	1,009,220	552,074	3,338,772
		(57,824)	(3,338,772)
-0-	1,009,220	494,250	-0-
(35,533)	387,244	(54,064)	121,172
15,419	(557,965)	453,087	5,943,568
\$ (20,114)	\$ (170,721)	\$ 399,023	\$ 6,064,740

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 121,172

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays, net of disposals	\$ 1,633,221	
Depreciation, net of disposals	<u>(2,091,927)</u>	<u>(458,706)</u>

Revenues and expenses in the statement of activities that do not provide current financial resources are not reported as revenues and expenses in the funds.

Deferred revenues	\$ 95,048	
Prepaid expenses	<u>91,513</u>	<u>186,561</u>

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amortization of bond issuance costs and bond discounts are expenditures in the statement of activities and reduce liabilities.

Bond repayments	\$ 105,000	
Bond issuance costs amortization	(2,098)	
Bond discount amortization	<u>(5,108)</u>	<u>97,794</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses include the change in compensated absences and the change in accrued interest payable.

Compensated absences	\$ (39,339)	
Interest payable	<u>6,233</u>	<u>(33,106)</u>

Change in Net Assets of Governmental Activities		\$ <u><u>(86,285)</u></u>
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See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents - Unrestricted	\$	\$ 572,447
- Restricted	193	
Due from other governments		91
Securities and mortgages		
 Total Assets	 193	 \$ <u>572,538</u>
<u>LIABILITIES</u>		
Agency liabilities		\$ 564,335
Due to other governments		8,203
 Total Liabilities	 -0-	 \$ <u>572,538</u>
<u>NET ASSETS</u>		
Cemetery Trusts	\$	<u>193</u>

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

		Private Purpose Trusts
	<u>ADDITIONS</u>	
Contributions		\$ _____
Investment earnings		_____
Total Additions		<u> -0-</u>
	<u>DEDUCTIONS</u>	
Distributions		<u> 100</u>
Total Deductions		<u> 100</u>
Change in Net Assets		<u> (100)</u>
Net Assets - Beginning		<u> 293</u>
Net Assets - Ending		<u><u> 193</u></u>

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 1 - Summary of Significant Accounting Policies

The financial statements of the County of Schuyler have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the County's accounting policies are described below.

A. Financial Reporting Entity

The County of Schuyler, which was incorporated in 1854, is governed by County Law and other laws of the State of New York and various local laws and ordinances. The County Legislature, which is the legislative body responsible for the overall operation of the County, consists of eight legislators. The Chairman of the Legislature serves as Chief Executive Officer of the County and the Treasurer serves as Chief Fiscal Officer.

The County provides the following basic services: public safety (including district attorney, assigned counsel, sheriff, probation, and jail), education (partial tuition to community colleges and tuition and transportation of handicapped children), public health, mental health, social services, highway maintenance, culture, and recreation programs.

All governmental activities and functions performed for the County of Schuyler 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 Schuyler, (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 statements to be misleading or incomplete, as set forth in GASB Statement No. 14.

The decision to include a component unit in the County's reporting entity is based on several criteria set forth in GASB Statement No. 14 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 Schuyler's reporting entity.

1. Included in the Reporting Entity

Based on the foregoing criteria and the significant factors presented below, the following organizations are included in the reporting entity:

The Schuyler County Industrial Development Agency

The Schuyler County Industrial Development Agency was created in 1971 by the Schuyler County Legislature under the provisions of Chapter 535 of the 1971 Laws of New York State for the purpose of encouraging economic growth in Schuyler County. The Agency is exempt from federal, state and local income taxes. The Agency, although established by the Schuyler County Legislature, is a separate entity and operates independently of the County. A separate audit report dated February 25, 2005 has been issued for the Schuyler County Industrial Development Agency for the year ended December 31, 2004. The Agency is considered a component unit of the County and is discretely presented. Complete financial statements for Schuyler County Industrial Development Agency may be obtained by writing their administrative office at 2 North Franklin Street, Suite 330, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Section 870 of General Municipal Law indicates that the bonds or notes and other obligations of the Industrial Development Agency are not the debt of the County, and the payment of such is payable out of the funds of the Industrial Development Agency.

The Schuyler County Soil and Water Conservation District

The Schuyler County Soil and Water Conservation District was established in October, 1940, in accordance with the Soil and Water Conservation District's Law, to provide for the conservation of soil and water resources. Members of the District's Board of Directors are appointed by the County Board of Supervisors and 17% of the District's general fund revenue is provided through a County appropriation. The District is considered a component unit of the County and is discretely presented. Complete financial information for Schuyler County Soil and Water Conservation District may be obtained by writing their administrative office at 208 Broadway, Montour Falls, NY 14865.

The Schuyler Tobacco Asset Securitization Corporation

The Schuyler Tobacco Asset Securitization Corporation (TASC) is a local development corporation organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York. The Schuyler County TASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTT). The trust in-turn issued \$227,130,000 aggregate principal amounts of Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The Schuyler TASC is controlled by a group of four directors who are appointed by the Chair of the Schuyler County Legislature. At this time, two directors are members of the County Legislature, one is a member of the management team of the County and one member has no affiliation with the County. The Corporation is deemed to be a component unit of Schuyler County and is presented in the annual financial statements of the County as a blended component unit, reported as a non major debt service fund. A separate audit report dated April 26, 2005 has been issued for the Schuyler TASC for the year ended December 31, 2004. Complete financial statements for Schuyler TASC may be obtained from Schuyler County, 105 9th Street, Watkins Glen, NY 14891.

2. Excluded from the Reporting Entity

The Counties of Steuben, Chemung, and Schuyler are participants in the joint Southern Tier Central Regional Planning and Development Board. The municipal agreement provides that each county's share of the cost shall be prorated as agreed upon by the member counties. In 2004, Schuyler County's share aggregated \$-0-. Since none of the member counties have sole control over the Board's operation, the activity of the Board is excluded from the reporting entity of all member counties. Complete financial statements for the Southern Tier Central Regional Planning and Development Board may be obtained by writing their administrative office at 145 Village Square, Painted Post, NY 14870.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

B. Basic Financial Statements

The County's basic financial statements include both government-wide (reporting the County as a whole) and fund financial statements (reporting the County's major funds.) Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The County's general governmental support, education, public safety, health, transportation, highways and streets, economic assistance and opportunity, culture and recreation, and home and community services are classified as governmental activities. The County currently has no business-type activities.

1. Government-wide Statements

The government-wide statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of activities for the primary government and for the County's discretely presented component units.

Government-wide financial statements do not include the activities reported in the fiduciary funds or fiduciary component units. This government-wide focus is more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The County first utilizes restricted resources to finance qualifying activities.

The Statement of Activities reports both the gross and net cost for each of the County's functions or programs. Gross expenses are direct expenses, including depreciation, that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. These expenses are offset by program revenues - charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the prepared or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the County, with certain limited exceptions. The net cost represents the extent to which each function or program is self-financing or draws from the general revenues of the County.

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

2. Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

The County records its transactions in the fund types described below:

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 based upon determination of financial position and changes in financial position. The following are the County's governmental funds:

Major Funds

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

County Road Fund - A special revenue fund used to account for expenditures for highway purposes authorized by Section 114 of the Highway Law.

Special Grant Fund - A special revenue fund used to account for activities under the Housing and Community Development Act of 1974.

Capital Project Fund - Used to account for financial resources to be used for the acquisition, construction, or renovation of major capital facilities.

Non-Major Funds

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

Schuyler Tobacco Asset Securitization Corporation (STASC) - Used to account for financial resources to be used for the payment of securitization bonds.

Fiduciary Funds

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

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

Private-Purpose Trust Fund - Such funds are used to report all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. The County uses this fund to report funds held for the upkeep of specific cemetery plots.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

C. Basis of Accounting/Measurement Focus

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.

1. Accrual Basis

The government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the County's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual Basis

Under this basis of accounting, 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. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. The County considers property tax receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year. All other revenues that are deemed collectible within one year after year end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when received. Exceptions to this general rule are that 1) principal and interest on indebtedness are not recognized as an expenditure until due, and 2) compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

D. Property Taxes

The authority of levying taxes for the support of County and town governments, inclusive of special districts, and for re-levying unpaid school taxes, has been delegated by the State Legislature to the governing board of the County through various provisions of the Real Property Tax Law. For purposes of both County and town taxes, the value of real property is listed and established by the towns for each parcel of real property therein. Amounts to be raised by tax are determined from balanced budgets of the towns and the County and levied on or before December 31, each year. Unpaid school taxes are purchased from each school district and added to tax levies and, until paid, are counted among the assets of the County; the County thus acquires all rights, title, and interest in any unpaid school taxes. Any such taxes remaining unpaid at the time of the tax sale are sold along with any other unpaid taxes subject to County enforcement.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Property taxes are levied each December 31, on the assessed value of all real property located within the County and become a lien on January 1. Taxes are payable during January without penalty. Beginning in February a 1% penalty is added. Property tax payments may be made in installments, which carry a 1% fee, payable on January 30, and on or before July 1. The initial responsibility of collecting County property taxes rests with the towns located within the County. The tax rolls are delivered to the treasurer on or before the 15th of April at which time a 5% fee plus 12% per annum from February 1, to date of payment are added. The towns retain the full amount of their related town levy and remit the balance of collected taxes to the County. Responsibility for collection of delinquent taxes is then transferred to the County.

Property taxes are recorded as receivables and revenues at the time the tax levy is billed. Uncollected amounts estimated to be collected subsequent to the first 60 days after year end are recorded as deferred revenues.

Non-city school district taxes are turned over to the County for enforcement on November 15. The County collects the second installment of school taxes on or before November 30. Payment to school districts for second installments is required to be remitted within ten days of collection. On December 1, any such taxes remaining unpaid are relieved as County taxes in the subsequent year. The balance of uncollected school taxes is required to be remitted by April 1.

City school district taxes are turned over to the County for enforcement on April 15, and are enforced as a separate tax until the time of tax sale at which time they become part of the County's lien. The balance of uncollected city school taxes is remitted by December 31.

E. Budgetary Data

1. Budget Policies - The budget policies are as follows:

- a. No later than November 15, the budget officer submits a tentative budget to the County Legislature for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for the following funds:
 - General Fund
 - County Road Fund
 - Road Machinery Fund
- b. After public hearings are conducted to obtain taxpayer comments, no later than December 20, the governing board adopts the budget.
- c. All modifications of the budget must be approved by the County Legislature. During 2004, the budget was modified for unanticipated grants and revenues, anticipated bond revenue and carryover encumbrances.
- d. Appropriations are adopted at the functional level by department.
- e. Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects, which remain in effect for the life of the project.
- f. Appropriations lapse at year end.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

2. Encumbrances

Encumbrances are recorded to reserve a portion of fund balance for outstanding commitments to be financed from current appropriations. Encumbrance accounting, under which 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 reservations of fund balances, as 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. Encumbrances are not considered a disbursement in the financial plan or an expenditure in the GAAP based financial statements, but reserve a portion of the applicable appropriation, thereby ensuring that the appropriations are not exceeded.

F. Receivables

Amounts due from state and federal governments represent amounts owed to the County to reimburse it for expenditures incurred pursuant to state and federally funded programs. Other receivables represent amounts owed to the County for billed services, health insurance, and medical loans. No provision has been made for uncollectible accounts for amounts reported as Other Receivables as it is believed that such amounts would be immaterial.

G. Vacation and Sick Leave and Compensatory Absences

Pursuant to contractual agreements, County employees are entitled to accrue a maximum of 165 days of sick leave and 30 days of vacation leave. An individual who leaves the employ of the County is entitled to be paid for unused vacation leave credits.

Estimated vacation accumulated by governmental fund type employees has been recorded in the government-wide financial statements.

Payment of vacation recorded in the government-wide financial statements 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 when such payment becomes due.

H. Cash and Cash Equivalents

For financial statement purposes, the County of Schuyler considers all highly liquid investments of three months or less as cash equivalents.

I. Investments

Investments are valued at fair value.

J. Inventory

Inventory is recorded at cost on a first-in, first-out basis.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

K. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets. Governmental capital assets purchased or acquired with an original cost of over \$5,000 and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

Buildings	50 years
Machinery and equipment	3 - 20 years
Infrastructure	10 - 50 years

L. Postemployment Benefits

In addition to providing pension benefits, the County of Schuyler provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the County of Schuyler's employees may become eligible for these benefits if they reach normal retirement age while working for the County of Schuyler. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The County offers the benefit, with related premiums funded 50% by participating retirees. The retiree also pays 65% of the premium covering the retiree's spouse. A total of 83 retirees are covered. The County recognized \$240,347 as an expenditure in 2004 for its share of the benefit premiums.

M. Sales Tax

Pursuant to local law, the County levies a four percent tax in accordance with the Tax Law, Section 1210. The County retains three quarters (3/4) of such taxes for County purposes and distributes the remainder to the towns and villages in the County.

N. Revenues

Substantially all governmental fund revenues are accrued. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient. Subsidies and grants to proprietary funds that finance either capital or current operations are reported as nonoperating revenue based on GASB No. 33.

O. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, it is the County's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

P. Interfund Activity

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

Q. Insurance

The County of Schuyler assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

R. Equity Classifications

1. Government-wide Statements

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further classified as designated and undesignated. The County reports the following reserve accounts:

- Encumbrance Reserve
The Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. This reserve is accounted for in the General Fund and Road Machinery Fund.
- Miscellaneous Special Reserve
The Miscellaneous Special Reserve is used to account for funds restricted for miscellaneous projects, as authorized by county resolution. This reserve is further outlined in Note 8. This reserve is accounted for in the General Fund and Road Machinery Fund.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

- **Mandatory Reserve for Debt Service**

The Mandatory Reserve for Debt Service (GML §6-1) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of County property or capital improvement that was financed by obligations which remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of County property or capital improvement. This reserve is accounted for in the General Fund and STASC Debt Service Fund.

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

The County of Schuyler's investment policies are governed by state statutes. In addition, the County of Schuyler has its own written investment policy. The County of Schuyler's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The 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 (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts, obligations of Puerto Rico, obligations of municipalities of other states, obligations of domestic corporations, mortgage related securities, commercial paper and bankers acceptances, and zero coupon obligations of the United States.

Deposits are valued at cost or cost plus interest, and are categorized as either (1) insured and for which the collateral is held by the County's agent in the County's name, (2) collateralized, and for which the securities are held by the pledging financial institution's trust department or agent in the County's name, or (3) uncollateralized.

Total financial institution (bank) balances at December 31, 2004, per the bank, were \$6,165,133, and \$479,130 for the primary government and component units, respectively. These deposits are categorized as follows:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>
Primary Government and Blended Component Unit	\$ 1,049,830	\$ 4,305,629	\$ 154,892	\$ 5,500,707
Fiduciary Funds	\$ 155,407	\$ 402,202	\$ 97,173	\$ 572,640
Soil and Water District	\$ 181,790	\$ 116,299	\$	\$ 287,529
Industrial Development Agency	\$ 181,041	\$	\$	\$ 173,808

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

2. Property Taxes

Property taxes levied for 2004 are recorded as revenue and receivables, net of estimated uncollectible amounts. In the fund financial statements, the net receivables collected during 2004 and expected to be collected within the first sixty days of 2004 are recognized as revenues in 2004. Net receivables estimated to be collectible subsequent to the first sixty days of 2004 are reflected as deferred revenue. At December 31, 2004, the County had deferred \$1,123,763 of real property tax revenue.

Taxes receivable at December 31, 2004 are summarized as follows:

Tax Sale Certificates	\$	70,918
School Taxes		954,274
Taxes Receivable - City School		33,245
Taxes Receivable - Overdue		1,023,765
Other		254,140
Allowance for Uncollectible Taxes		<u>(221,253)</u>
 Taxes Receivable	 \$	 <u>2,115,089</u>

Uncollected school taxes assumed by the County as a result of settlement proceedings are reported as receivables in the general fund to maintain central control and provide for tax settlement and enforcement proceedings. The portion of the receivable that represents taxes relieved for schools in the amount of \$1,148,310 is reflected as a liability, due to other governments, in the accompanying basic financial statements.

3. Other Receivables

Other receivables at December 31, 2004 consisted of the following, which are stated at net realizable value. The County has deemed the amounts to be fully collectible.

Fund	Description	Amount
General	County Clerk	\$ 42,215
	Public Health Fees	111,049
	Mental Health Fees	233,357
	Sales Taxes	552,944
	Public Safety Fees	34,396
	Emergency Management	5,640
	Support Collections	2,479
	Court Fees	550
	Information Technology	4,860
	Youth Bureau	2,808
	Other	<u>24,207</u>
 Total General Fund		 1,014,505
County Road	Billed Services	392
Special Grant	Other	1,254
Aggregate Non-Major	Billed Services	<u>17,299</u>
 Total Other Receivables		 \$ <u>1,033,450</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	RESTATED			
	Balance at		Additions	Deletions
	12/31/03			
				Balance at
				12/31/04
<u>Governmental Activities:</u>				
Land	\$ 502,870	\$		\$ 502,870
Construction in progress			669,487	669,487
Total non-depreciable capital assets	<u>502,870</u>		<u>669,487</u>	<u>1,172,357</u>
Buildings	9,723,969			9,723,969
Machinery and equipment	6,153,709		483,127	6,533,877
Land improvements	1,775,035			1,775,035
Infrastructure	20,924,101		583,566	21,507,667
Total depreciable capital assets	<u>38,576,814</u>		<u>1,066,693</u>	<u>39,540,548</u>
Total Historical Cost	<u>39,079,684</u>		<u>1,736,180</u>	<u>40,712,905</u>
Less accumulated depreciation:				
Buildings	4,052,372		280,134	4,332,506
Machinery and equipment	4,534,714		489,252	4,934,690
Land improvements	455,795		32,651	488,446
Infrastructure	9,307,809		1,379,166	10,686,975
Total Accumulated Depreciation	<u>18,350,690</u>		<u>2,181,203</u>	<u>20,442,617</u>
Governmental Activities Capital Assets, Net	<u>\$ 20,728,994</u>	<u>\$ (445,023)</u>	<u>\$ 13,683</u>	<u>\$ 20,270,288</u>

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	
General government support	\$ 191,279
Public safety	192,584
Public health	109,671
Transportation	1,601,412
Economic assistance and opportunity	36,080
Culture and recreation	37,196
Home and community services	12,981
	<u>2,181,203</u>
Total Governmental Activities Depreciation Expense	<u>\$ 2,181,203</u>

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

B. Liabilities

1. Pension Plans

a. Plan Description

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

b. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. 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 Schuyler is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

<u>Year</u>	<u>ERS</u>
2004	\$ 861,472
2003	388,522
2002	120,049

The County of Schuyler's contributions made to the Systems were equal to 100% of the contributions required for each year.

Since 1989, the Systems' billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the Systems' fiscal years ended March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17 year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The County of Schuyler elected to make full payment on December 15, 1989.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2004

2. Debt

a. Constitutional Debt Limit

At December 31, 2004, the total outstanding indebtedness of the County aggregated \$3,182,971. Of this amount, \$320,000 was subject to the constitutional limitations on indebtedness and represented .73% of the County's statutory debt limit.

b. Serial Bonds

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

c. Bond Anticipation Notes

Liabilities for bond anticipation notes (BANs) are generally accounted for in the Capital Project Funds. Principal payments on BANs must be made annually.

State law requires that BANs issued for capital purposes be converted to long-term obligations within 5 years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for period's equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

d. Other Debt

In addition to the above debt, the County had the following liability:

Compensated Absences - Represents the unfunded value of the liability for accumulated vacation. This liability is liquidated from the General, County Road and Road Machinery Funds.

e. Summary of Debt

The following is a statement of serial bonds and bond anticipation notes with corresponding maturity schedules:

Payable from/ Description	Original Date of Issue	Original Amount	Interest Rate	Date of Final Maturity	Balance December 31,
BANs:					
Various Purposes	12/20/03	\$ 882,117	2.0%	12/19/04	\$ -0-
Serial Bonds:					
Courthouse/Office Reconstruction	4/1/94	2,300,000	5.5-5.8%	10/15/13	320,000
STASC	12/00	3,280,000	5.25-6.3%	6/2023	2,970,000
Less: Unamortized Bond Discount					(107,029)
Total					<u>\$ 3,182,971</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

f. Change in Indebtedness

The following represents changes in the County's indebtedness during the year ended December 31, 2004:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due Within One Year
Serial Bonds	\$ 355,000	\$	\$ 35,000	\$ 320,000	\$ 35,000
BANs	500,000		500,000	-0-	-0-
STASC Bonds	3,040,000		70,000	2,970,000	70,000
Less: Unamortized Bond Discount	(112,137)		(5,108)	(107,029)	(5,109)
Compensated Absences	356,149	39,339		395,488	39,549
Total	\$ 4,139,012	\$ 39,339	\$ 599,892	\$ 3,578,459	\$ 139,440

Additions and deletions to compensated absences are shown net as it is impractical to determine these amounts separately. The County paid \$26,617 in interest on the Bonds and Bond Anticipation Notes during the year. The Schuyler TASC paid \$192,055 in interest on Bonds during the year. Interest paid on the Serial Bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

Cash paid	\$ 218,672
Less interest accrued in prior year	(22,182)
Add interest accrued in current year	15,948
Add amortization of bond discount	5,109
Total	\$ 217,547

g. Debt Service Requirements

The TASC elected the 25 year flexible amortization option. The following table summarizes the County's future debt service requirements as of December 31, 2004:

Year	County Serial Bonds		STASC Bonds		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2005	\$ 35,000	\$ 18,310	\$ 70,000	\$ 188,032	\$ 105,000	\$ 206,342
2006	35,000	16,350	80,000	183,600	115,000	199,950
2007	35,000	14,390	90,000	178,416	125,000	192,806
2008	40,000	12,430	100,000	172,590	140,000	185,020
2009	35,000	10,150	105,000	166,304	140,000	176,454
2010-2014	140,000	20,300	650,000	717,975	790,000	738,275
2015-2019			905,000	480,057	905,000	480,057
2020-2023			970,000	126,538	970,000	126,538
Total	\$ 320,000	\$ 91,930	\$ 2,970,000	\$ 2,213,512	\$ 3,290,000	\$ 2,305,442

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

h. The County's future right, title, and interest in the Tobacco Settlement Revenues were financed through the issuance of Bonds in the amount of \$3,280,000 and bearing interest rates ranging from 5.25% to 6.3%.

C. Interfund Receivables and Payables

During the course of normal operations, the County has numerous transactions between funds including expenditures and transfers of resources primarily to subsidize other funds. The governmental funds financial statements generally reflect such transactions as transfers. Interfund receivables and payables and interfund transfer revenues and expenditures at December 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 2,873,578	\$ 821,189
County Road	702,264	1,326,687
Non-Major	95,145	149,472
Special Grant		552,056
Capital Projects	154,397	975,980
Total	<u>\$ 3,825,384</u>	<u>\$ 3,825,384</u>

<u>Fund</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General	\$ 1,009,220	\$ 3,091,022
Capital project	552,074	57,824
Non-Major	1,777,478	189,926
County Roads		
Total	<u>\$ 3,338,772</u>	<u>\$ 3,338,772</u>

Note 3 - Stewardship, Compliance, and Accountability

The Capital Project Fund had a deficit fund balance of \$170,721. This deficit will be reduced as grants are finalized and monies are transferred from other funds. Also, the Special Grant Fund had a deficit of \$20,114. This deficit will be reduced by a transfer from the General Fund.

At December 31, 2004, the County had uncollateralized financial institution (bank) deposits of \$252,065. This is a violation of state statutes.

Note 4 - Summary of Significant Commitments and Contingencies

A. State and Federally Assisted Programs

The County receives many different state and federal grants to be used for specific purposes. These grants are generally conditioned on compliance with certain statutory, regulatory, and/or contractual requirements. The County makes every effort to comply with all applicable requirements. However, since these grants are audited from time to time, it is possible that the County will be required, upon audit, to repay portions of the grant monies received and recorded as revenue in a prior year. County officials do not anticipate material grant-in-aid disallowances, and no provision, therefore, is reflected in the financial statements.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

B. Other Litigation

The County and/or its agencies are named in several minor lawsuits arising in the ordinary course of the County's operations. These claims and lawsuits, in the opinion of management, are either adequately covered by insurance or will not result in a material impact on the financial position of the County and therefore, are not reflected in the accompanying financial statements. In the past three years, no settlements exceeded insurance coverage.

Note 5 - Other Disclosures

A. Schuyler County Community Services Board

The Schuyler County Community Services Board was formed under Mental Hygiene Law, Section 41, to enable and encourage the County to develop preventive, rehabilitative and treatment services for the mentally ill, the mentally retarded and the developmentally disabled, and those suffering from the diseases of alcoholism and substance abuse in the community. The Board was formed to be a policy-making body with regards to the services provided to the community. During 1996, the Board applied for and received funding to build a new building. The bonding was obtained through the Local Government Services Corporation (LGSC) and various other state grants were received to supplement the funding stream. Because the bonding was obtained through the LGSC, the LGSC will retain title to the building for the life of the bonds. Therefore, no asset has been recorded on the County's fixed asset records.

Note 6 - Other Contingencies

During 1999, New York State and its localities achieved final approval of the Master Settlement Agreement (MSA) with the tobacco industry. The Settlement represents reimbursement to the State for medical costs incurred, primarily paid by Medicaid, for treating smoking-related illnesses. The State and its localities are expected to receive approximately \$25,000,000,000 over the next 25 years. There are a number of risks associated with the tobacco settlement that may cause the settlement amount to change. These risks include inflating adjustments, adjustments for consumption of cigarettes, bankruptcy by tobacco companies, federal litigation and individual and class action lawsuits.

During 2000, the County sold its right to receive payments under the MSA to the Schuyler Tobacco Asset Securitization Corporation (TASC) for \$2,786,627. These proceeds were used to defease outstanding debt of the County in the amount of \$2,010,000, with a deposit to an irrevocable trust in the amount of \$2,039,336 to generate resources sufficient to meet future debt service requirements. The remaining \$747,291 received from proceeds was used for the purpose of financing various capital projects. The TASC is considered a component unit of the County and is blended in the financial statements.

Note 7 - Transactions with Component Units

- A. Schuyler County Industrial Development Agency (IDA) - During the year ended December 31, 2004, the County of Schuyler paid \$5,000 in administration fees to the IDA.
- B. Schuyler County Soil and Water Conservation District - The County contributed \$93,253 to the Soil and Water Conservation District during the year ended December 31, 2004.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 8 - Net Assets - Statement of Net Assets

Of the \$6,201,999 reported as unrestricted net assets of the governmental activities in the government-wide Statement of Net Assets, the County Legislature has designated funds to be set aside for certain purposes or contingencies, as follows:

Unrestricted Net Assets	\$ 6,357,504
Designated for:	
Ensuing year's budget	900,000
Carry-over of prior year's commitments (encumbrances)	152,638
Miscellaneous special reserve - Sick bank	8,175
Repairs	57,541
Total Unrestricted, Designated Net Assets	1,118,354
Total Unrestricted, Undesignated Net Assets	\$ 5,239,150

Note 9 - Prior Period Adjustments

Net assets at the beginning of 2004 have been adjusted for additional 2003 infrastructure, less accumulated depreciation, not included in the prior year. The correction has no effect on the results of the current year's activities; however, the cumulative effect decreases net assets by \$404,577.

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Final Budget
<u>REVENUES</u>		
Real property taxes	\$ 7,776,960	\$ 7,776,960
Real property tax items	445,580	445,580
Nonproperty tax items	5,661,436	5,661,436
Departmental income	771,375	771,375
Intergovernmental charges	3,133,235	3,213,215
Use of money and property	277,724	280,393
Licenses and permits		
Fines and forfeitures	75,799	75,599
Sale of property and compensation for loss	93,372	93,372
Miscellaneous local sources	25,840	30,985
Interfund revenues		
State sources	4,656,598	4,730,440
Federal sources	3,380,389	3,817,209
Total Revenues	26,298,308	26,896,564
<u>EXPENDITURES</u>		
Current:		
General governmental support	2,764,169	2,983,204
Education	1,210,000	1,210,000
Public safety	2,513,369	2,707,920
Public health	3,812,154	4,196,558
Transportation	145,780	183,465
Economic assistance and opportunity	10,312,554	10,120,873
Culture and recreation	202,755	216,667
Home and community services	468,350	470,158
Employee benefits	3,370,371	3,308,814
Debt service - principal and interest	79,654	79,654
Total Expenditures	24,879,156	25,477,313
Excess of Revenues (Expenditures)	1,419,152	1,419,251
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		
Interfund transfers (out)	(2,319,152)	(3,091,022)
Proceeds of obligations		
Sale of capital assets		
Total Other Financing (Uses)	(2,319,152)	(3,091,022)
Excess of (Expenditures) and Other Financing Sources (Uses)	(900,000)	(1,671,771)
Appropriated fund balances	900,000	1,671,771
Net Increase (Decrease)	\$ -0-	\$ -0-
Fund Balances, Beginning		
Fund Balances, Ending		

See Independent Auditors' Report and Notes to Financial Statements

Actual	Encumbrances	Variance Favorable- (Unfavorable)
\$ 7,762,064	\$	\$ (14,896)
396,033		(49,547)
5,825,252		163,816
3,542,428		2,771,053
176,986		(3,036,229)
267,333		(13,060)
		-0-
66,562		(9,037)
292,638		199,266
36,422		5,437
		-0-
4,853,057		122,617
3,230,274		(586,935)
26,449,049	-0-	(447,515)

2,786,698	39,380	157,126
1,084,440		125,560
2,452,077	7,955	247,888
3,466,467	3,155	726,936
183,465		-0-
9,969,555	34,250	117,068
212,817		3,850
394,628	480	75,050
3,236,021		72,793
55,849		23,805
23,842,017	85,220	1,550,076
2,607,032	(85,220)	1,102,561
		-0-
(3,091,022)		-0-
		-0-
		-0-
(3,091,022)	-0-	-0-

(483,990)	\$ (85,220)	\$ 1,102,561
(483,990)		
5,965,212		
\$ 5,481,222		

COUNTY OFSCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 COUNTY ROAD FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>
<u>REVENUES</u>		
Departmental income	\$	\$
Intergovernmental charges	<u>500</u>	<u>500</u>
Use of money and property	<u>1,000</u>	<u>1,000</u>
Fines and forfeitures	<u>200</u>	<u>200</u>
Sale of property and compensation for loss	<u>1,000</u>	<u>1,000</u>
Miscellaneous local sources	<u>500</u>	<u>500</u>
State sources	<u>583,369</u>	<u>606,140</u>
Federal sources	<u>51,360</u>	<u>51,360</u>
Total Revenues	<u>637,929</u>	<u>660,700</u>
<u>EXPENDITURES</u>		
Transportation	<u>1,875,821</u>	<u>1,888,079</u>
Employee benefits	<u>355,697</u>	<u>355,810</u>
Debt service - principal and interest	<u>183,889</u>	<u>183,889</u>
Total Expenditures	<u>2,415,407</u>	<u>2,427,778</u>
Excess of Revenues (Expenditures)	<u>(1,777,478)</u>	<u>(1,767,078)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	<u>1,777,478</u>	<u>1,767,078</u>
Interfund transfers (out)	<u></u>	<u>(189,926)</u>
Sale of capital assets	<u></u>	<u></u>
Total Other Financing Sources (Uses)	<u>1,777,478</u>	<u>1,577,152</u>
Excess of (Expenditures) and Other Financing Sources (Uses)	<u>-0-</u>	<u>(189,926)</u>
Appropriated fund balances	<u></u>	<u>189,926</u>
Net Increase (Decrease)	<u>\$ -0-</u>	<u>\$ -0-</u>
Fund Balances, Beginning of Year		
Fund Balances, End of Year		

See Independent Auditors' Report and Notes to Financial Statements

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable- (Unfavorable)</u>
\$ _____	\$ _____	\$ _____
		(500)
910		(90)
290		90
501		(499)
128,673		128,173
594,489		(11,651)
157,478		106,118
882,341	-0-	221,641
1,812,233		75,846
345,782		10,028
4,363		179,526
2,162,378		265,400
(1,280,037)	-0-	487,041
\$ 1,777,478		10,400
(189,926)		-0-
		-0-
1,587,552		10,400
307,515	\$ -0-	\$ 497,441
307,515		
67,815		
\$ 375,330		

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2004

Note 1 - Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered a disbursement in the financial plan or an expenditure in GAAP based financial statements. Encumbrances reserve a portion of the applicable appropriation for purchase orders, contracts, and other commitments not expended at year end, thereby ensuring that appropriations are not exceeded.

An annual legal budget is not adopted for the Special Grant Fund or the Road Machinery Fund, which are Special Revenue Funds. Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements. The Road Machinery Fund is not legally required to adopt an annual budget.

COUNTY OF SCHUYLER
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004

<u>ASSETS</u>	<u>Road Machinery</u>	<u>STASC Debt Service</u>	<u>Non-Major Governmental Funds</u>
Assets:			
Cash and cash equivalents - Unrestricted	\$ 118,420	\$ 78,121	\$ 196,541
- Restricted		272,124	272,124
Temporary investments			
Taxes receivable, net			
Due from other funds	95,145		95,145
Due from state and federal governments			
Due from other governments			
Other receivables, net	16,246	1,053	17,299
Prepaid expenses		5,594	5,594
Inventories			
Securities and mortgages			
Other			
Total Assets	<u>\$ 229,811</u>	<u>\$ 356,892</u>	<u>\$ 586,703</u>

LIABILITIES AND FUND BALANCES

Liabilities:			
Accounts payable	\$ 36,247	\$	\$ 36,247
Accrued liabilities	1,961		1,961
Due to other funds	149,472		149,472
Due to other governments			
Mortgages payable			
Bond interest and matured bonds payable			
Bond anticipation notes payable			
Bonds payable			
Due to employees' retirement system			
Installment purchase debt			
Judgments and claims payable			
Compensated absences			
Retained percentages			
Other liabilities			
Landfill closure and postclosure care costs			
Deferred revenues			
Total Liabilities	<u>187,680</u>	<u>-0-</u>	<u>187,680</u>

See Independent Auditors' Report

COUNTY OF SCHUYLER
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 (CONTINUED)
DECEMBER 31, 2004

	<u>Road Machinery</u>	<u>STASC Debt Service</u>	<u>Non-Major Governmental Funds</u>
<u>LIABILITIES AND FUND BALANCES (CONTINUED)</u>			
Total Liabilities Brought Forward	\$ 187,680	\$ -0-	\$ 187,680
Fund Balances:			
Fund Balances - Reserved:			
Encumbrances	<u>67,418</u>		<u>67,418</u>
Miscellaneous special reserve	<u>37,541</u>		<u>37,541</u>
Debt service		<u>356,892</u>	<u>356,892</u>
Capital			
Total Reserved	<u>104,959</u>	<u>356,892</u>	<u>461,851</u>
Fund balances - Unreserved, Reported in:			
Special revenue funds	<u>(62,828)</u>		<u>(62,828)</u>
Total Fund Balances	<u>42,131</u>	<u>356,892</u>	<u>399,023</u>
 Total Liabilities and Fund Balances	 <u>\$ 229,811</u>	 <u>\$ 356,892</u>	 <u>\$ 586,703</u>

See Independent Auditors' Report

COUNTY OF SCHUYLER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	Road Machinery	STASC Debt Service	Non-Major Governmental Funds
<u>REVENUES</u>			
Real property taxes	\$	\$	\$
Real property tax items			
Nonproperty tax items			
Departmental income			
Intergovernmental charges	253,606		253,606
Use of money and property	1,030	19,095	20,125
Licenses and permits			
Fines and forfeitures			
Sale of property and compensation for loss	19,181		19,181
Miscellaneous local sources		304,859	304,859
Interfund revenues	180,000		180,000
State sources			
Federal sources			
Total Revenues	453,817	323,954	777,771
<u>EXPENDITURES</u>			
General governmental support		27,513	27,513
Education			
Public safety			
Public health			
Transportation	976,312		976,312
Economic assistance and opportunity			
Culture and recreation			
Home and community services			
Employee benefits	58,800		58,800
Debt service (principal and interest)	1,405	262,055	263,460
Capital outlay			
Total Expenditures	1,036,517	289,568	1,326,085
Excess of (Expenditures)	(582,700)	34,386	(548,314)
<u>OTHER FINANCING SOURCES (USES)</u>			
Interfund transfers in	552,074		552,074
Interfund transfers (out)	(57,824)		(57,824)
Proceeds of obligations			
Total Other Financing Sources	494,250	-0-	494,250
Excess of (Expenditures) Revenues and Other Financing Sources (Uses)	(88,450)	34,386	(54,064)
Fund Balances, Beginning	130,581	322,506	453,087
Fund Balances, Ending	\$ 42,131	\$ 356,892	\$ 399,023

See Independent Auditors' Report

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Certified Public Accountants and Consultants

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John E. Little, C.P.A.

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

To the Chairperson and the
Members of the Legislature
County of Schuyler
Watkins Glen, New York

We have audited the basic financial statements of the County of Schuyler, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County of Schuyler's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 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 04-1 and 04-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Schuyler's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County of Schuyler's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 04-3.

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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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the County of Schuyler in a separate letter dated April 22, 2005.

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

Ciaschi, Dieterhagen Little, Malaker & Company LLP

April 22, 2005
Ithaca, New York