

COUNTY OF SCHUYLER

Watkins Glen, New York

Financial Report

December 31, 2003

COUNTY OF SCHUYLER
DECEMBER 31, 2003

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John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.
John E. Little, C.P.A.

INDEPENDENT AUDITORS' 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, 2003, 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, 2003, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the County has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 2a-2j and the Budgetary Comparison Schedules on pages 30a-31b 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.

CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372
www.cdln.com

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

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.

Ciochi, Dietschman Little, Mikels & Company, LLP

November 2, 2004
Ithaca, New York

**COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2003**

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, 2003. Please read this information in conjunction with the County's financial statements, which begin on page 3a.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$24,614,782 (net assets). Of this amount, \$6,620,982 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's overall net assets decreased by \$136,376, or .55%, while unrestricted net assets increased by \$684,526, or 11.53%.
- During the year, the County had revenues of \$28,660,828, as compared to \$26,706,178 in 2002. Expenses of \$28,797,204 increased by \$3,058,188, from \$25,739,016 in the prior year.
- Revenues exceeded expenditures in the governmental funds by \$864,400, bringing fund balances to \$5,943,568 at year end.
- The General Fund recorded an increase of \$559,027 in 2003 and ended the year with a fund balance of \$5,965,212. Of this fund balance, \$410,888 was reserved for future expenditures, and \$5,554,324 was unreserved.
- The County's long-term obligations at year-end were \$4,139,012, a decrease of \$292,003 from 2002.

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 3a through 4b) 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 5a. 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.

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 3a, 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.

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.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

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 5a. 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 9. 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)
DECEMBER 31, 2003**

THE COUNTY AS A WHOLE

The County's net assets for fiscal year ended December 31, 2003 decreased \$136,376, from \$24,751,158 to \$24,614,782. In contrast, last year's net assets increased by \$967,162.

The largest portion of the County's net assets of \$17,350,708 (70.49%) 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, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the County's net assets (2.61%) 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 community development, public safety, and debt service.

The remaining category of total net assets, unrestricted net assets of \$6,620,982 may be used to meet the government's ongoing obligations and services to creditors and citizens. Of these net assets, the County has appropriated \$900,000 for 2004 expenses and reserved another \$251,646 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

	Governmental Activities		Dollar Change
	2002	2003	2002 - 2003
<i>Current assets</i>	\$ 10,576,587	\$ 10,750,606	\$ 174,019
<i>Capital assets, net</i>	22,317,820	21,133,571	(1,184,249)
<i>Other noncurrent assets</i>	417,182	481,154	63,972
Total Assets	33,311,589	32,365,331	(946,258)
<i>Current liabilities</i>	4,998,245	4,247,043	(751,202)
<i>Noncurrent liabilities</i>	3,562,186	3,503,506	(58,680)
Total Liabilities	8,560,431	7,750,549	(809,882)
<i>Invested in capital assets, net of debt</i>	18,210,066	17,350,708	(859,358)
<i>Restricted</i>	604,636	643,092	38,456
<i>Unrestricted</i>	5,936,456	6,620,982	684,526
Total Net Assets	\$ 24,751,158	\$ 24,614,782	\$ (136,376)

The County's capital assets, net, decreased \$1,184,249 due to depreciation expense greater than capital asset additions. Current liabilities decreased \$751,202 as a result of the paydown of a Bond Anticipation Note, a decrease in overpayments due to a reduction in the Mental Health reserves and a reduction in deferred revenue, primarily the result of the release of the Medicaid overburden advance of \$206,911, and the partial use of DEC funds received in advance of \$526,227. These decreases are offset by increases in accounts payable and the amounts due to other governments.

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

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

The County's total revenues increased by 7.32%, while the total cost of all programs and services increased by 11.88%, 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

	Governmental Activities		Dollar Change
	2002	2003	2002 - 2003
REVENUES			
<i>Program Revenues:</i>			
Charges for services	\$ 3,348,894	\$ 3,985,574	\$ 636,680
Operating grants and contributions	9,385,503	11,065,636	1,680,133
Capital grants	2,050,075	636,530	(1,413,545)
<i>General Revenues:</i>			
Property taxes and tax items	6,598,911	6,994,324	395,413
Sales and other taxes	4,455,299	5,172,471	717,172
Tobacco settlement	363,214	363,302	88
Unrestricted grants and contributions	38,478	29,796	(8,682)
Use of money and property	375,360	293,532	(81,828)
Other	90,444	119,663	29,219
Total Revenues	26,706,178	28,660,828	1,954,650
PROGRAM EXPENSES			
General government	2,963,657	3,356,098	392,441
Education	1,019,730	997,218	(22,512)
Public safety	2,896,973	3,064,662	167,689
Public health	3,997,517	4,044,067	46,550
Transportation	3,099,981	3,632,970	532,989
Economic assistance and opportunity	10,142,308	10,529,623	387,315
Culture and recreation	224,674	279,124	54,450
Home and community	1,145,875	2,659,812	1,513,937
Interest on long-term debt	248,301	233,630	(14,671)
Total Expenses	25,739,016	28,797,204	3,058,188
INCREASE (DECREASE) IN NET ASSETS	\$ 967,162	\$ (136,376)	\$ (1,103,538)

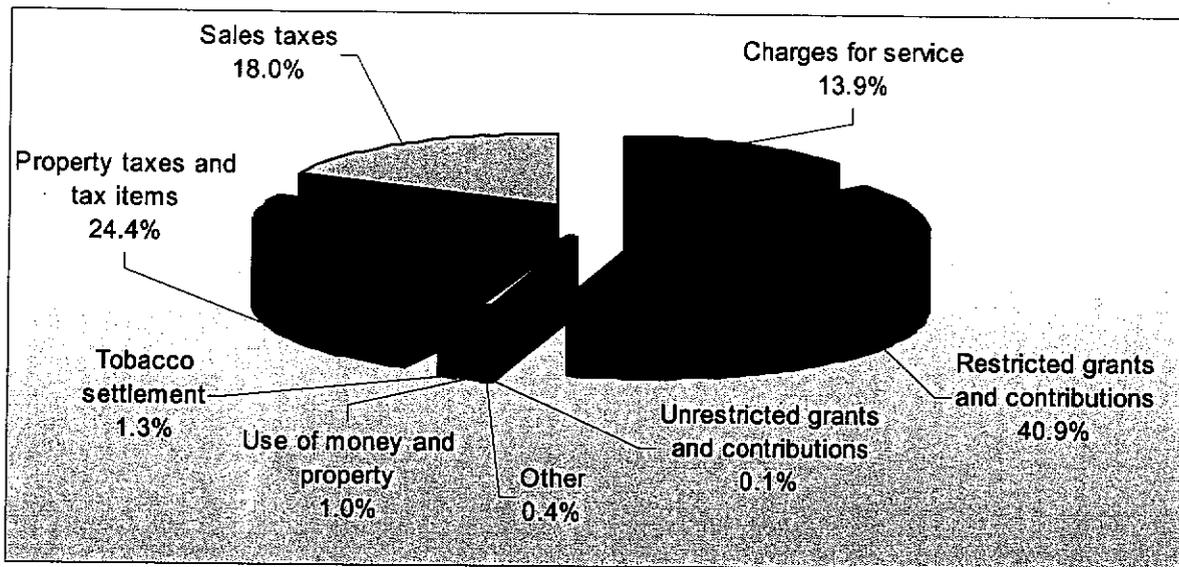
Charges for services were up from 2002 primarily due to an increase in mental health patients. Operating grants and contributions, mostly received from State and Federal sources, were higher by \$1,680,133, primarily due to a new community development grant and the use of revenues deferred in the prior year. Capital grants showed a decrease of \$1,413,545, reflecting completion of some of the County's transportation projects. Property taxes increased \$395,413 due to an increase in the tax levy in 2003. Sales and other taxes increased \$717,172 due to improved economic conditions in the County.

General government, public safety, public health, economic assistance and opportunity and culture and recreation expenses increased primarily due to increases in compensation rates. The increase in transportation expenses is mostly the result of depreciation of infrastructure and equipment. Home and community expenses increased primarily due to special assessment expenses of \$178,761 and the use of new grant funds in the amount of \$1,276,227 for ongoing economic development projects.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

Figure 3 shows the source of revenues for 2003.

Figure 3 - Revenues by Source
Governmental Activities
2003

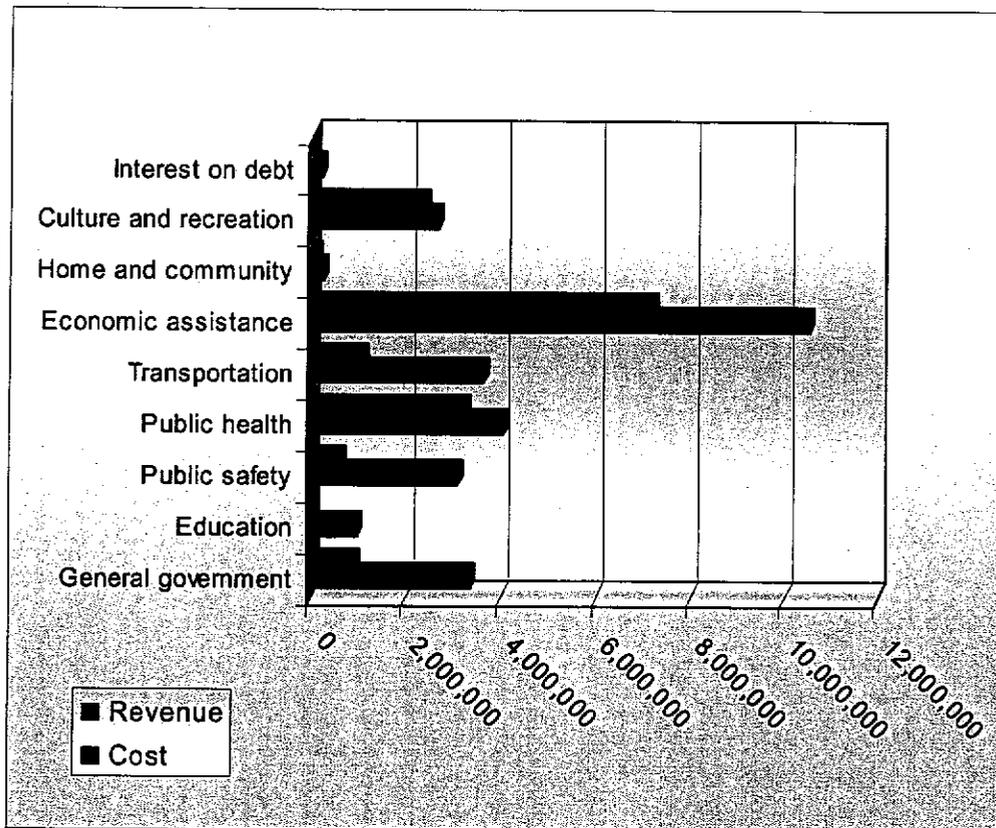


The cost of all governmental activities this year was \$28,797,204. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County property and other tax revenues was \$12,973,088, because some of the cost was paid by those who 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 \$15,687,740. The County paid for the remaining "public benefit" portion of governmental activities with \$6,994,324 in taxes and with other revenues, such as interest and general entitlements.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

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 4 - Net Program Cost
Governmental Activities
2003



COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

THE COUNTY'S FUNDS

As the County completed the year, its governmental funds, as presented in the balance sheets on pages 5a – 5d, reported a combined fund balance of \$5,943,568, which is higher than last year's total. Of this amount, \$894,738 is reserved for future expenditures and \$900,000 is designated for 2004 expenditures, leaving \$4,148,830 in unreserved and undesignated fund balance. Figure 5 shows the changes in fund balance for the County's governmental funds.

Figure 5
Governmental Funds
Fund Balance at Years Ended

	2002	2003	Dollar Change 2002 - 2003
General Fund	\$ 5,406,185	\$ 5,969,212	\$ 559,027
County Road	49,783	67,815	18,032
Special Grant	(80,856)	15,419	96,275
Capital Project	(738,232)	(557,965)	180,267
Road Machinery	116,676	130,581	13,905
TASC Debt Service	325,612	322,506	(3,106)
Totals	\$ 5,079,168	\$ 5,943,568	\$ 864,400

This year's total change in fund balance is an increase of 17%, compared to an 11% increase in 2002. The deficit in Capital Project Fund will be reduced upon the pay-off of short-term debt.

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.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

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 \$409,084 above the final budgeted amount. Sales tax revenue and federal sources significantly offset shortfalls in other areas.

Figure 6
Budgetary Comparison Schedule - General Fund
December 31, 2003

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual w/ Encumbrances</i>	<i>Variance Fav.-(Unfav.)</i>
REVENUES AND OTHER FINANCING SOURCES				
<i>Real property taxes and tax items</i>	\$ 7,095,843	\$ 7,109,716	\$ 7,027,772	\$ (81,944)
<i>Nonproperty tax items</i>	4,592,674	4,592,674	5,172,471	579,797
<i>Departmental income and intergovernmental charges</i>	3,658,799	3,766,019	3,702,230	(63,789)
<i>Use of money and property</i>	296,908	298,401	269,396	(29,005)
<i>State sources</i>	4,544,430	5,189,333	5,022,425	(166,908)
<i>Federal sources</i>	3,175,585	3,466,982	3,599,153	132,171
<i>Other</i>	157,600	155,600	194,362	38,762
Total Revenues and Other Financing Sources	\$ 23,521,839	\$ 24,578,725	\$ 24,987,809	\$ 409,084
Appropriated Fund Balance	\$ 933,469	\$ 1,052,469	\$ -0-	\$ (1,052,469)
EXPENDITURES AND OTHER FINANCING USES				
<i>General government</i>	\$ 2,572,762	\$ 2,684,218	\$ 2,581,567	\$ 102,651
<i>Education</i>	1,025,000	1,110,086	997,218	112,868
<i>Public safety</i>	2,457,818	2,480,360	2,272,007	208,353
<i>Public health</i>	3,659,806	3,715,423	3,432,630	282,793
<i>Transportation</i>	145,780	154,732	154,732	-0-
<i>Economic assistance and opportunity</i>	9,406,705	10,131,863	9,919,765	212,098
<i>Culture and recreation</i>	213,709	237,938	205,015	32,923
<i>Home and community</i>	384,940	601,874	556,350	45,524
<i>Employee benefits</i>	2,475,557	2,483,266	2,407,284	75,982
<i>Debt service</i>	71,777	71,777	50,139	21,638
<i>Other financing uses</i>	2,041,454	1,959,657	1,929,621	30,036
Total Expenditures and Other Financing Uses	\$ 24,455,308	\$ 25,631,194	\$ 24,506,328	\$ 1,124,866
Excess of Revenues and Other Financing Sources	\$ -0-	\$ -0-	\$ 481,481	\$ 481,481

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2003, the County had capital assets of \$21,133,571, net of accumulated depreciation of \$18,402,938, 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 \$1,184,249 over last year.

Figure 7
Capital Assets, Net of Depreciation

	Governmental Activities		Dollar Change
	2002	2003	2002 - 2003
<i>Land</i>	\$ 502,870	\$ 502,870	\$ -0-
<i>Buildings and improvements</i>	7,306,223	6,990,837	(315,386)
<i>Machinery and equipment</i>	1,810,033	1,618,995	(191,038)
<i>Infrastructure</i>	12,698,694	12,020,869	(677,825)
Totals	\$ 22,317,820	\$ 21,133,571	\$ (1,184,249)

This year's additions consisted of:

Machinery and equipment	\$ 534,151
Infrastructure	720,172
Total Additions	<u>1,254,323</u>
Less: Depreciation	<u>(2,438,572)</u>
Total net change	<u>\$ (1,184,249)</u>

Debt Administration

Total long-term liabilities decreased in 2003 by \$292,003, as shown in Figure 8. Of this amount, \$855,000 was subject to the constitutional debt limit and represented 1.3% 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)
DECEMBER 31, 2003

Figure 8
Outstanding Debt at Years Ended

	Governmental Activities		Dollar Change
	2002	2003	2002 - 2003
<i>Serial bonds</i>	\$ 385,000	\$ 355,000	\$ (30,000)
<i>Bond anticipation note payable</i>	700,000	500,000	(200,000)
<i>Compensated absences</i>	310,359	356,149	45,790
<i>Due to employee retirement system</i>	12,902	-0-	(12,902)
<i>Tobacco Settlement Pass-through bonds</i>	3,022,754	2,927,863	(94,891)
Totals	\$ 4,431,015	\$ 4,139,012	\$ (292,003)

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 3-B-3 to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County will continue to be challenged by the growth in mandated programs, which exceeds our capacity to finance such obligations without increasing property taxes. Between 2002 and 2004 the property tax levy grew from \$6,159,444 to \$7,776,960.

One of the substantial challenges for the County's future operations is its dependency on State and Federal funding for many of the mandated and essential services. We are aware that the state and federal governments are confronted with their own deficits, and it is possible that there could be reductions in financial assistance for these mandated programs. It is the policy of the County to maintain unreserved fund balances to protect against such circumstances.

To assist with future budgets the County Legislature has established reserve funds for future capital projects so that there will be a reduced need to go out for bonding, as well as for the retirement funds. The County Legislature has decided to use fund balance to reduce the indebtedness of the county by paying off all Bond Anticipation Notes, thereby reducing the need to budget for interest and principal payments which will help in keeping the tax rate to the taxpayer as low as possible.

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, 2003

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,445,397	\$ 336,174	\$ 112,552
Restricted cash	916,969		12,556
Investments		42,562	
Taxes receivable, net	1,548,077		
Accounts receivable, net	1,061,909		12,589
Loans receivable - current portion	10,000		79,662
Due from state and federal governments	3,587,394		
Due from other governments	40,533		
Balances between primary government and component units			
Prepaid expenses	129,433	1,847	
Inventories	10,894		
Other			
Total current assets	10,750,606	380,583	217,359
Noncurrent assets			
Restricted cash and cash equivalents	294,887		
Loans receivable, long-term portion	140,000		471,189
Funds held in trust			
Unamortized bond issue costs	46,267		
Capital assets, net of accumulated depreciation	21,133,571		
Total noncurrent assets	21,614,725		471,189
Total Assets	\$ 32,365,331	\$ 380,583	\$ 688,548
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 776,285		\$ 5,000
Accrued liabilities	591,712		
Bond anticipation notes payable	500,000		
Interest payable	22,182		
Due to other governments	1,647,237		
Retained percentages			
Overpayments			
Deferred revenue	215,997		
Other	358,124		
Long-term obligations due within one year:			
Loans payable			12,804
Bonds payable	99,891		
Compensated absences	35,615		
Total current liabilities	4,247,043		17,804
Noncurrent liabilities			
Long-term obligations due after one year:			
Loans payable			124,403
Bonds payable	3,182,972		
Compensated absences	320,534		
Total noncurrent liabilities	3,503,506		124,403
Total Liabilities	7,750,549		142,207

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF NET ASSETS
 (CONTINUED)
 DECEMBER 31, 2003

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
NET ASSETS			
Invested in capital assets, net of related debt	\$ 17,350,708	\$	\$
Restricted for:			
Community development	15,419		
Debt service	363,029		
Public safety	264,644		
Unrestricted	6,620,982	380,583	546,341
Total Net Assets	\$ 24,614,782	\$ 380,583	\$ 546,341

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<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	\$ 3,356,098	\$ 757,472	\$ 172,506	\$ _____
Education	997,218	_____	_____	_____
Public safety	3,064,662	351,361	301,431	_____
Public health	4,044,067	1,898,047	1,334,331	_____
Transportation	3,632,970	384,051	98,185	636,530
Economic assistance and opportunity	10,529,623	561,475	6,673,328	_____
Culture and recreation	279,124	1,498	127,572	_____
Home and community services	2,659,812	31,670	2,358,283	_____
Interest on debt	233,630	_____	_____	_____
Total Governmental Activities	28,797,204	3,985,574	11,065,636	636,530
Component Units:				
Soil and Water Conservation	\$ 507,115	\$ 14,851	\$ 87,909	\$ _____
Industrial Development Agency	401,708	31,514	750,000	_____
Total Component Units	\$ 908,823	\$ 46,365	\$ 837,909	\$ -0-

Net (Expense) Revenue 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 and transfers

Change in Net Assets

Net assets - Beginning, as Restated

Net assets - Ending

See Independent Auditors' Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Assets

<u>Primary Government</u>	<u>Component Units</u>	
<u>Governmental Activities</u>	<u>Soil and Water Conservation District</u>	<u>Industrial Development Agency</u>
\$ (2,426,120)	\$ _____	\$ _____
(997,218)	_____	_____
(2,411,870)	_____	_____
(811,689)	_____	_____
(2,514,204)	_____	_____
(3,294,820)	_____	_____
(150,054)	_____	_____
(269,859)	_____	_____
(233,630)	_____	_____
(13,109,464)	_____	_____
_____	(404,355)	_____
_____	_____	379,806
_____	(404,355)	379,806
\$ (13,109,464)	\$ (404,355)	\$ 379,806
6,589,962	_____	_____
404,362	_____	_____
5,172,471	_____	_____
363,302	_____	_____
29,796	185,908	_____
293,532	2,905	15,342
25,213	16,644	_____
94,450	469	_____
12,973,088	205,926	15,342
(136,376)	(198,429)	395,148
24,751,158	579,012	151,193
\$ 24,614,782	\$ 380,583	\$ 546,341

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2003

	General	County Road Fund
ASSETS		
Assets:		
Cash and cash equivalents - unrestricted	\$ 2,359,981	\$ 484,885
- restricted	18,508	
Temporary investments		
Taxes receivable (net)	1,548,077	
Due from other funds	3,655,787	1,039,536
Due from state and federal governments	2,558,837	85,453
Due from other governments	40,533	
Other receivables, net	1,041,979	534
Prepaid expenses		
Inventories	10,894	
Loans receivable		
Other		
Total Assets	\$ 11,234,596	\$ 1,610,408

LIABILITIES AND FUND BALANCES

Liabilities:		
Accounts payable	\$ 579,275	\$ 163,425
Accrued liabilities	585,163	5,464
Due to other funds	1,158,224	1,373,704
Due to other governments	1,497,237	
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	358,124	
Landfill closure and postclosure care costs		
Deferred revenues	1,091,361	
Total Liabilities	5,269,384	1,542,593

See Independent Auditors' Report and Notes to Financial Statements

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 350,993	\$	\$ 249,538	\$ 3,445,397
153,351	763,618	276,379	1,211,856
			1,548,077
	154,397	95,144	4,944,864
943,104			3,587,394
			40,533
1,686		17,710	1,061,909
		5,578	5,578
			10,894
150,000			150,000
\$ 1,599,134	\$ 918,015	\$ 644,349	\$ 16,006,502

\$ 3,202	\$	\$ 30,383	\$ 776,285
		1,085	591,712
1,277,162	975,980	159,794	4,944,864
150,000			1,647,237
	500,000		500,000
			358,124
153,351			1,244,712
1,583,715	1,475,980	191,262	10,062,934

COUNTY OF SCHUYLER
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 (CONTINUED)
DECEMBER 31, 2003

<u>LIABILITIES AND FUND BALANCES (CONTINUED)</u>	<u>General</u>	<u>County Road Fund</u>
Total Liabilities brought forward	\$ 5,269,384	\$ 1,542,593
Fund Balances:		
Fund Balances - Reserved:		
Encumbrances	77,546	
Miscellaneous special reserves	292,819	
Debt service	40,523	
Capital		
Total Reserved	410,888	
Fund Balances - Unreserved, Appropriated Reported in:		
General fund	900,000	
Special revenue funds		
Fund Balances - Unreserved, Reported in:		
General fund	4,654,324	
Special revenue funds		67,815
Capital projects funds		
Total Fund Balances	5,965,212	67,815
Total Liabilities and Fund Balances	\$ 11,234,596	\$ 1,610,408

See Independent Auditors' Report and Notes to Financial Statements

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,583,715	\$ 1,475,980	\$ 191,262	\$ 10,062,934
15,419		108,384	185,930
		37,541	345,779
		322,506	363,029
15,419		468,431	894,738
			900,000
			4,654,324
		(15,344)	52,471
	(557,965)		(557,965)
15,419	(557,965)	453,087	5,943,568
\$ 1,599,134	\$ 918,015	\$ 644,349	\$ 16,006,502

COUNTY OF SCHUYLER
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2003

Total governmental fund balances \$ 5,943,568

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

Capital assets, net of accumulated depreciation of \$18,402,938, used in governmental activities are not financial resources and, therefore, are not reported in the funds. 21,133,571

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. 123,855

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	\$ (22,182)	
Unamortized bond issuance costs - STASC	<u>46,267</u>	24,085

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 statements of activities due to applying the full accrual basis of accounting. 1,028,715

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 5-B-3.

Serial bonds payable	\$ (355,000)	
Tobacco settlement pass-through bonds	(2,927,863)	
Compensated absences	<u>(356,149)</u>	<u>(3,639,012)</u>

Net Assets of Governmental Activities \$ 24,614,782

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, 2003

	<u>General</u>	<u>County Road Fund</u>
<u>REVENUES</u>		
Real property taxes	\$ 6,623,410	\$
Real property tax items	404,362	
Nonproperty tax items	5,172,471	
Departmental income	3,499,392	
Intergovernmental charges	202,838	
Use of money and property	269,396	531
Licenses and permits		
Fines and forfeitures	72,487	540
Sale of property and compensation for loss	89,674	125
Miscellaneous local sources	32,201	5,491
Interfund revenues		
State sources	5,022,425	625,759
Federal sources	3,599,153	91,124
Total Revenues	24,987,809	723,570
<u>EXPENDITURES</u>		
General governmental support	2,538,290	
Education	997,218	
Public safety	2,245,391	
Public health	3,428,801	
Transportation	154,732	1,900,906
Economic assistance and opportunity	9,917,325	
Culture and recreation	203,631	
Home and community services	556,350	
Employee benefits	2,407,284	260,849
Debt service - principal and interest	50,139	12,687
Capital outlay		
Total Expenditures	22,499,161	2,174,442
Excess of Revenues (Expenditures)	2,488,648	(1,450,872)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		1,603,309
Interfund transfers (out)	(1,929,621)	(134,405)
Long-term debt issued		
Total Other Financing (Uses) Sources	(1,929,621)	1,468,904
Excess of Revenues (xpenditures) and Other Financing Sources (Uses)	559,027	18,032
Fund Balances, Beginning of Year	5,406,185	49,783
Fund Balances, End of Year	\$ 5,965,212	\$ 67,815

See Independent Auditors' Report and Notes to Financial Statements

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 6,623,410
			404,362
			5,172,471
2,797			3,502,189
		158,333	361,171
2,805	2,197	18,603	293,532
			73,027
		4,651	94,450
		406,081	443,773
		180,000	180,000
526,227			6,174,411
1,652,330			5,342,607
2,184,159	2,197	767,668	28,665,403
		87,811	2,626,101
			997,218
			2,245,391
			3,428,801
		583,083	2,638,721
			9,917,325
			203,631
2,087,884			2,644,234
		46,697	2,714,830
		299,995	362,821
	21,930		21,930
2,087,884	21,930	1,017,586	27,801,003
96,275	(19,733)	(249,918)	864,400
	200,000	305,000	2,108,309
		(44,283)	(2,108,309)
	200,000	260,717	-0-
96,275	180,267	10,799	864,400
(80,856)	(738,232)	442,288	5,079,168
\$ 15,419	\$ (557,965)	\$ 453,087	\$ 5,943,568

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, 2003

Net change in fund balances - total governmental funds \$ 864,400

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	\$ 1,015,921	
Depreciation, net of disposals	<u>(2,200,170)</u>	(1,184,249)

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	\$ (4,575)	
Prepaid expenses	<u>93,843</u>	89,268

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 net assets and reduce liabilities.

Bond repayments	\$ 130,000	
Bond issuance costs amortization	(2,098)	
Bond discount amortization	<u>(5,109)</u>	122,793

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	\$ (32,888)	
Interest payable	<u>4,300</u>	<u>(28,588)</u>

Change in Net Assets of Governmental Activities		\$ <u><u>(136,376)</u></u>
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COUNTY OF SCHUYLER
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
DECEMBER 31, 2003

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents - Unrestricted	\$	\$ 608,928
- Restricted	<u>293</u>	
Due from other governments		<u>409</u>
Securities and mortgages		
 Total Assets	 <u>293</u>	 <u>\$ 609,337</u>
 <u>LIABILITIES</u>		
Agency liabilities		<u>600,897</u>
Due to other governments		<u>8,440</u>
 Total Liabilities		 <u>\$ 609,337</u>
 <u>NET ASSETS</u>		
Cemetary trusts	\$	<u>293</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, 2003

	<u>ADDITIONS</u>	Private Purpose Trusts
Contributions		\$ _____
Investment earnings		_____
Total Additions		_____
	<u>DEDUCTIONS</u>	
Distributions		_____
Total Deductions		_____
Change in Net Assets		_____
Net Assets - Beginning of Year		_____ 293
Net Assets - End of Year		\$ _____ 293

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the County's accounting policies are described below.

In June, 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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 March 5, 2004 has been issued for the Schuyler County Industrial Development Agency for the year ended December 31, 2003. 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.

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 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 March 29, 2004 has been issued for the Schuyler TASC for the year ended December 31, 2003. Complete financial statements for Schuyler TASC may be obtained from Schuyler County, 105 9th Street, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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 2003, Schuyler County's share aggregated \$31,500. 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.

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."

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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.

The County records its transactions in the fund types and account groups 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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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.

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)
DECEMBER 31, 2003

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.

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 relevied 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 2003, 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 remains in effect for the life of the project.
- f. Appropriations lapse at year end.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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 since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. 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 since 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)
DECEMBER 31, 2003

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 79 retirees are covered. The County recognized \$211,024 as an expenditure in 2003 for their share of the benefit premiums.

M. Sales Tax

Pursuant to local law, the County levies a three percent tax in accordance with the Tax Law, Section 1210. The County retains two thirds (2/3) 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)
DECEMBER 31, 2003

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**
This reserve is used to account for funds restricted for miscellaneous projects, as authorized by county resolution. The Miscellaneous Special Reserve is further outlined in Note 9. This reserve is accounted for in the General Fund, Special Grant Fund and Road Machinery Fund.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

- **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 - Change in Accounting Principles

For the year ended December 31, 2003, the County implemented GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by GASB Statements No. 37 and 38, and GASB Interpretation No. 6. GASB Statement No. 34 creates a new set of basic financial statements and requires state and local governments to present government-wide financial statements that are prepared on an accrual basis of accounting using the economic resources measurement focus. The previous requirement for fund financial statements is modified to present information for individual major funds rather than by fund type. Non-major funds are presented as a total in one column.

The implementation of GASB Statement No. 34 resulted in the need to restate prior year ending balances. Financial statements for the year ended December 31, 2002 were issued in conformity with GAAP existing prior to the issuance of GASB Statement No. 34. The reconciliation of restated amounts to the December 31, 2002 year end balances is:

Total equity reported in governmental funds as of December 31, 2002		\$	4,753,556
Add capital assets			
Addition capital assets as of December 31, 2002	\$		38,520,588
Less accumulated depreciation as of December 31, 2002		<u>(16,202,768)</u>	22,317,820
Long-term obligations as of December 31, 2002			
Bonds payable	\$	(3,407,754)	
Compensated absences		(310,359)	
Due to employees' retirement system		(12,902)	
Accrued interest payable		(26,482)	
Addition of STASC bond discount		<u>48,365</u>	(3,709,132)
Add revenue to be received after the availability period, and, therefore, deferred in the governmental funds			1,033,290
Add prepaid employee retirement expense			30,012
Consolidation of the STASC fund balance			<u>325,612</u>
 Beginning Net Assets Reported in the Statement of Activities		 \$	 <u>24,751,158</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

Note 3 - Detail Notes on All Funds and Account Groups

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 and 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 of Schuyler's name, or (3) uncollateralized.

Total financial institution (bank) balances at December 31, 2003, per the bank, were \$5,493,304, and \$506,324 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	\$ 887,465	\$ 3,636,181	\$ 969,658	\$ 4,657,253
Soil and Water District	\$ 157,438	\$ 207,138	\$	\$ 336,174
Industrial Development Agency	\$ 136,531	\$	\$ 5,217	\$ 125,108

Investments are valued at market value 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 of Schuyler's name, or (3) uncollateralized.

	<u>Cost</u>	<u>Market Value</u>	<u>Category</u>	<u>Description</u>
Soil & Water District	\$ 42,562	\$ 42,562	(1)	Certificates of Deposit

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
DECEMBER 31, 2003

2. Property Taxes

Property taxes levied for 2003 are recorded as receivables, net of estimated uncollectible amounts. The net receivables collected during 2003 and expected to be collected within the first sixty days of 2004 are recognized as revenues in 2003. Net receivables estimated to be collectible subsequent to the first sixty days of 2004 are reflected as deferred revenue. At December 31, 2003, the County had deferred \$1,028,715 of real property tax revenue.

Taxes receivable at December 31, 2003 are summarized as follows:

Tax Sale Certificates	\$	71,065
School Taxes		759,722
Taxes Receivable - City School		35,524
Taxes Receivable - Overdue		898,494
Other		6,070
Allowance for Uncollectible Taxes		<u>(222,798)</u>
 Taxes Receivable	 \$	 <u>1,548,077</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 \$1,037,662 is reflected as a liability due to school districts in the accompanying basic financial statements.

3. Other Receivables

Other receivables at December 31, 2003 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	\$ 36,551
	Public Health Fees	108,558
	Mental Health Fees	71,955
	Sales Taxes	636,513
	Public Safety Fees	9,343
	Central Garage	11,039
	Support Collections	49,658
	Court Fees	11,230
	Other	<u>107,132</u>
	 Total General Fund	
County Road	Billed Services	534
Special Grant	Other	1,686
Aggregate Non-Major	Billed Services	<u>17,710</u>
 Total Other Receivables		 \$ <u>1,061,909</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

4. Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance at 12/31/02	Additions	Deletions	Balance at 12/31/03
<u>Governmental Activities:</u>				
Land	\$ 502,870	\$	\$	\$ 502,870
Total non-depreciable capital assets	<u>502,870</u>			<u>502,870</u>
Buildings	11,499,004			11,499,004
Machinery and equipment	5,857,960	534,151	238,402	6,153,709
Infrastructure	20,660,754	720,172		21,380,926
Total depreciable capital assets	<u>38,017,718</u>	<u>1,254,323</u>	<u>238,402</u>	<u>39,033,639</u>
Total Historical Cost	<u>38,520,588</u>	<u>1,254,323</u>	<u>238,402</u>	<u>39,536,509</u>
Less accumulated depreciation:				
Buildings	4,192,781	315,386		4,508,167
Machinery and equipment	4,047,927	725,189	238,402	4,534,714
Infrastructure	7,962,060	1,397,997		9,360,057
Total Accumulated Depreciation	<u>16,202,768</u>	<u>2,438,572</u>	<u>238,402</u>	<u>18,402,938</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,317,820</u>	<u>\$ (1,184,249)</u>	<u>\$ -0-</u>	<u>\$ 21,133,571</u>

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	
General government support	\$ 246,234
Public safety	360,324
Public health	15,578
Transportation	1,603,503
Economic assistance and opportunity	41,433
Culture and recreation	38,685
Home and community services	<u>132,815</u>
Total Governmental Activities Depreciation Expense	<u>\$ 2,438,572</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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>
2003	\$ 388,522
2002	120,049
2001	86,620

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.

During 2002, the State Legislature authorized local governments to make available retirement incentive programs pursuant to Chapter 69 of the Laws of 2002. The total cost of these incentives in the amount of \$139,173 was paid during 2003.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

2. Debt

a. Constitutional Debt Limit

At December 31, 2003, the total outstanding indebtedness of the County aggregated \$3,282,863. Of this amount, \$855,000 was subject to the constitutional limitations on indebtedness and represented 1.30% 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 liabilities:

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.

Due to ERS - represents the amounts due on 1993 Administration Review, Law Cost Section 803, and a post-service cost for section 551 employees. This liability is liquidated from the General Fund.

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	\$ 500,000
Serial Bonds:					
Courthouse/Office Reconstruction	4/1/94	2,300,000	5.5-5.8%	10/15/13	355,000
STASC	12/00	3,280,000	5.25-6.3%	6/2023	3,040,000
Less: Unamortized Bond Discount					<u>(112,137)</u>
Total					<u>\$ 3,782,863</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

f. Change in Indebtedness

The following represents changes in the County's indebtedness during the year ended December 31, 2003:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due Within One Year
Serial Bonds	\$ 385,000	\$	\$ 30,000	\$ 355,000	\$ 35,000
BANs	700,000		200,000	500,000	500,000
STASC Bonds	3,140,000		100,000	3,040,000	70,000
Less: Unamortized Bond Discount	(117,246)		(5,109)	(112,137)	(5,109)
Due to ERS	12,902		12,902	-0-	-0-
Compensated Absences	310,359	45,790		356,149	35,615
Total	\$ 4,431,015	\$ 45,970	\$ 337,793	\$ 4,139,012	\$ 635,506

Additions and deletions to compensated absences are shown net since it is impractical to determine these amounts separately. The County paid \$35,911 in interest on the Bonds and Bond Anticipation Notes during the year. The Schuyler TASC paid \$196,910 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	\$ 232,821
Less interest accrued in prior year	(26,482)
Add interest accrued in current year	22,182
Add amortization of bond discount	5,109
Total	\$ 233,630

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, 2003:

Year	County Serial Bonds		STASC Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 35,000	\$ 20,270	\$ 70,000	\$ 192,055	\$ 105,000	\$ 212,325
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
2009-2013	175,000	30,450	615,000	757,331	790,000	787,781
2014-2018			820,000	535,478	820,000	535,478
2019-2023			1,195,000	198,065	1,195,000	198,065
Total	\$ 355,000	\$ 112,200	\$ 3,040,000	\$ 2,405,567	\$ 3,395,000	\$ 2,517,767

In addition to the amount reported above, BANs in the amount of \$500,000 and interest in the amount of \$9,700 will be paid in 2004.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

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 provide services. The governmental funds financial statements generally reflect such transactions as transfers. Interfund receivables and payables and interfund transfer revenues and expenditures at December 31, 2003 were as follows:

Fund	Interfund Receivables	Interfund Payables
General	\$ 3,655,787	\$ 1,158,224
County Road	1,039,536	1,373,704
Non-Major	95,144	159,794
Special Grant		1,277,162
Capital Projects	154,397	975,980
Total	\$ 4,944,864	\$ 4,944,864

Fund	Interfund Revenues	Interfund Expenditures
General	\$	\$ 1,929,621
Capital project	200,000	
Non-Major	305,000	44,283
County Roads	1,603,309	134,405
Total	\$ 2,108,309	\$ 2,108,309

Note 4 - Stewardship, Compliance, and Accountability

The Capital Project Fund had a deficit fund balance of \$557,965. This deficit will be reduced as short-term borrowing is converted into long-term financing.

At December 31, 2003, the County had uncollateralized financial institution (bank) deposits of \$969,658, all of which were at a single financial institution. This is a violation of state statutes. During the year ended December 31, 2004, the County removed primarily all of its deposits at the bank in question, and deposited them in banks with which the County has collateral agreements.

Note 5 - 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)
DECEMBER 31, 2003

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 6 - 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 7 - 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 8 - Transactions with Component Units

- A. Schuyler County Industrial Development Agency (IDA) - During the year ended December 31, 2003, the County of Schuyler paid \$5,000 in administration fees to the IDA. In addition, the County contracted with the IDA to administer a \$750,000 Community Development Block Grant - State's Program.
- B. Schuyler County Soil and Water Conservation District - The County contributed \$88,645 to the Soil and Water Conservation District during the year ended December 31, 2003.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
DECEMBER 31, 2003

Note 9 - Net Assets - Statement of Net Assets

Of the \$6,620,982 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	\$ 6,620,982
Designated for:	
Ensuing year's budget	900,000
Carry-over of prior year's commitments (encumbrances)	185,930
Miscellaneous special reserve - sick bank	8,175
Repairs	<u>57,541</u>
Total Unrestricted, Designated Net Assets	<u>1,151,646</u>
Total Unrestricted, Undesignated Net Assets	\$ <u>5,469,336</u>

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003

	Original Budget	Final Budget
REVENUES		
Real property taxes	\$ 6,688,752	\$ 6,688,752
Real property tax items	407,091	420,964
Nonproperty tax items	4,592,674	4,592,674
Departmental income	661,478	661,478
Intergovernmental charges	2,997,321	3,104,541
Use of money and property	296,908	298,401
Licenses and permits		
Fines and forfeitures	50,200	50,200
Sale of property and compensation for loss	82,100	80,100
Miscellaneous local sources	25,300	25,300
Interfund revenues		
State sources	4,544,430	5,189,333
Federal sources	3,175,585	3,466,982
Total Revenues	<u>23,521,839</u>	<u>24,578,725</u>
EXPENDITURES		
General governmental support	2,572,762	2,684,218
Education	1,025,000	1,110,086
Public safety	2,457,818	2,480,360
Public health	3,659,806	3,715,423
Transportation	145,780	154,732
Economic assistance and opportunity	9,406,705	10,131,863
Culture and recreation	213,709	237,938
Home and community services	384,940	601,874
Employee benefits	2,475,557	2,483,266
Debt service - principal and interest	71,777	71,777
Total Expenditures	<u>22,413,854</u>	<u>23,671,537</u>
Excess of Revenues (Expenditures)	<u>1,107,985</u>	<u>907,188</u>
OTHER FINANCING SOURCES (USES)		
Interfund transfers in	\$	\$
Interfund transfers (out)	<u>(2,041,454)</u>	<u>(1,959,657)</u>
Proceeds of obligations		
Sale of capital assets		
Total Other Financing Sources (Uses)	<u>(2,041,454)</u>	<u>(1,959,657)</u>
Excess of (Expenditures) and Other Financing Sources (Uses)	<u>(933,469)</u>	<u>(1,052,469)</u>
Proceeds of Obligations		119,000
Appropriated reserves	25,302	25,302
Appropriated fund balances	908,167	908,167
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>
\$ 6,623,410	\$	\$ (65,342)
404,362		(16,602)
5,172,471		579,797
3,499,392		2,837,914
202,838		(2,901,703)
269,396		(29,005)
72,487		22,287
89,674		9,574
32,201		6,901
5,022,425		(166,908)
3,599,153		132,171
24,987,809		409,084
2,538,290	43,277	102,651
997,218		112,868
2,245,391	26,616	208,353
3,428,801	3,829	282,793
154,732		-0-
9,917,325	2,440	212,098
203,631	1,384	32,923
556,350		45,524
2,407,284		75,982
50,139		21,638
22,499,161	77,546	1,094,830
2,488,648	(77,546)	1,503,914
\$ (1,929,621)	\$	\$ 30,036
(1,929,621)		30,036
559,027	\$ (77,546)	\$ 1,533,950
559,027		
5,406,185		
\$ 5,965,212		

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 COUNTY ROAD FUND
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Original Budget</u>	<u>Final Budget</u>
<u>REVENUES</u>		
Departmental income	\$ _____	\$ _____
Intergovernmental charges	_____	_____
Use of money and property	_____ 1,000	_____ 1,000
Licenses and permits	_____	_____
Fines and forfeitures	_____ 200	_____ 200
Sale of property and compensation for loss	_____ 1,500	_____ 1,500
Miscellaneous local sources	_____ 500	_____ 500
Interfund revenues	_____	_____
State sources	_____ 466,072	_____ 530,639
Federal sources	_____ 76,000	_____ 276,255
Total Revenues	<u>_____ 545,272</u>	<u>_____ 810,094</u>
<u>EXPENDITURES</u>		
Transportation	_____ 1,733,499	_____ 1,996,888
Employee benefits	_____ 261,800	_____ 263,233
Debt service - principal and interest	_____ 149,518	_____ 15,113
Total Expenditures	<u>_____ 2,144,817</u>	<u>_____ 2,275,234</u>
Excess of Revenues (Expenditures)	<u>_____ (1,599,545)</u>	<u>_____ (1,465,140)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	\$ _____ 1,599,545	\$ _____ 1,599,545
Interfund transfers (out)	_____	_____ (134,405)
Sale of capital assets	_____	_____
Total Other Financing Sources (Uses)	<u>_____ 1,599,545</u>	<u>_____ 1,465,140</u>
Excess of (Expenditures) and Other Financing Sources (Uses)	_____	_____
Appropriated fund balances	_____	_____
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>
\$ _____	\$ _____	\$ _____
531		(469)
540		340
125		(1,375)
5,491		4,991
625,759		95,120
91,124		(185,131)
723,570		(86,524)
1,900,906		95,982
260,849		2,384
12,687		2,426
2,174,442		100,792
(1,450,872)		14,268
\$ 1,603,309	\$ _____	\$ 3,764
(134,405)		-0-
1,468,904		3,764
18,032	\$ _____	\$ 18,032
18,032		
49,783		
\$ <u>67,815</u>		

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2003

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, 2003

	<u>Road Machinery</u>	<u>STASC Debt Service</u>	<u>Non-Major Governmental Funds</u>
<u>ASSETS</u>			
Assets:			
Cash and cash equivalents - unrestricted	\$ 210,043	\$ 39,495	\$ 249,538
- restricted		276,379	276,379
Temporary investments			
Taxes receivable, net			
Due from other funds	95,144		95,144
Due from state and federal governments			
Due from other governments			
Other receivables, net	16,656	1,054	17,710
Prepaid expenses		5,578	5,578
Inventories			
Securities and mortgages			
Other			
 Total Assets	 <u>\$ 321,843</u>	 <u>\$ 322,506</u>	 <u>\$ 644,349</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 30,383	\$	\$ 30,383
Accrued liabilities	1,085		1,085
Due to other funds	159,794		159,794
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>191,262</u>		 <u>191,262</u>

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 (CONTINUED)
 DECEMBER 31, 2003

	<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	\$ 191,262	\$ _____	\$ 191,262
Fund Balances:			
Fund Balances - Reserved:			
Encumbrances	<u>108,384</u>	<u> </u>	<u>108,384</u>
Miscellaneous special reserve	<u>37,541</u>	<u> </u>	<u>37,541</u>
Debt service	<u> </u>	<u>322,506</u>	<u>322,506</u>
Capital	<u> </u>	<u> </u>	<u> </u>
Total Reserved	<u>145,925</u>	<u>322,506</u>	<u>468,431</u>
Fund balances - Unreserved, Reported in:			
Special revenue funds	<u>(15,344)</u>	<u> </u>	<u>(15,344)</u>
Total Fund Balances	<u>130,581</u>	<u>322,506</u>	<u>453,087</u>
Total Liabilities and Fund Balances	<u>\$ 321,843</u>	<u>\$ 322,506</u>	<u>\$ 644,349</u>

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2003

REVENUES	Road Machinery	STASC Debt Service	Non-Major Funds
Real property taxes	\$ _____	\$ _____	\$ _____
Real property tax items	_____	_____	_____
Nonproperty tax items	_____	_____	_____
Departmental income	_____	_____	_____
Intergovernmental charges	158,333	_____	158,333
Use of money and property	290	18,313	18,603
Licenses and permits	_____	_____	_____
Fines and forfeitures	_____	_____	_____
Sale of property and compensation for loss	4,651	_____	4,651
Miscellaneous local sources	42,779	363,302	406,081
Interfund revenues	180,000	_____	180,000
State sources	_____	_____	_____
Federal sources	_____	_____	_____
Total Revenues	386,053	381,615	767,668
EXPENDITURES			
General governmental support	_____	87,811	87,811
Education	_____	_____	_____
Public safety	_____	_____	_____
Public health	_____	_____	_____
Transportation	583,083	_____	583,083
Economic assistance and opportunity	_____	_____	_____
Culture and recreation	_____	_____	_____
Home and community services	_____	_____	_____
Employee benefits	46,697	_____	46,697
Debt service (principal and interest)	3,085	296,910	299,995
Capital outlay	_____	_____	_____
Total Expenditures	632,865	384,721	1,017,586
Excess of (Expenditures)	(246,812)	(3,106)	(249,918)
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	\$ 305,000	\$ _____	\$ 305,000
Interfund transfers (out)	(44,283)	_____	(44,283)
Proceeds of obligations	_____	_____	_____
Total Other Financing Sources (Uses)	260,717	_____	260,717
Excess of (Expenditures) Revenues and Other Financing Sources (Uses)	13,905	(3,106)	10,799
Fund Balances, Beginning of Year	116,676	325,612	442,288
Fund Balances, End of Year	\$ 130,581	\$ 322,506	\$ 453,087

See Independent Auditors' Report and Notes to Financial Statements

John H. Dietershagen, C.P.A.
Jerry E. Mickelson, C.P.A.
Thomas K. Van Derzee, C.P.A.
Debbie Conley Jordan, C.P.A.
Patrick S. Jordan, C.P.A.
Duane R. Shoen, C.P.A.
Lesley L. Horner, C.P.A.



**Ciaschi • Dietershagen • Little • Mickelson
& Company, LLP**

Certified Public Accountants and Consultants

Frederick J. Ciaschi, C.P.A.
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, 2003, and have issued our report thereon dated November 2, 2004. 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*, which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-1, 03-2 and 03-3.

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 items 03-1 and 03-2.

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CORTLAND

39 Church Street
Cortland, New York 13045
607-753-7439
fax 607-753-7874

ITHACA

401 East State Street ~ Suite 500
Ithaca, New York 14850
607-272-4444
fax 607-273-8372

WATKINS GLEN

108 West Fourth Street
Watkins Glen, New York 14891
607-535-4443
fax 607-535-6220

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, of the reportable conditions described above, we consider item 03-1 and 03-2 to be material weaknesses.

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.

Rischi, Dierckhagen Little, Nielsen & Company LLP

November 2, 2004
Ithaca, New York