

COUNTY OF SCHUYLER

Watkins Glen, New York

FINANCIAL STATEMENTS

December 31, 2004

COUNTY OF SCHUYLER
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FOR THE YEAR ENDED DECEMBER 31, 2004

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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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2005 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 2-2i and the Budgetary Comparison Schedules on pages 30-31a are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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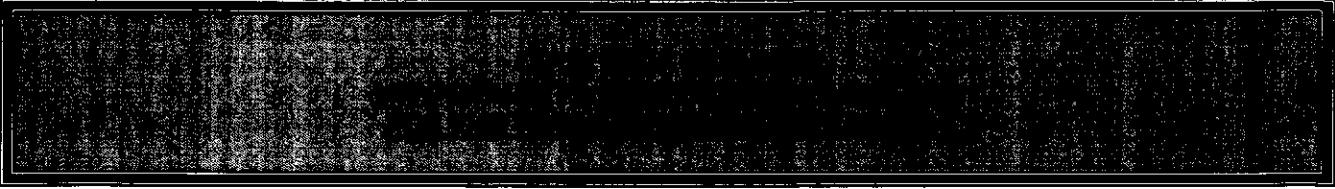
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Schuyler, New York's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the County of Schuyler, New York. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Lincoln, Aitkenhagen, Kittle, Mikelson & Company, LLP

April 22, 2005
Ithaca, New York



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, 2004. 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 \$24,123,920 (net assets). Of this amount, \$6,357,504 (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 \$86,285, or .36%, while unrestricted net assets decreased by \$263,479, or 3.98%.
- During the year, the County had revenues of \$28,208,958 as compared to \$28,660,828 in 2003. Expenses of \$28,295,243 decreased by \$501,961, from \$28,797,204 in the prior year.
- Revenues exceeded expenditures in the governmental funds by \$121,172, bringing fund balances to \$6,064,740 at year end.
- The General Fund recorded a decrease of \$483,990 in 2004 and ended the year with a fund balance of \$5,481,222. Of this fund balance, \$542,631 was reserved for future expenditures, and \$4,938,591 was unreserved.
- The County's long-term obligations at year-end were \$3,578,459, a decrease of \$560,553 from 2003.

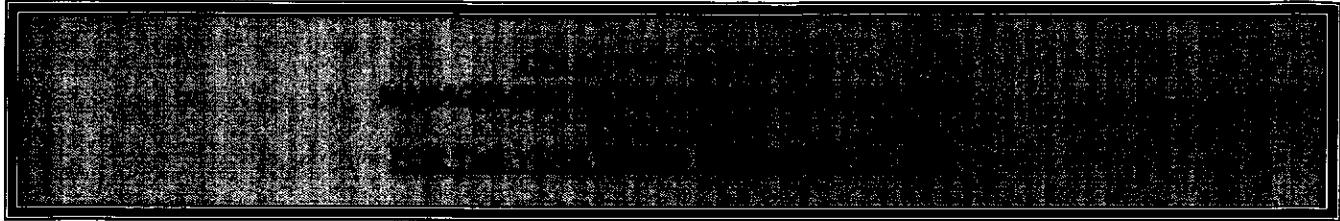
USING THIS ANNUAL REPORT

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. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's major fund budgets for the year.

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

Reporting the County as a Whole

Analysis of the County as a whole begins on page 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.

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.

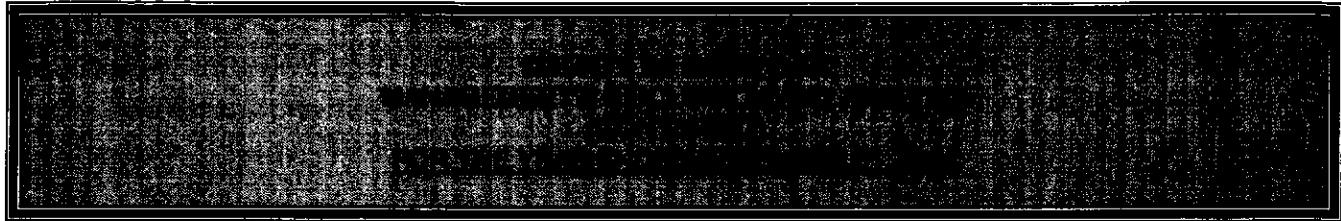
Reporting the County's Most Significant Funds

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.



THE COUNTY AS A WHOLE

The County's net assets for fiscal year ended December 31, 2004 decreased \$86,285, from \$24,210,205 to \$24,123,920. In contrast, last year's net assets decreased by \$136,376.

The largest portion of the County's net assets of \$16,980,288 (70.39%) 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, \$786,128, (3.26%), 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.

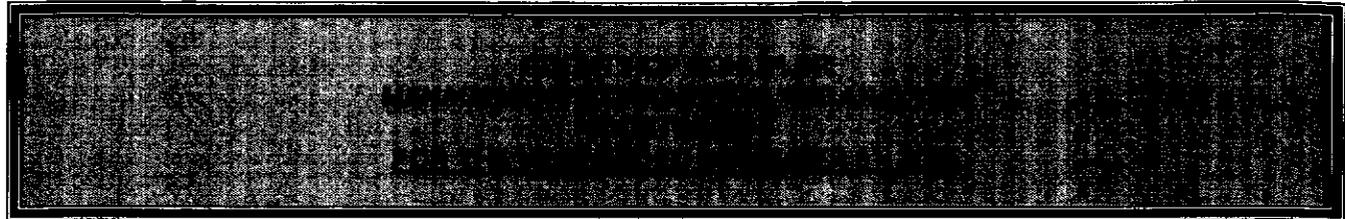
The remaining category of total net assets, unrestricted net assets of \$6,357,504, 26.35%, may be used to meet the government's ongoing obligations and services to creditors and citizens. Of these net assets, the County has appropriated \$900,000 for 2005 expenses and reserved another \$218,354 for specific purposes.

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

Figure 1 - Net Assets

<i>Current assets</i>	\$ 10,750,606	\$ 10,842,913	\$ 92,307
<i>Capital assets, net</i>	20,728,994	20,270,288	(458,706)
<i>Other noncurrent assets</i>	481,154	474,056	(7,098)
<i>Current liabilities</i>	4,247,043	4,024,319	(222,724)
<i>Noncurrent liabilities</i>	3,503,506	3,439,018	(64,488)
<i>Invested in capital assets, net of debt</i>	16,946,131	16,980,288	34,157
<i>Restricted</i>	643,092	786,128	143,036
<i>Unrestricted</i>	6,620,982	6,357,504	(263,478)

The County's capital assets, net, decreased \$458,706 due to depreciation expense greater than capital asset additions. Current liabilities decreased \$222,724 as a result of the paydown of a Bond Anticipation Note, an increase in overpayments due to an increase in the Mental Health reserves and an increase in accounts payable.



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

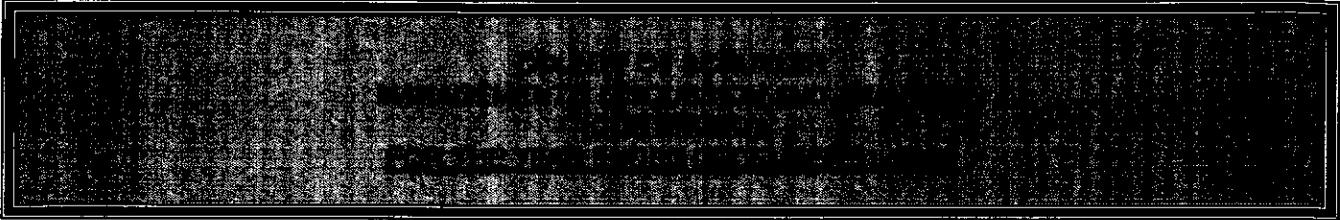
The County's total revenues decreased by 1.58%, while the total cost of all programs and services decreased by 1.74%, with no new programs added this year. Our analysis in Figure 2 separately considers the operations of governmental activities.

Figure 2 - Changes in Net Assets

REVENUES			
<i>Program Revenues:</i>			
Charges for services	\$ 3,985,574	\$ 4,323,791	\$ 338,217
Operating grants and contributions	11,065,636	8,215,558	(2,850,078)
Capital grants	636,530	751,967	115,437
<i>General Revenues:</i>			
Property taxes and tax items	6,994,324	8,172,993	1,178,669
Sales and other taxes	5,172,471	5,825,252	652,781
Tobacco settlement	363,302	426,818	63,516
Unrestricted grants and contributions	29,796		(29,796)
Use of money and property	293,532	293,107	(425)
Other	119,663	199,472	79,809
PROGRAM EXPENSES			
General government	3,356,098	3,759,240	403,142
Education	997,218	1,084,440	87,222
Public safety	3,064,662	3,374,618	309,956
Public health	4,044,067	4,237,090	193,023
Transportation	3,632,970	4,033,427	400,457
Economic assistance and opportunity	10,529,623	10,825,770	296,147
Culture and recreation	279,124	304,267	25,143
Home and community	2,659,812	458,844	(2,200,968)
Interest on long-term debt	233,630	217,547	(16,083)
(DECREASE) IN NET ASSETS	\$ (136,376)	\$ (86,285)	\$ 50,091

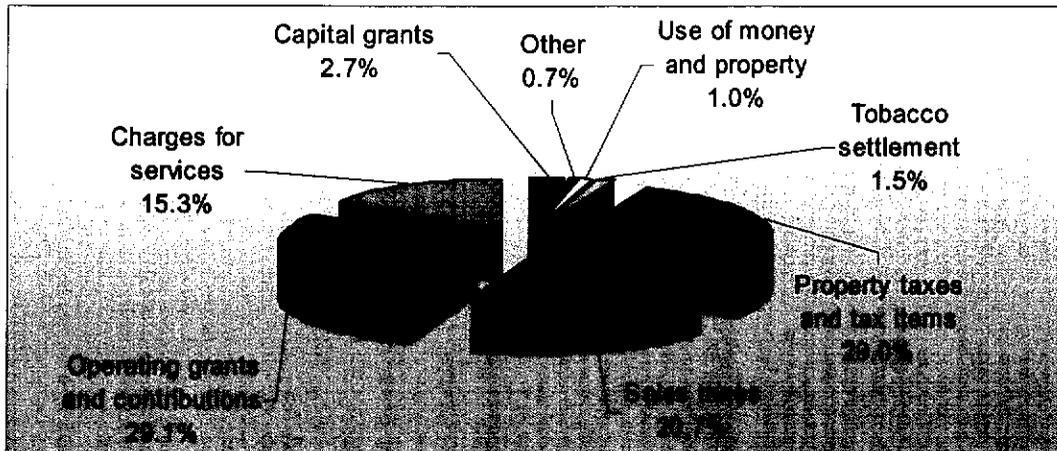
Charges for services were up from 2003 primarily due to an increase in mental health patients. Operating grants and contributions, mostly received from State and Federal sources, decreased by \$2,850,078, primarily due to a decrease in State and Federal funding. Capital grants showed an increase of \$115,437, reflecting completion of some of the County's transportation projects. Property taxes increased \$1,178,669 due to an increase in the tax levy in 2004. Sales and other taxes increased \$652,781 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 decreased primarily due to a grant closed in the prior year.

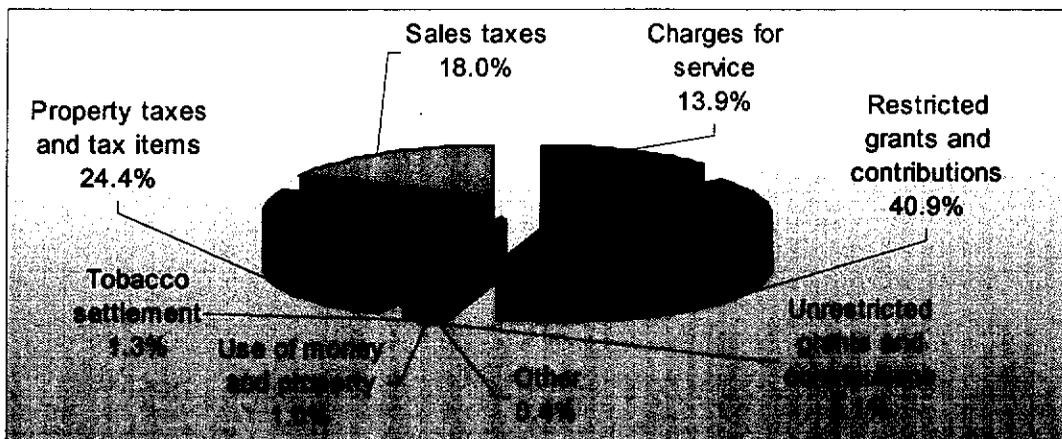


Figures 3 and 4 show the source of revenues for 2004 and 2003.

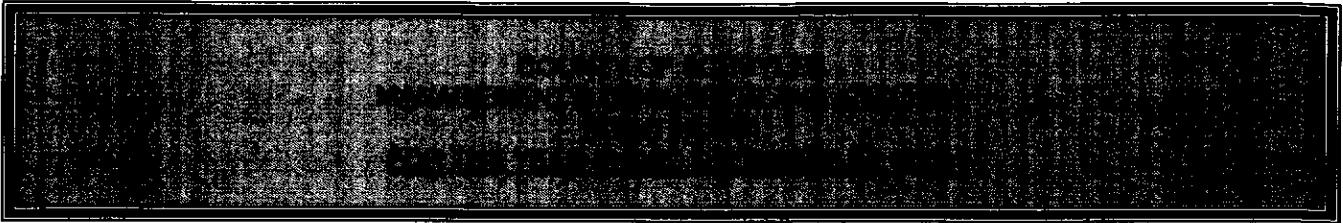
**Figure 3 - Revenues by Source
Governmental Activities
2004**



**Figure 4 - Revenues by Source
Governmental Activities
2003**

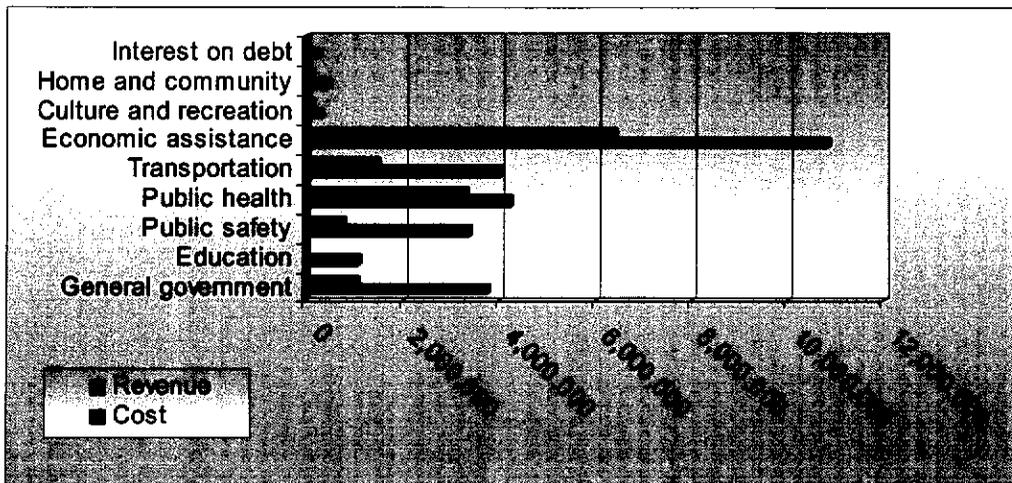


The cost of all governmental activities this year was \$28,295,243. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through County property and other tax revenues was \$13,998,245, because some of the cost was paid by those who 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 \$13,291,316. The County paid for the remaining "public benefit" portion of governmental activities with \$8,172,993 in taxes and with other revenues, such as interest and general entitlements.

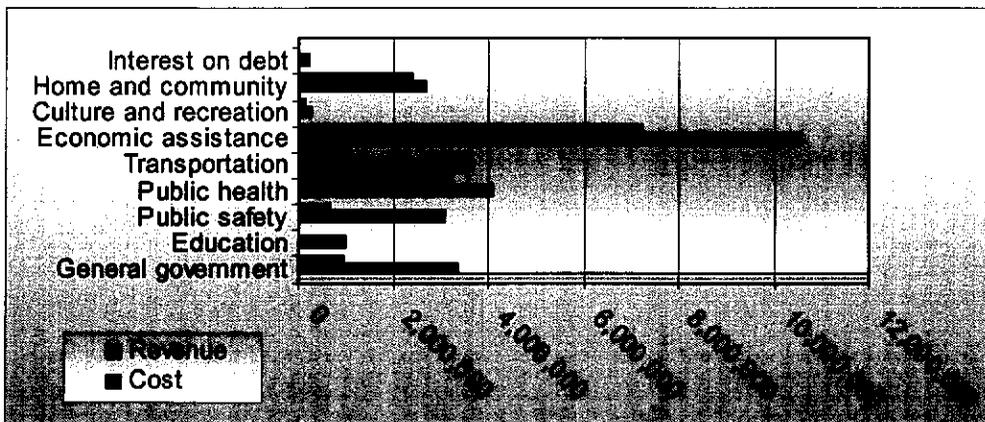


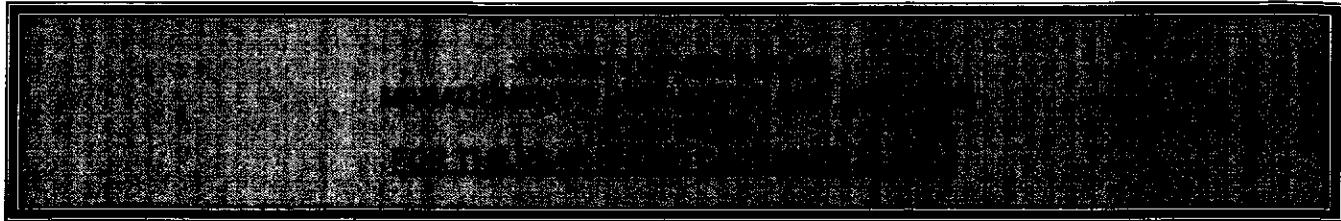
The total cost versus revenue generated by activities for the County's largest programs is presented below. The difference between the cost and revenue shows the financial burden that was placed on the County's taxpayers by each of these functions.

**Figure 5 - Net Program Cost
Governmental Activities
2004**



**Figure 6 - Net Program Cost
Governmental Activities
2003**





THE COUNTY'S FUNDS

As the County completed the year, its governmental funds, as presented in the balance sheets on pages 6 - 6c reported a combined fund balance of \$6,064,740, which is higher than last year's total. Of this amount, \$1,004,482 is reserved for future expenditures and \$900,000 is designated for 2005 expenditures, leaving \$4,160,258 in unreserved and undesignated fund balance. Figure 7 shows the changes in fund balance for the County's governmental funds.

Figure 7
Governmental Funds
Fund Balance at Years Ended

<i>General Fund</i>	\$ 5,965,212	\$ 5,481,222	\$ (483,990)
<i>County Road</i>	67,815	375,330	307,515
<i>Special Grant</i>	15,419	(20,114)	(35,533)
<i>Capital Project</i>	(557,965)	(170,721)	387,244
<i>Road Machinery</i>	130,581	42,131	(88,450)
<i>TASC Debt Service</i>	322,506	356,892	34,386

This year's total change in fund balance is an increase of 2.04%, compared to a 17% increase in 2003. The deficit in Capital Project Fund and the Special Grant Fund will be reduced upon the transfer of funds from the General Fund.

General Fund Budgetary Highlights

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

Even with these adjustments, the actual charges to appropriations (expenditures) were below the final budget amounts. The most significant positive variances occurred in the County's Public Health, Public Safety, and Economic Assistance and Opportunity accounts. Resources available for appropriation were \$447,515 below the final budgeted amount. Sales taxes and sales of property offset shortfalls in other areas.

Figure 8
Budgetary Comparison Schedule - General Fund
December 31, 2004

REVENUES AND OTHER FINANCING SOURCES				
<i>Real property taxes and tax items</i>	\$ 8,222,540	\$ 8,222,540	\$ 8,158,097	\$ (64,443)
<i>Nonproperty tax items</i>	5,661,436	5,661,436	5,825,252	163,816
<i>Departmental income and intergovernmental charges</i>	3,904,610	3,984,590	3,719,414	(265,176)
<i>Use of money and property</i>	277,724	280,393	267,333	(13,060)
<i>State sources</i>	4,656,598	4,730,440	4,853,057	122,617
<i>Federal sources</i>	3,380,389	3,817,209	3,230,274	(586,935)
<i>Other</i>	195,011	199,956	395,622	195,666
EXPENDITURES AND OTHER FINANCING USES				
<i>General government</i>	\$ 2,764,169	\$ 2,983,204	\$ 2,826,078	\$ 157,126
<i>Education</i>	1,210,000	1,210,000	1,084,440	125,560
<i>Public safety</i>	2,513,369	2,707,920	2,460,032	247,888
<i>Public health</i>	3,812,154	4,196,558	3,469,622	726,936
<i>Transportation</i>	145,780	183,465	183,465	-0-
<i>Economic assistance and opportunity</i>	10,312,554	10,120,873	10,003,805	117,068
<i>Culture and recreation</i>	202,755	216,667	212,817	3,850
<i>Home and community</i>	468,350	470,158	395,108	75,050
<i>Employee benefits</i>	3,370,371	3,308,814	3,236,021	72,793
<i>Debt service</i>	79,654	79,654	55,849	23,805
<i>Other financing uses</i>	2,319,152	2,319,152	3,091,022	(771,870)
<i>Excess of Revenues and Other Financing Sources</i>	\$ -0-	\$ -0-	\$ (569,210)	\$ (569,210)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2004, the County had capital assets of \$20,270,288, net of accumulated depreciation of \$20,442,617, 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 \$458,706 over last year.

**Figure 9
Capital Assets, Net of Depreciation**

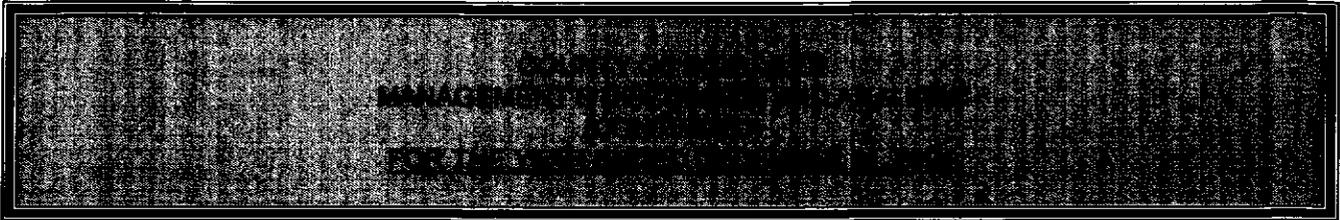
<i>Land</i>	\$ 502,870	\$ 502,870	\$ -0-
<i>Construction-in-progress</i>	-0-	669,487	669,487
<i>Buildings and improvements</i>	5,671,597	5,391,463	(280,134)
<i>Land improvements</i>	1,319,240	1,286,589	(32,651)
<i>Machinery and equipment</i>	1,618,995	1,599,187	(19,808)
<i>Infrastructure</i>	11,616,292	10,820,692	(795,600)
Total			

This year's additions consisted of:

Construction-in-progress	\$ 669,487
Machinery and equipment	483,127
Infrastructure	583,566
Total Additions	<u>1,736,180</u>
Less: Depreciation	(2,181,203)
Disposals, net	<u>(13,683)</u>
Total net change	<u>\$ (458,706)</u>

Debt Administration

Total long-term liabilities decreased in 2004 by \$560,553, as shown in Figure 10. Of this amount, \$320,000 was subject to the constitutional debt limit and represented .73% 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.



**Figure 10
Outstanding Debt at Years Ended**

<i>Serial bonds</i>	\$ 355,000	\$ 320,000	\$ (35,000)
<i>Bond anticipation note payable</i>	500,000	-0-	(500,000)
<i>Compensated absences</i>	356,149	395,488	39,339
<i>Tobacco Settlement Pass-through bonds</i>	2,927,863	2,862,971	(64,892)

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County will continue to be challenged 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.

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, 2004

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 4,648,863	\$ 287,529	\$ 49,793
Restricted cash	454,429		124,015
Investments			
Taxes receivable, net	2,115,089		
Accounts receivable, net	1,033,450	36,081	12,589
Loans receivable - Current portion	10,000		80,911
Due from state and federal governments	2,201,747		
Due from other governments	28,176		
Balances between primary government and component units			
Prepaid expenses	220,962	6,522	
Inventories	27,669		
Other			
Total Current Assets	10,740,385	330,132	267,308
Noncurrent Assets:			
Restricted cash and cash equivalents	397,415		
Loans receivable, long-term portion	135,000		390,215
Unamortized bond issue costs	44,169		
Capital assets, net of accumulated depreciation	20,270,288		
Total Noncurrent Assets	20,846,872	-0-	390,215
Total Assets	31,587,257	330,132	657,523
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	1,024,321		1,000
Accrued liabilities	701,207		
Bond anticipation notes payable			
Interest payable	15,949		
Due to other governments	1,610,809		35,961
Retained percentages			
Overpayments			
Deferred revenue	62,646		156
Other	469,946		
Long-term obligations due within one year:			
Loans payable			7,188
Bonds payable	99,892		
Compensated absences	39,549		
Total Current Liabilities	4,024,319	-0-	44,305

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF NET ASSETS
 (CONTINUED)
DECEMBER 31, 2004

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
Total current liabilities brought forward	\$ 4,024,319	\$ -0-	\$ 44,305
Noncurrent Liabilities:			
Long-term obligations due after one year:			
Loans payable			55,403
Bonds payable	3,083,079		
Compensated absences	355,939		
Total Noncurrent Liabilities	3,439,018	-0-	55,403
Total Liabilities	7,463,337	-0-	99,708
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	16,980,288		
Restricted for:			
Community development			88,054
Debt service	397,415		
Public safety	388,713		
Unrestricted	6,357,504	330,132	469,761
Total Net Assets	\$ 24,123,920	\$ 330,132	\$ 557,815

See Independent Auditors' Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

<u>FUNCTIONS/PROGRAMS</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Government Activities:				
General governmental support	\$ 3,759,240	\$ 867,453	\$ 190,134	\$ _____
Education	1,084,440	_____	47,179	_____
Public safety	3,374,618	397,321	369,909	_____
Public health	4,237,090	1,944,514	1,360,515	_____
Transportation	4,033,427	569,788	148,113	751,967
Economic assistance and opportunity	10,825,770	452,496	5,929,092	_____
Culture and recreation	304,267	7,197	129,939	_____
Home and community services	458,844	85,022	40,677	_____
Interest on debt	217,547	_____	_____	_____
Total Governmental Activities	\$ 28,295,243	\$ 4,323,791	\$ 8,215,558	\$ 751,967
Component Units:				
Soil and Water Conservation	\$ 380,288	\$ 15,023	\$ 301,339	\$ _____
Industrial Development Agency	12,625	6,973	_____	_____
Total Component Units	\$ 392,913	\$ 21,996	\$ 301,339	\$ -0-

Net (Expense) and Changes in Net Assets brought forward

GENERAL REVENUES:

Taxes:

Property taxes, levied for general purposes

Property tax items

Sales and other taxes

Tobacco settlement payments

Grants and contributions not restricted to
specific programs

Use of money and property

Miscellaneous

Sale of property and compensation for loss

Total general revenues

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

See Independent Auditors' Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Assets

Primary Government	Component Units	
Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
\$ (2,701,653)	\$ _____	\$ _____
(1,037,261)	_____	_____
(2,607,388)	_____	_____
(932,061)	_____	_____
(2,563,559)	_____	_____
(4,444,182)	_____	_____
(167,131)	_____	_____
(333,145)	_____	_____
(217,547)	_____	_____
(15,003,927)	_____	_____
_____	(63,926)	_____
_____	_____	(5,652)
_____	(63,926)	(5,652)
(15,003,927)	(63,926)	(5,652)
7,776,960	_____	_____
396,033	_____	_____
5,825,252	_____	_____
426,818	_____	_____
293,107	1,545	16,851
22,794	11,930	275
176,678	_____	_____
14,917,642	13,475	17,126
(86,285)	(50,451)	11,474
24,210,205	380,583	546,341
\$ 24,123,920	\$ 330,132	\$ 557,815

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	General	County Road Fund
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ 2,598,347	\$ 1,140,234
- Restricted	19,130	
Taxes receivable (net)	2,115,089	
Due from other funds	2,873,578	702,264
Due from state and federal governments	2,153,054	28,154
Due from other governments	28,176	
Other receivables, net	1,014,505	392
Prepaid expenses		
Inventories	27,669	
Loans receivable		
Other		
Total Assets	\$ 10,829,548	\$ 1,871,044

LIABILITIES AND FUND BALANCES

Liabilities:		
Accounts payable	\$ 710,667	\$ 158,359
Accrued liabilities	688,578	10,668
Due to other funds	821,189	1,326,687
Due to other governments	1,471,537	
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	469,946	
Landfill closure and postclosure care costs		
Deferred revenues	1,186,409	
Total Liabilities	5,348,326	1,495,714

See Independent Auditors' Report and Notes to Financial Statements

Special Grant Fund	Capital Project Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 422,829	\$	\$ 196,541	\$ 4,357,951
84,794	766,708	272,124	1,142,756
			2,115,089
	154,397	95,145	3,825,384
20,539			2,201,747
			28,176
1,254		17,299	1,033,450
		5,594	5,594
			27,669
145,000			145,000
\$ 674,416	\$ 921,105	\$ 586,703	\$ 14,882,816
\$ 3,202	\$ 115,846	\$ 36,247	\$ 1,024,321
		1,961	701,207
552,056	975,980	149,472	3,825,384
139,272			1,610,809
			469,946
			1,186,409
694,530	1,091,826	187,680	8,818,076

COUNTY OF SCHUYLER
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 (CONTINUED)
DECEMBER 31, 2004

	General	County Road Fund
<u>LIABILITIES AND FUND BALANCES (CONTINUED)</u>		
Total Liabilities brought forward	\$ 5,348,326	\$ 1,495,714
Fund Balances:		
Fund Balances - Reserved:		
Encumbrances	85,220	
Miscellaneous special reserves	416,888	
Debt service	40,523	
Capital		
Total Reserved	542,631	-0-
Fund Balances - Unreserved, Appropriated, Reported in:		
General fund	900,000	
Special revenue funds		
Fund Balances - Unreserved, Reported in:		
General fund	4,038,591	
Special revenue funds		375,330
Capital projects funds		
Total Unreserved	4,938,591	375,330
Total Fund Balances	5,481,222	375,330
Total Liabilities and Fund Balances	\$ 10,829,548	\$ 1,871,044

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
		108,384	185,930
15,419		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	<u>24,987,809</u>	<u>723,570</u>
<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	<u>22,499,161</u>	<u>2,174,442</u>
Excess of Revenues (Expenditures)	<u>2,488,648</u>	<u>(1,450,872)</u>
<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	<u>(1,929,621)</u>	<u>1,468,904</u>
Excess of Revenues (xpenditures) and Other Financing Sources (Uses)	<u>559,027</u>	<u>18,032</u>
Fund Balances, Beginning of Year	5,406,185	49,783
Fund Balances, End of Year	<u>\$ 5,965,212</u>	<u>\$ 67,815</u>

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>		
Cemetery 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>	
Long-term obligations as of December 31, 2002			22,317,820
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>	
Add revenue to be received after the availability period, and, therefore, deferred in the governmental funds			(3,709,132)
Add prepaid employee retirement expense			1,033,290
Consolidation of the STASC fund balance			<u>30,012</u>
			325,612
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:

	1	2	3	Carrying Value
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.

	Market Cost	Market Value	Category	Description
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.

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
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		1,041,979
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:

Governmental Activities:	\$
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	132,815
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 employers. 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					(112,137)
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	-	-
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	<u>\$ 4,944,864</u>	<u>\$ 4,944,864</u>
Fund	Interfund Revenues	Interfund Expenditures
General	\$ 200,000	\$ 1,929,621
Capital project	305,000	44,283
Non-Major	1,603,309	134,405
County Roads		
Total	<u>\$ 2,108,309</u>	<u>\$ 2,108,309</u>

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
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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	23,521,839	24,578,725

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	22,413,854	23,671,537
Excess of Revenues (Expenditures)	1,107,985	907,188

	\$	\$
OTHER FINANCING SOURCES (USES)		
Interfund transfers in		
Interfund transfers (out)	(2,041,454)	(1,959,657)
Proceeds of obligations		
Sale of capital assets		
Total Other Financing Sources (Uses)	(2,041,454)	(1,959,657)
Excess of (Expenditures) and Other Financing Sources (Uses)	(933,469)	(1,052,469)
Proceeds of Obligations		119,000
Appropriated reserves	25,302	25,302
Appropriated fund balances	908,167	908,167
Net Increase (Decrease)	\$ -0-	\$ -0-
Fund Balances, Beginning of Year		
Fund Balances, End of Year		

See Independent Auditors' Report and Notes to Financial Statements

Actual	Encumbrances	Variance Favorable- (Unfavorable)
\$ 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

	Original Budget	Final Budget
REVENUES		
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	545,272	810,094
EXPENDITURES		
Transportation	1,733,499	1,996,888
Employee benefits	261,800	263,233
Debt service - principal and interest	149,518	15,113
Total Expenditures	2,144,817	2,275,234
Excess of Revenues (Expenditures)	(1,599,545)	(1,465,140)
OTHER FINANCING SOURCES (USES)		
Interfund transfers in	\$ 1,599,545	\$ 1,599,545
Interfund transfers (out)	_____	(134,405)
Sale of capital assets	_____	_____
Total Other Financing Sources (Uses)	1,599,545	1,465,140
Excess of (Expenditures) and Other Financing Sources (Uses)	_____	_____
Appropriated fund balances	_____	_____
Net Increase (Decrease)	\$ -0-	\$ -0-
Fund Balances, Beginning of Year	_____	_____
Fund Balances, End of Year	_____	_____

See Independent Auditors' Report and Notes to Financial Statements

Actual	Encumbrances	Variance Favorable- (Unfavorable)
\$ _____	\$ _____	\$ _____
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		
\$ 67,815		

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

	Road Machinery	STASC Debt Service	Non-Major Governmental Funds
ASSETS			
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>

LIABILITIES AND FUND BALANCES

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

	Road Machinery	STASC Debt Service	Non-Major Governmental Funds
LIABILITIES AND FUND BALANCES (CONTINUED)			
Total Liabilities Brought Forward	\$ 191,262	\$ _____	\$ 191,262
Fund Balances:			
Fund Balances - Reserved:			
Encumbrances	108,384	_____	108,384
Miscellaneous special reserve	37,541	_____	37,541
Debt service	_____	322,506	322,506
Capital	_____	_____	_____
Total Reserved	145,925	322,506	468,431
Fund balances - Unreserved, Reported in:			
Special revenue funds	(15,344)	_____	(15,344)
Total Fund Balances	130,581	322,506	453,087
Total Liabilities and Fund Balances	\$ 321,843	\$ 322,506	\$ 644,349

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

		Road Machinery	STASC Debt Service	Non-Major Funds
REVENUES				
Real property taxes	\$		\$	\$
Real property tax items				
Nonproperty tax items				
Departmental income				
Intergovernmental charges	158,333		18,313	158,333
Use of money and property	290			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



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

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**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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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.

A handwritten signature in cursive script, appearing to read "Eric R. Niderhagen".

November 2, 2004
Ithaca, New York

A handwritten signature in cursive script, appearing to read "PricewaterhouseCoopers".