

COUNTY OF SCHUYLER
Watkins Glen, New York
FINANCIAL STATEMENTS
December 31, 2006

COUNTY OF SCHUYLER
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INDEPENDENT AUDITOR'S REPORT

Schuyler County Legislature
County of Schuyler
Watkins Glen, New York

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Schuyler, New York, as of and for the year ended December 31, 2006, 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, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 18, 2007 on our consideration of the County of Schuyler, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and the Analysis pages 2-2i and the Budgetary Comparison Schedules and Notes to Required Supplementary Information on pages 30-33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Schuyler, New York's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the County of Schuyler, New York. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Giachi, Dickerson, Little, Mikalson & Company, LLP

July 18, 2007
Ithaca, New York

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

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, 2006. Please read this information in conjunction with the County's financial statements, which begin on page 3.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$27,350,414 (net assets). Of this amount, \$9,381,322 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's overall net assets increased by \$2,840,919, or 11.59%, while unrestricted net assets increased by \$1,494,752, or 18.95%.
- During the year, the County's revenues increased by \$3,311,984 to \$32,993,053 from \$29,681,069 in 2005.
- Expenses of \$30,152,134 increased by \$1,081,885, from \$29,070,249 in the prior year.
- Revenues exceeded expenditures in the Governmental Funds by \$1,599,525, bringing fund balances to \$11,611,851 at December 31, 2006, largely as a result of increased grant funds.
- The General Fund recorded an increase of \$1,429,638 in 2006, largely as a result of the above mentioned grant funds, and ended the year with a fund balance of \$10,511,151. Of this fund balance, \$2,012,400 was reserved for future expenditures, and \$8,498,751 was unreserved.
- Invested in capital assets, net of debt, increased \$1,205,382 and capital assets increased \$1,202,395, primarily a result of construction in progress.
- The County's long-term obligations at year end were \$5,077,022, a net increase of \$72,808 from 2005 primarily as a result of an increase in accreted interest related to the issuance of STASC Bonds in 2005, offset by the payment of bond principal.

USING THIS ANNUAL REPORT

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

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

Reporting the County as a Whole

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

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

Reporting the County's Most Significant Funds

Fund Financial Statements

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

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

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

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

THE COUNTY AS A WHOLE

The County's net assets for fiscal year ended December 31, 2006 increased \$2,840,919, from \$24,509,495 to \$27,350,414. In contrast, last year's net assets increased by \$610,820.

The largest portion of the County's net assets, \$16,790,664 or (61.39%), 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, as the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the County's net assets, \$1,178,428, (4.31%), represents resources that are subject to external restrictions on how they may be used and are reported as restricted net assets. These net assets consist of unspent funds that are restricted for public safety and debt service.

The remaining category of total net assets, unrestricted net assets of \$9,381,322, (34.3%) may be used to meet the government's ongoing obligations and services to creditors and citizens. Of these net assets, the County has appropriated \$1,500,000 for 2007 expenses and designated another \$1,889,903 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>	\$ 13,503,613	\$ 14,010,256	\$ 506,643
<i>Capital assets, net</i>	18,770,282	19,972,677	1,202,395
<i>Other noncurrent assets</i>	520,056	2,139,713	1,619,657
<i>Current liabilities</i>	3,426,674	3,873,428	446,754
<i>Noncurrent liabilities</i>	4,857,782	4,898,804	41,022
<i>Invested in capital assets, net of debt</i>	15,585,282	16,790,664	1,205,382
<i>Restricted</i>	1,037,643	1,178,428	140,785
<i>Unrestricted</i>	7,886,570	9,381,322	1,494,752

The County's current assets increased \$506,643, or 3.75% due to an increase in revenues greater than the increase in expenses. Capital assets, net, and the amount invested in capital assets, net of debt, increased 6.41% due to capital asset additions greater than depreciation expense.

Other noncurrent assets increased \$1,619,657 primarily due to an increase in restricted cash due to unspent STASC 2005 bond proceeds. Current liabilities increased \$446,754 primarily due to an increase in Mental Health reserves during 2006.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

The County's total revenues increased by 11.2%, while the total cost of all programs and services increased by 3.72%, 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	\$ 4,662,059	\$ 4,876,788	\$ 214,729
Operating grants and contributions	8,467,842	9,343,074	875,232
Capital grants	933,835	2,008,297	1,074,462
<i>General Revenues:</i>			
Property taxes and tax items	8,679,469	8,854,699	175,230
Sales and other taxes	6,096,835	6,520,708	423,873
Tobacco settlement	283,730	294,684	10,954
Use of money and property	359,094	582,909	223,815
Other	198,205	511,894	313,689
PROGRAM EXPENSES			
General government	3,979,581	4,311,601	332,020
Education	1,125,577	1,073,045	(52,532)
Public safety	3,628,756	3,875,012	246,256
Public health	4,377,413	4,400,921	23,508
Transportation	4,140,353	4,083,057	(57,296)
Economic assistance and opportunity	10,731,152	11,071,195	340,043
Culture and recreation	315,421	429,800	114,379
Home and community	551,554	590,669	39,115
Interest on long-term debt	220,442	316,834	96,392
INCREASE IN NET ASSETS	\$ 610,820	\$ 2,840,919	\$ 2,230,099

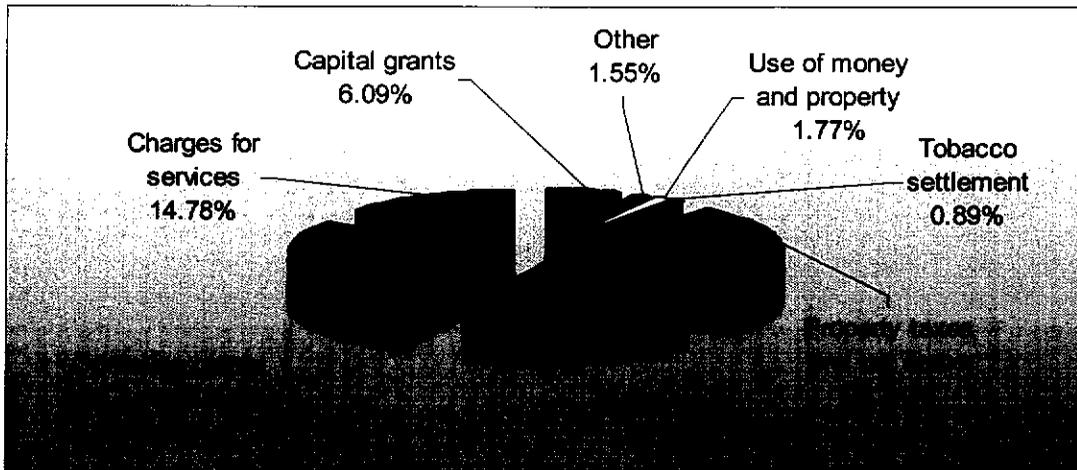
Charges for services were up 4.61% from 2005 primarily due to an increase in mental health patients. Operating and capital grants and contributions, mostly received from State and Federal sources, increased by \$1,949,694, primarily due to an increase in State and Federal funding. Property taxes increased \$175,230 due to an increase in the tax levy in 2006. Sales and other taxes increased \$423,873 due to improved economic conditions in the County.

General government, public safety, public health, economic assistance and opportunity, home and community and culture and recreation expenses increased primarily due to increases in compensation rates and increased expenditures due to additional operating and capital grants received in 2006.

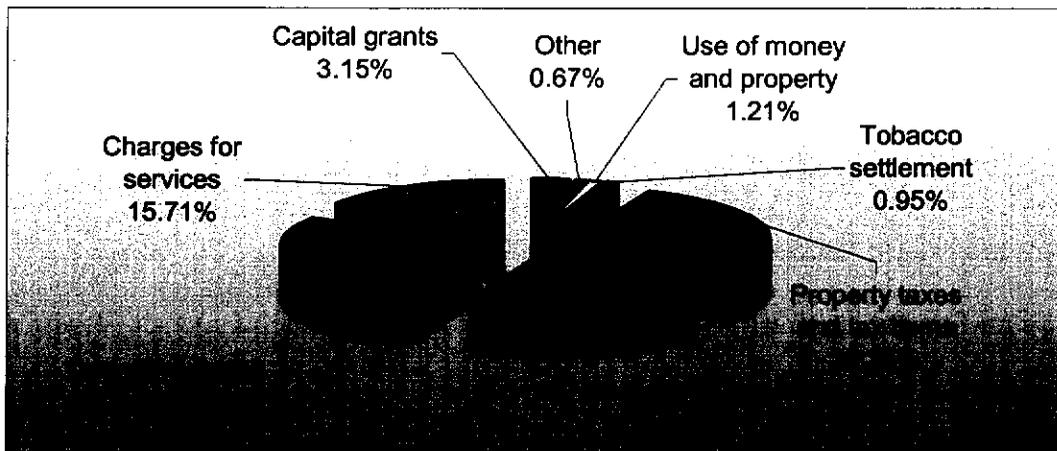
**COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006**

Figures 3 and 4 show the source of revenues for 2006 and 2005.

**Figure 3 - Revenues by Source
 Governmental Activities
 2006**



**Figure 4 - Revenues by Source
 Governmental Activities
 2005**



The cost of all Governmental Activities this year was \$30,152,134. 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 \$13,923,975, 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 \$16,228,159.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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
2006

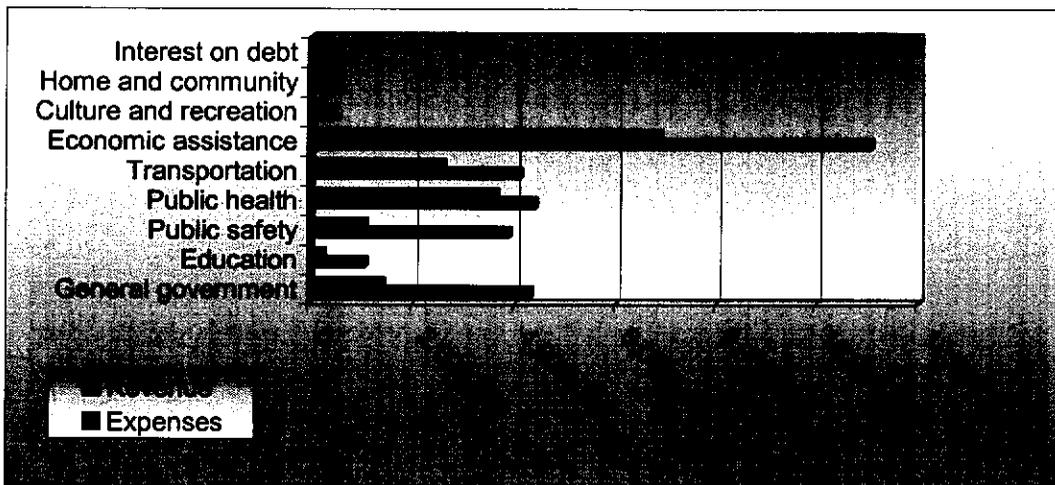
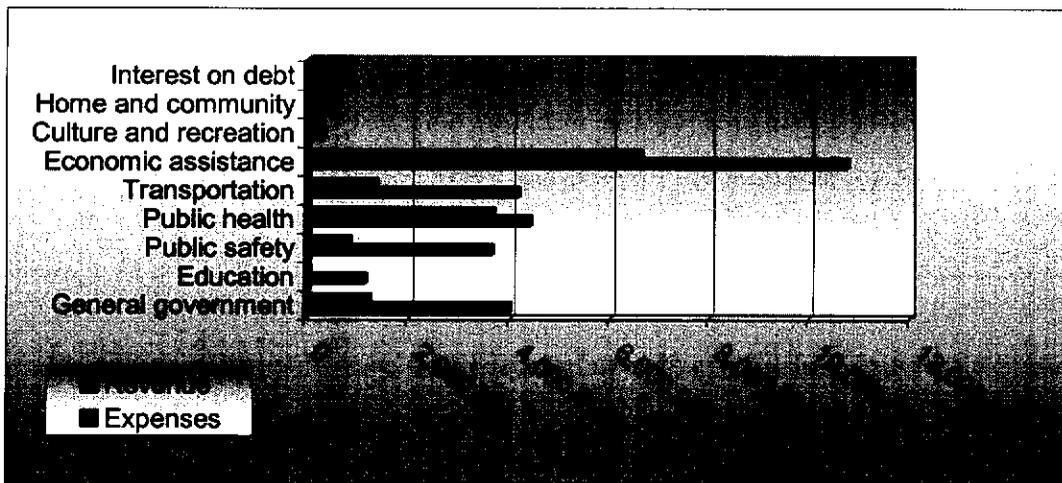


Figure 6 - Net Program Cost
Governmental Activities
2005



COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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 \$11,611,851, which is \$1,599,525, or 15.98%, higher than last year's total fund balance largely as a result of increased grant funds. Of this amount, \$2,992,434 is reserved for future expenditures and \$1,500,000 is net designated for 2007 expenditures, leaving \$7,119,417 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>	\$ 9,081,513	\$ 10,511,151	\$ 1,429,638
<i>County Road Fund</i>	376,629	377,305	676
<i>Special Grant Fund</i>	(19,354)	75,897	95,251
<i>Capital Project Fund</i>	(144,411)	(23,203)	121,208
<i>Road Machinery Fund</i>	34,363	(34,280)	(68,643)
<i>STASC Debt Service Fund</i>	683,586	704,981	21,395

This year's total change in fund balance is an increase of 15.98%, compared to a 53.68% increase in 2005. The primary reason for the 15.74% increase in the fund balance of General Fund is an increase in sales tax and Federal grants.

The deficits in the Capital Project Fund and the Road Machinery Fund will be reduced upon the transfer of funds from the General Fund and County Road Fund, respectively.

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 and Economic Assistance and Opportunity accounts. Resources available for appropriation were \$894,335 above the final budgeted amount primarily due to additional sales tax and Federal grants.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Figure 8
Budgetary Comparison Schedule - General Fund
December 31, 2006

	2006	2005	2004	2003
REVENUES AND OTHER FINANCING SOURCES				
Real property taxes and tax items	\$ 8,782,208	\$ 8,813,208	\$ 8,825,620	\$ 12,412
Nonproperty tax items	6,181,110	6,181,110	6,520,708	339,598
Departmental income and intergovernmental charges	4,095,308	4,249,005	4,476,431	227,426
Use of money and property	403,335	403,335	524,774	121,439
State sources	4,399,206	4,774,256	4,484,231	(290,025)
Federal sources	3,313,198	4,280,572	4,604,502	323,930
Other revenues and financing sources	202,350	195,823	355,378	159,555
EXPENDITURES AND OTHER FINANCING USES				
General government	\$ 3,567,189	\$ 3,399,426	\$ 3,377,110	\$ 22,316
Education	1,225,000	1,175,884	1,073,045	102,839
Public safety	2,881,597	3,138,140	3,003,794	134,346
Public health	3,629,943	4,062,602	3,669,211	393,391
Transportation	187,959	237,959	192,726	45,233
Economic assistance and opportunity	10,604,562	10,910,415	10,169,103	741,312
Culture and recreation	345,449	433,415	361,489	71,926
Home and community	426,917	457,917	451,664	6,253
Employee benefits	3,456,357	3,513,306	3,346,465	166,841
Debt service	51,350	68,823	68,823	-0-
Other financing uses	2,226,767	2,754,175	2,754,174	1
Excess of Revenues and Other Financing Sources	\$ -0-	\$ -0-	\$ 1,324,040	\$ 1,324,040

COUNTY OF SCHUYLER
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2006, the County had capital assets of \$19,972,677, net of accumulated depreciation of \$21,348,075, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a net increase (including additions and deductions) of \$1,202,395 over last year.

Figure 9
Capital Assets, Net of Depreciation

<i>Land</i>	\$ 407,000	\$ 407,000	\$ -0-
<i>Construction-in-progress</i>	837,803	1,989,033	1,151,230
<i>Buildings and improvements</i>	3,704,881	3,486,821	(218,060)
<i>Land improvements</i>	1,252,885	1,221,286	(31,599)
<i>Machinery and equipment</i>	1,635,390	1,793,239	157,849
<i>Infrastructure</i>	10,932,323	11,075,298	142,975

This year's additions consisted of:

Construction-in-progress	\$ 1,151,230
Machinery and equipment	555,969
Infrastructure	1,504,537
Total Additions	<u>3,211,736</u>
Less: Depreciation	(1,983,388)
Disposals, net	<u>(25,953)</u>
Total net change	<u>\$ 1,202,395</u>

Debt Administration

Total long-term liabilities increased in 2006 by \$72,808 to \$5,077,022, largely due to an increase in accreted interest on STASC 2005 bonds. Of this amount, \$250,000 was subject to the constitutional debt limit and represented .49% of the County's statutory debt limit. Tobacco settlement pass-through bonds are debt of the Schuyler Tobacco Asset Securitization Corporation (STASC), under which the County's future tobacco settlement proceeds were securitized. The County is not responsible for this debt in the event the STASC were to default in repayment of the bonds.

COUNTY OF SCHUYLER
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Figure 10
Outstanding Debt at Years Ended

<i>Serial bonds</i>	\$ 285,000	\$ 250,000	\$ (35,000)
<i>Capital lease</i>	-	42,200	42,200
<i>Compensated absences</i>	381,765	412,379	30,614
<i>Tobacco settlement pass-through bonds, net</i>	4,337,449	4,372,443	34,994

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

While growth in the leading economic indicators can reasonably be expected to increase the tax base, the County is heavily dependent on grant funding to lower the property tax burden. Funding sources will continue to need to be monitored and the County should be prepared to make adjustments in spending, should this revenue source not be sustainable. It should continue to be a goal to fund any mandated increases without increasing property taxes.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 5,419,780	\$ 241,023	\$ 59,917
Restricted cash	1,437,745		248,838
Taxes receivable, net	1,803,601		
Accounts receivable, net	1,023,369		102,922
Loans receivable - Current portion	15,000		79,041
Due from state and federal governments	4,032,717		
Due from other governments	46,466		
Prepaid expenses	215,002	10,323	
Inventories	16,576		
Total Current Assets	14,010,256	251,346	490,718
Noncurrent Assets:			
Restricted cash and cash equivalents	1,911,138		
Loans receivable, long-term portion	105,000		58,554
Unamortized bond issue costs	123,575		
Land and construction in progress	2,396,033		
Depreciable capital assets, net	17,576,644	15,152	
Total Noncurrent Assets	22,112,390	15,152	58,554
Total Assets	36,122,646	266,498	549,272
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	951,322	55,039	
Accrued liabilities	164,138	14,011	
Interest payable	14,665		7,353
Due to other governments	1,750,562		592
Retained percentages	26,795		
Deferred revenue	62,646		
Other	725,082		
Long-term obligations due within one year:			
Loans payable			16,401
Lease payable	18,725		
Bonds payable	118,255		
Compensated absences	41,238		
Total Current Liabilities	3,873,428	69,050	24,346

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF NET ASSETS
(CONTINUED)
DECEMBER 31, 2006

	Primary Government	Component Units	
	Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
Total current liabilities brought forward	\$ 3,873,428	\$ 69,050	\$ 24,346
Noncurrent Liabilities:			
Long-term obligations due after one year:			
Accreted interest payable	117,804	_____	_____
Lease payable	23,475	_____	_____
Bonds payable	4,386,384	_____	_____
Compensated absences	371,141	_____	_____
Total Noncurrent Liabilities	4,898,804	-0-	-0-
Total Liabilities	8,772,232	69,050	24,346
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	16,790,664	15,152	_____
Restricted for:			
Community development	75,897	_____	248,838
Debt service	704,981	_____	_____
Public safety	397,550	_____	_____
Unrestricted	9,381,322	182,296	276,088
Total Net Assets	\$ 27,350,414	\$ 197,448	\$ 524,926

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Government Activities:				
General governmental support	\$ 4,311,601	\$ 1,063,381	\$ 349,059	\$ _____
Education	1,073,045	_____	261,419	_____
Public safety	3,875,012	434,057	646,940	_____
Public health	4,400,921	2,281,364	1,352,481	_____
Transportation	4,083,057	473,715	150,143	1,959,426
Economic assistance and opportunity	11,071,195	533,479	6,319,260	_____
Culture and recreation	429,800	3,324	149,523	48,871
Home and community services	590,669	87,468	114,249	_____
Interest on debt	316,834	_____	_____	_____
Total Governmental Activities	\$ 30,152,134	\$ 4,876,788	\$ 9,343,074	\$ 2,008,297
Component Units:				
Soil and Water Conservation	\$ 440,937	\$ 46,712	\$ 262,381	\$ _____
Industrial Development Agency	14,478	6,824	_____	_____
Total Component Units	\$ 455,415	\$ 53,536	\$ 262,381	\$ -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
- Gain on sale of capital assets

Total General Revenues

Change in Net Assets

Net Assets - Beginning, as Restated

Net Assets - Ending

See Independent Auditor's Report and Notes to Financial Statements

Major Funds		Non-Major Fund Special Revenue Fund	Total Governmental Funds
Capital Project Fund	STASC Debt Service Fund	Road Machinery Fund	
\$ 2,475,604	\$ 64,658	\$ 26,069	\$ 5,903,883
	342,441		2,864,780
			1,803,601
157,316		111,155	5,763,609
48,871			4,032,717
			46,466
8,355	293,135	23,081	1,023,369
	4,747		215,002
			16,576
			120,000
<u>\$ 2,690,146</u>	<u>\$ 704,981</u>	<u>\$ 160,305</u>	<u>\$ 21,790,003</u>
\$ 28,852	\$	\$ 46,191	\$ 978,117
		2,213	164,138
2,683,233		146,181	5,763,609
1,264			1,750,562
			725,082
			796,644
<u>2,713,349</u>	<u>-0-</u>	<u>194,585</u>	<u>10,178,152</u>
		201,868	343,110
		37,541	440,304
	704,981		704,981
			1,504,039
<u>-0-</u>	<u>704,981</u>	<u>239,409</u>	<u>2,992,434</u>

COUNTY OF SCHUYLER
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 (CONTINUED)
DECEMBER 31, 2006

	Major Funds		
	General Fund	Special Revenue Funds	
		County Road Fund	Special Grant Fund
<u>LIABILITIES AND FUND BALANCES</u>			
<u>(CONTINUED)</u>			
Total Reserved Fund Balance brought forward	\$ 2,012,400	\$ 35,644	\$ -0-
Fund Balances - Unreserved, Appropriated, Reported in:			
General Fund	1,500,000		
Fund Balances - Unreserved, Reported in:			
General Fund	6,998,751		
Special Revenue Funds		341,661	75,897
Capital Projects Funds			
Total Unreserved	8,498,751	341,661	75,897
Total Fund Balances	10,511,151	377,305	75,897
Total Liabilities and Fund Balances	\$ 15,397,239	\$ 2,072,570	\$ 764,762

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and
Changes in Net Assets

Primary Government	Component Units	
Governmental Activities	Soil and Water Conservation District	Industrial Development Agency
\$ (2,899,161)	\$	\$
(811,626)		
(2,794,015)		
(767,076)		
(1,499,773)		
(4,218,456)		
(228,082)		
(388,952)		
(316,834)		
(13,923,975)		
	(131,844)	
		(7,654)
	(131,844)	(7,654)
(13,923,975)	(131,844)	(7,654)
8,399,837		
454,862		
6,520,708		
294,684		
582,909	2,409	23,102
349,150	5,592	4,381
89,905		
72,839		
16,764,894	8,001	27,483
2,840,919	(123,843)	19,829
24,509,495	321,291	505,097
\$ 27,350,414	\$ 197,448	\$ 524,926

COUNTY OF SCHUYLER
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	Major Funds		
	General Fund	Special Revenue Funds	
		County Road Fund	Special Grant Fund
<u>ASSETS</u>			
Assets:			
Cash and cash equivalents - Unrestricted	\$ 2,131,199	\$ 726,782	\$ 479,571
- Restricted	2,372,624		149,715
Taxes receivable (net)	1,803,601		
Due from other funds	4,771,964	723,174	
Due from State and Federal governments	3,348,039	622,222	13,585
Due from other governments	46,466		
Other receivables, net	696,515	392	1,891
Prepaid expenses	210,255		
Inventories	16,576		
Loans receivable			120,000
 Total Assets	 <u>\$ 15,397,239</u>	 <u>\$ 2,072,570</u>	 <u>\$ 764,762</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 853,441	\$ 36,048	\$ 13,585
Accrued liabilities	149,851	12,074	
Due to other funds	675,744	1,640,443	618,008
Due to other governments	1,685,326	6,700	57,272
Other liabilities	725,082		
Deferred revenues	796,644		
 Total Liabilities	 <u>4,886,088</u>	 <u>1,695,265</u>	 <u>688,865</u>
Fund Balances:			
Fund Balances - Reserved:			
Encumbrances	105,598	35,644	
Miscellaneous special reserves	402,763		
Debt service			
Capital	1,504,039		
Total Reserved	<u>2,012,400</u>	<u>35,644</u>	<u>-0-</u>

See Independent Auditor's Report and Notes to Financial Statements

<u>Major Funds</u>		<u>Non-Major Fund</u>	
<u>Capital Project Fund</u>	<u>STASC Debt Service Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
		<u>Road Machinery Fund</u>	
\$ -0-	\$ 704,981	\$ 239,409	\$ 2,992,434
			1,500,000
			6,998,751
		(273,689)	143,869
(23,203)			(23,203)
(23,203)	-0-	(273,689)	8,619,417
(23,203)	704,981	(34,280)	11,611,851
\$ 2,690,146	\$ 704,981	\$ 160,305	\$ 21,790,003

COUNTY OF SCHUYLER
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Total Governmental Fund Balances \$ 11,611,851

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets, net of accumulated depreciation of \$21,348,075 used in Governmental Activities are not financial resources and, therefore, are not reported in the funds. 19,972,677

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	\$	(14,665)	
Accreted interest payable		(117,804)	
Unamortized bond issuance costs - STASC		<u>123,575</u>	<u>(8,894)</u>

Certain revenues are deferred in Governmental Funds due to applying the "availability criterion" to receivables for the modified accrual basis of accounting. However, these deferred revenues are considered revenues in the Statement of Activities due to applying the full accrual basis of accounting. 733,998

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

Serial bonds payable	\$	(250,000)	
Lease payable		(42,200)	
Tobacco settlement pass-through bonds, net of unamortized bond discount		(4,254,639)	
Compensated absences		<u>(412,379)</u>	<u>(4,959,218)</u>

Net Assets of Governmental Activities \$ 27,350,414

See Independent Auditor's 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, 2006

	Major Funds		
	General Fund	Special Revenue Funds	
		County Road Fund	Special Grant Fund
<u>REVENUES</u>			
Real property taxes	\$ 8,370,758	\$	\$
Real property tax items	454,862		
Nonproperty tax items	6,520,708		
Departmental income	4,157,271		
Intergovernmental charges	319,160		
Use of money and property	524,774	16,510	4,925
Licenses and permits			
Fines and forfeitures	46,011	1,240	
Sale of property and compensation for loss	141,088	1,230	
Miscellaneous local sources	168,022	2,697	
Interfund revenues			
State sources	4,484,231	808,814	122,592
Federal sources	4,604,502	1,150,612	101,399
Total Revenues	<u>29,791,387</u>	<u>1,981,103</u>	<u>228,916</u>
<u>EXPENDITURES</u>			
General governmental support	3,307,119		
Education	1,073,045		
Public safety	3,003,681		
Public health	3,669,211		
Transportation	192,726	3,355,674	
Economic assistance and opportunity	10,142,369		
Culture and recreation	361,489		
Home and community services	442,904		133,665
Employee benefits	3,346,465	360,204	
Debt service - Principal and interest	68,823		
Capital outlay			
Total Expenditures	<u>25,607,832</u>	<u>3,715,878</u>	<u>133,665</u>
Excess of Revenues (Expenditures)	4,183,555	(1,734,775)	95,251
<u>OTHER FINANCING SOURCES (USES)</u>			
Interfund transfers in	257	1,735,708	
Interfund transfers (out)	(2,754,174)	(257)	
Proceeds of obligations			
Bond issue costs			
Total Other Financing (Uses) Sources	<u>(2,753,917)</u>	<u>1,735,451</u>	<u>-0-</u>
Excess of Revenues (Expenditures) and Other Financing Sources (Uses)	<u>1,429,638</u>	<u>676</u>	<u>95,251</u>
Fund Balances, Beginning, as Restated	9,081,513	376,629	(19,354)
Fund Balances, Ending	<u>\$ 10,511,151</u>	<u>\$ 377,305</u>	<u>\$ 75,897</u>

See Independent Auditor's Report and Notes to Financial Statements

Major Funds		Non-Major Fund Special Revenue Fund	Total Governmental Funds
Capital Project Fund	STASC Debt Service Fund	Road Machinery Fund	
\$	\$	\$	\$ 8,370,758
			454,862
			6,520,708
		29,192	4,186,463
		253,227	572,387
10,072	24,603	2,025	582,909
			-0-
			47,251
8,355		12,071	162,744
12,000	294,684		477,403
		180,000	180,000
48,871			5,464,508
			5,856,513
79,298	319,287	476,515	32,876,506
	34,293		3,341,412
			1,073,045
			3,003,681
			3,669,211
		876,468	4,424,868
			10,142,369
			361,489
			576,569
		69,490	3,776,159
	263,599		332,422
575,756			575,756
575,756	297,892	945,958	31,276,981
(496,458)	21,395	(469,443)	1,599,525
617,666		400,800	2,754,431
			(2,754,431)
617,666	-0-	400,800	-0-
121,208	21,395	(68,643)	1,599,525
(144,411)	683,586	34,363	10,012,326
\$ (23,203)	\$ 704,981	\$ (34,280)	\$ 11,611,851

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 1,599,525

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report capital outlay 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 outlay in the current period.

Capital outlay, net of disposals	\$	2,981,892	
Depreciation, net of disposals		<u>(1,779,497)</u>	<u>1,202,395</u>

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

Deferred revenue	\$	116,547	
Capital lease payable		<u>(57,198)</u>	<u>59,349</u>

Repayment of bond principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The amortization of bond issuance costs and bond discounts are expenditures in the Statement of Activities and reduce liabilities.

Bond and capital lease repayments	\$	129,998	
Bond issuance costs amortization		(5,324)	
Bond discount amortization		<u>(6,745)</u>	<u>117,929</u>

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the Governmental Funds. These expenses include the change in compensated absences and the change in interest payable.

Compensated absences	\$	(30,614)	
Change in accrued interest payable		584	
Change in accreted interest payable		<u>(108,249)</u>	<u>(138,279)</u>

Change in Net Assets of Governmental Activities	\$	<u><u>2,840,919</u></u>
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See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
DECEMBER 31, 2006

		<u>Agency Funds</u>
<u>ASSETS</u>		
Cash and cash equivalents - Unrestricted	\$	<u>705,726</u>
- Restricted		<u>50,707</u>
Due from other governments		<u>91</u>
 Total Assets	 \$	 <u><u>756,524</u></u>
<u>LIABILITIES</u>		
Agency liabilities	\$	<u>584,412</u>
Due to other governments		<u>172,112</u>
 Total Liabilities	 \$	 <u><u>756,524</u></u>

See Independent Auditor's Report and Notes to Financial Statements

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

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, "The Financial Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the County of Schuyler's reporting entity.

1. Included in the Reporting Entity

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

The Schuyler County Industrial Development Agency

The Schuyler County Industrial Development Agency was created in 1971 by the Schuyler County Legislature under the provisions of Chapter 535 of the 1971 Laws of New York State for the purpose of encouraging economic growth in Schuyler County. The Agency is exempt from federal, state and local income taxes. The Agency, although established by the Schuyler County Legislature, is a separate entity and operates independently of the County. A separate audit report dated February 17, 2007 has been issued for the Schuyler County Industrial Development Agency for the year ended December 31, 2006. The Agency is considered a component unit of the County and is discretely presented. Complete financial statements for Schuyler County Industrial Development Agency may be obtained by writing their administrative office at 2 North Franklin Street, Suite 330, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Section 870 of General Municipal Law indicates that the bonds or notes and other obligations of the Schuyler County Industrial Development Agency are not the debt of the County, and the payment of such is payable out of the funds of the Schuyler County 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 35% 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 the 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 (STASC) is a local development corporation organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York. The STASC is one of 17 New York County TASC's created in 2000 for the purpose of purchasing the tobacco settlement rights from each respective county with the net proceeds of bonds issued to the New York Counties Tobacco Trust I (NYCTT). The trust in-turn issued \$227,130,000 aggregate principal amounts of Tobacco Settlement Pass-Through Bonds - Series 2000, dated December 7, 2000. The Trust bonds represent a direct, pass-through interest in the corresponding TASC bonds. All payments of the TASC bonds will be made directly by the Trust with the future proceeds of the Tobacco Settlement Revenues.

The STASC, along with 23 other TASCs created a trust known as the New York Counties Tobacco Trust V (NYCTTV) in order to issue \$199,375,348 aggregate principal amount of Tobacco Settlement Pass-Through Bonds (Series 2005 NYCTT Bonds). Series 2005 NYCTT Bonds, issued on November 29, 2005, represent a direct, pass-through interest in corresponding TASC bonds held by the trust and are subordinate to the prior bonds issued. The Series 2005 TASC bonds are subject to the rights of holders of the prior bonds, payable solely from, and secured solely by, the Collections and the funds and accounts pledged by the respective TASC Indenture. The Collections of the STASC will be comprised of the TSRs remaining after payment of the prior bonds and investment earnings on funds and accounts established under the STASC's Indenture. The STASC Series 2005 TASC Bonds are also payable from certain amounts released from Liquidity Reserve Accounts upon retirement of the prior bonds and amounts released from Trapping Accounts.

The STASC 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 of whom is a member of the management team of the County and one who 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 Major Debt Service Fund. A separate audit report dated May 21, 2007 has been issued for the STASC for the year ended December 31, 2006. Complete financial statements for STASC may be obtained from Schuyler County, 105 9th Street, Watkins Glen, NY 14891.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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 2006, Schuyler County's share aggregated \$35,000. As 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 program 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)
FOR THE YEAR ENDED DECEMBER 31, 2006

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 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.

Special Revenue Funds:

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

Special Grant Fund - The Special Grant Fund is used to account for activities under the Housing and Community Development Act of 1974.

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

STASC Debt Service Fund - The STASC Debt Service Fund is used to account for the accumulation of resources from tobacco settlement payments and for the payment of principal and interest on the Tobacco settlement pass-through bonds.

Non-Major Funds

Special Revenue Fund:

Road Machinery Fund - The Road Machinery 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.

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 - The 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)
FOR THE YEAR ENDED DECEMBER 31, 2006

C. Basis of Accounting/Measurement Focus

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

1. Accrual Basis

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

2. Modified Accrual Basis

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

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

D. Property Taxes

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

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

E. Constitutional Tax Limit

The amount that may be raised by the Countywide tax levy on real estate in any fiscal year (for purposes other than debt service on County indebtedness) is limited to one and one-half per centum (subject to increase up to two per centum by resolution of the County Legislature) of the five-year average full valuation of taxable real estate of the County, per New York State statutes.

The County of Schuyler's constitutional tax limit (per New York State statutes) for the fiscal year ended December 31, 2006 is computed as follows:

Five-Year Average Full Valuation of Taxable Real Estate (2001-2005)	\$ <u>728,382,694</u>
Tax Limit @ 1.5%	\$ 10,925,740
Less :	
Tax Levy	8,399,708
Less Exclusions	<u>(547,233)</u>
Tax Levy Subject to Tax Limit	<u>7,852,475</u>
Tax Margin	\$ <u>3,073,265</u>

F. Receivables

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

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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.

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 77 retirees are covered. The County recognized \$258,874 as an expenditure in 2006 for its share of the benefit premiums.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

M. Sales Tax

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

N. Revenues

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

O. Restricted Resources

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

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.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

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

2. Fund Statements

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

- **Encumbrance Reserve**
The Reserve for Encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year. This reserve is accounted for in the General Fund and Road Machinery Fund.
- **Miscellaneous Special Reserve**
The Miscellaneous Special Reserve is used to account for funds restricted for miscellaneous projects, as authorized by county resolution. This reserve is further outlined in Note 8. This reserve is accounted for in the General Fund and Road Machinery Fund.
- **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.
- **Capital Reserve**
The Capital reserve provides funds for the financing of all or part of the cost of: a) the construction, reconstruction or acquisition of a specific capital improvement or the acquisition of a specific item or specific items of equipment, or b) the construction, reconstruction or acquisition of a type of capital improvement or the acquisition of a type of equipment. This reserve is accounted for in the general Fund.

S. Future Impacts of Accounting Pronouncements

The County has not completed the process of evaluating the impact that will result from adopting the GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," effective for the year ending December 31, 2008. The County is, therefore, unable to disclose the impact that adopting GASB Statement No. 45 will have on its financial position and results of operations when such statements are adopted.

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

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

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
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Collateral (security) is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts, obligations of Puerto Rico, obligations of municipalities of other states, obligations of domestic corporations, mortgage related securities, commercial paper and bankers acceptances, and zero coupon obligations of the United States.

Deposits are valued at cost or cost plus interest, and are categorized as both uninsured and either (1) uncollateralized, (2) collateralized by securities held by the pledging financial institution or (3) collateralized by securities held by the pledging financial institutions' trust department or agent but not in the depositor-government's name.

Total financial institution (bank) balances at December 31, 2006, per the bank, were \$9,225,667, \$972,514 and \$580,714 for the primary government, fiduciary funds and component units, respectively. These deposits are categorized as follows:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>
Primary Government and Blended Component Unit	\$ 286,863	\$ 8,328,988	\$ -0-	\$ 8,768,663
Fiduciary Funds	\$ -0-	\$ 866,446	\$ -0-	\$ 756,433
Soil and Water District	\$ 80,317	\$ -0-	\$ -0-	\$ 241,023
Industrial Development Agency	\$ -0-	\$ 193,148	\$ -0-	\$ 308,755

Restricted cash and cash equivalents at December 31, 2006 consisted of the following:

<u>Activity</u>	<u>Amount</u>
Governmental Activities:	
Public Safety Funds	\$ 397,550
STASC Debt Service Fund	407,099
Community Development Fund	629,286
Capital Projects reserve	1,504,296
Capital Projects Funds	230,152
Lamoka-Waneta Lakes District Funds	180,500
 Total Governmental Activities	 <u>\$ 3,348,883</u>

2. Property Taxes

Property taxes levied for 2006 are recorded as revenue and receivables, net of estimated uncollectible amounts. In the fund financial statements, the net receivables collected during 2006 and expected to be collected within the first sixty days of 2007 are recognized as revenues in 2006. Net receivables estimated to be collectible subsequent to the first sixty days of 2007 are reflected as deferred revenue. At December 31, 2006, the County had deferred \$733,998 of real property tax revenue.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Taxes receivable at December 31, 2006 are summarized as follows:

Taxes Receivable - Current	\$	(252)
Tax Sale Certificates		15,754
School Taxes		874,822
Taxes Receivable - City School		26,148
Taxes Receivable - Overdue		992,984
Other		57,033
Allowance for Uncollectible Taxes		<u>(162,888)</u>
 Taxes Receivable	 \$	 <u>1,803,601</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 \$900,970 is reflected as part of a liability, due to other governments, in the accompanying basic financial statements.

3. Other Receivables

Other receivables at December 31, 2006 consisted of the following, which are stated at net realizable value. The County has deemed the amounts to be fully collectible.

	<u>Description</u>	<u>Amount</u>
General Fund	County Clerk	\$ 39,997
	Public Health Fees	153,373
	Mental Health Fees	95,910
	Sales and Use Taxes	7,943
	Public Safety Fees	55,607
	Emergency Management	107
	Support Collections	98,459
	Home and Community Service	1,470
	Information Technology	37,610
	Office for the Aging	5,819
	Youth Bureau	830
	Due from Agency	172,112
	Other	<u>27,278</u>
 Total General Fund		 <u>696,515</u>
County Road Fund	Billed Services	392
Special Grant Fund	Other	1,891
Capital Project Fund	Other	8,355
Road Machinery Fund	Billed Services	23,081
 STASC Fund	TSR Receivable	292,082
	Accrued Interest	<u>1,053</u>
 Total STASC		 <u>293,135</u>
 Total Other Receivables		 <u>\$ 1,023,369</u>

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

4. Capital Assets

Capital asset activity for the year ended December 31, 2006, was as follows:

	Restated Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06
Governmental Activities:				
Land	\$ 407,000			\$ 407,000
Construction in progress	837,803	2,023,644	(872,414)	1,989,033
Total Non-depreciable Capital Assets	<u>1,244,803</u>	<u>2,023,644</u>	<u>(872,414)</u>	<u>2,396,033</u>
Buildings	7,967,112			7,967,112
Machinery and equipment	5,224,159	555,969	(229,844)	5,550,284
Land improvements	1,775,035			1,775,035
Infrastructure	22,127,751	1,504,537		23,632,288
Total Depreciable Capital Assets	<u>37,094,057</u>	<u>2,060,506</u>	<u>(229,844)</u>	<u>38,924,719</u>
Total Historical Cost	<u>38,338,860</u>	<u>4,084,150</u>	<u>(1,102,258)</u>	<u>41,320,752</u>
Less accumulated depreciation:				
Buildings	(4,262,231)	(218,060)		(4,480,291)
Machinery and equipment	(3,588,769)	(372,167)	203,891	(3,757,045)
Land improvements	(522,150)	(31,599)		(553,749)
Infrastructure	(11,195,428)	(1,361,562)		(12,556,990)
Total Accumulated Depreciation	<u>(19,568,578)</u>	<u>(1,983,388)</u>	<u>203,891</u>	<u>(21,348,075)</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,770,282</u>	<u>\$ 2,100,762</u>	<u>\$ (898,367)</u>	<u>\$ 19,972,677</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government support	\$ 174,435
Public safety	150,834
Public health	9,150
Transportation	1,575,916
Economic assistance and opportunity	23,943
Culture and recreation	35,010
Home and community services	<u>14,100</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,983,388</u>

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).

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
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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, 110 State Street, 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>
2006	\$ 851,966
2005	841,022
2004	861,472

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.

On May 14, 2003, Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st (e.g. billings due February 2005 would be based on the pension value as of March 31, 2004).
- Allows one-time financing of State fiscal year 2004-2005 pension cost by permitting local governments to bond, over five years, any required contribution in excess of 7% of estimated salaries or to amortize required contributions in excess of 7% over a five year period. [Superseded by Chapter 260 of the Laws of 2004. See below.]

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

On July 30, 2004, Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to ten years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2006-07, the amount in excess of 10.5% of employees' covered pensionable salaries.

This law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2007. The County has opted not to amortize.

2. Debt

a. Constitutional Debt Limit

At December 31, 2006, the total outstanding indebtedness of the County aggregated \$5,077,022. Of this amount, \$250,000 was subject to the constitutional limitations on indebtedness and represented .49% 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. The County neither redeemed nor issued BANs during the year ended December 31, 2006.

d. Other Debt

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

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

Capital Lease - Represents principal balance of equipment lease. This liability is liquidated from the General Fund.

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

e. Summary of Debt

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

Description	Original Date of Issue	Original Amount	Interest Rate	Date of Final Maturity	Balance December 31,
Serial Bonds:					
Courthouse/Office Reconstruction	04/94	\$ 2,300,000	5.50-5.80%	10/15/13	\$ 250,000
STASC Pass-through Bonds:					
Tobacco Settlement Bonds (2000)	12/00	3,280,000	5.25-6.30%	6/2023	2,820,000
Less: Unamortized bond discount					(96,812)
Carrying Value of Series 2000 Bonds					2,723,188
Tobacco Settlement Bonds (2005)	11/05	1,573,852	6.00-7.85%	6/2060	1,573,852
Less: Unamortized bond discount					(42,401)
Add: Interest accretion					117,804
Carrying Value of Series 2005 Bonds					1,649,255
Capital Lease	04/06	57,198	6.65%	3/2009	42,200
Total					\$ 4,664,643

f. Change in Indebtedness

The following represents changes in the County's indebtedness during the year ended December 31, 2006:

	Balance January 1,	Additions	Deletions	Balance December 31,	Amount Due Within One Year
Serial Bonds	\$ 285,000	\$	\$ (35,000)	\$ 250,000	\$ 35,000
STASC Bonds	4,473,852		(80,000)	4,393,852	90,000
Add: Accreted interest payable	9,555	108,249		117,804	-0-
Less: Unamortized bond discount	(145,958)		6,745	(139,213)	(6,745)
Capital lease	-0-	57,198	(14,998)	42,200	18,725
Compensated absences	381,765	30,614		412,379	41,238
Total	\$ 5,004,214	\$ 196,061	\$ (123,253)	\$ 5,077,022	\$ 178,218

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
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Additions and deletions to compensated absences are shown net as it is impractical to determine these amounts separately. The County paid \$18,569 in interest on Bonds during the year. The Schuyler TASC paid \$298,265 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	\$ 202,424
Less interest accrued in prior year	(15,249)
Less prior year accreted interest	(9,555)
Add current year accreted interest	117,804
Add interest accrued in current year	14,665
Add amortization of bond discount	<u>6,745</u>
Total	<u>\$ 316,834</u>

g. Debt Service Requirements

The following table summarizes the County's future debt service requirements as of December 31, 2006:

Year	County Serial Bonds		Capital Lease		TASC Bonds		Total Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 35,000	\$ 14,390	\$ 18,725	\$ 2,242	\$ 90,000	\$ 178,416	\$ 143,725	\$ 195,048
2008	40,000	12,430	20,009	959	100,000	172,590	160,009	185,979
2009	35,000	10,150	3,466	29	105,000	166,304	143,466	176,483
2010	35,000	8,120			120,000	159,404	155,000	167,524
2011	35,000	6,090			125,000	151,898	160,000	157,988
2012-2016	70,000	6,090			764,031	669,168	834,031	675,258
2017-2021					1,406,261	706,479	1,406,261	706,479
2022-2026					1,007,463	1,076,121	1,007,463	1,076,121
2027-2031					369,281	1,591,873	369,281	1,591,873
2032-2036					248,160	1,806,258	248,160	1,806,258
2037-2040					58,656	570,921	58,656	570,921
Total	<u>\$ 250,000</u>	<u>\$ 57,270</u>	<u>\$ 42,200</u>	<u>\$ 3,230</u>	<u>\$ 4,393,852</u>	<u>\$ 7,249,432</u>	<u>\$ 4,686,052</u>	<u>\$ 7,309,932</u>

h. STASC Bonds

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% in December 2000. The TASC elected the 25 year flexible amortization option.

The TASC Series 2005 bonds are capital appreciation bonds, upon which the investment return on the initial principal amount is reinvested at a compounded rate until maturity. There are no scheduled principal and interest payments on the Series 2005 bonds other than on their respective maturity dates, at which time a single payment is made representing both the initial principal amount and the total investment return.

COUNTY OF SCHUYLER
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 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

The Series 2005 bonds are subject to redemption prior to maturity through turbo redemption payments which are to be made from surplus collections on deposit, as provided in the Bond Indenture. The amounts and timing of the turbo redemption payments are based on projections of future tobacco settlement receipts less amounts needed to satisfy debt service on the Series 2000 bonds and to satisfy operating requirements. Failure to make such turbo redemption payments will not, however, constitute an event of default.

C. Interfund Receivables and Payables

During the course of normal operations, the County has numerous transactions between funds including expenditures and transfers of resources primarily to subsidize other funds. The Governmental Funds financial statements generally reflect such transactions as transfers. Interfund receivables and payables and interfund transfer revenues and expenditures at December 31, 2006 were as follows:

	Interfund Receivables	Interfund Payables
General Fund	\$ 4,771,964	\$ 675,744
County Road Fund	723,174	1,640,443
Special Grant Fund	-0-	618,008
Capital Projects Fund	157,316	2,683,233
Non-Major Fund	111,155	146,181
Total	\$ 5,763,609	\$ 5,763,609

	Interfund Revenues	Interfund Expenditures
General Fund	\$ 257	\$ 2,754,174
County Road Fund	1,735,708	257
Capital Project Fund	617,666	-0-
Non-Major Fund	400,800	-0-
Total	\$ 2,754,431	\$ 2,754,431

Note 3 - Stewardship, Compliance, and Accountability

The Capital Project Fund had a deficit fund balance of \$23,203. This deficit will be reduced as grants are finalized and monies are transferred from other funds. Also, the Road Machinery Fund had a deficit of \$34,280. This deficit will be reduced by a transfer from the County Road Fund.

Note 4 - Summary of Significant Commitments and Contingencies

A. State and Federally Assisted Programs

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

COUNTY OF SCHUYLER
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

B. Other Litigation

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

Note 5 - Other Disclosures

A. Schuyler County Community Services Board

The Schuyler County Community Services Board was formed under Mental Hygiene Law, Section 41, to enable and encourage the County to develop preventive, rehabilitative and treatment services for the mentally ill, the mentally retarded and the developmentally disabled, and those suffering from the diseases of alcoholism and substance abuse in the community.

The Board was formed to be a policy-making body with regards to the services provided to the community. During 1996, the Board applied for and received funding to build a new building. The bonding was obtained through the Local Government Services Corporation (LGSC) and various other state grants were received to supplement the funding stream. Because the bonding was obtained through the LGSC, the LGSC will retain title to the building for the life of the bonds. Therefore, no asset has been recorded on the County's fixed asset records.

Note 6 - Other Contingencies

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

Note 7 - Transactions with Component Units

- A. Schuyler County Industrial Development Agency (IDA) - During the year ended December 31, 2006, the County of Schuyler paid \$5,000 in administration fees to the IDA.
- B. Schuyler County Soil and Water Conservation District - The County contributed \$111,793 to the Soil and Water Conservation District during the year ended December 31, 2006.

COUNTY OF SCHUYLER
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 8 - Net Assets - Statement of Net Assets

Of the \$9,381,322 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	\$ 9,381,322
Designated for:	
Ensuing year's budget	1,500,000
Carry-over of prior year's commitments (encumbrances)	343,110
Miscellaneous special reserves	36,986
Capital improvements	1,504,039
Repairs	<u>5,768</u>
Total Unrestricted, Designated Net Assets	<u>3,389,903</u>
Total Unrestricted, Undesignated Net Assets	<u>\$ 5,991,419</u>

Note 9 - Prior Period Adjustments

Fund balance of the General Fund at the beginning of 2006 has been adjusted to reflect PILOTs received in 2006 for the years ended 2004 and 2005. The total of this adjustment increased General Fund fund balance and net assets at December 31, 2005 by \$167,997. In addition, net assets and capital assets, net, at December 31, 2005, have been decreased \$743,815 due to including only capital assets over the capitalization threshold.

COUNTY OF SCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget
<u>REVENUES</u>		
Real property taxes	\$ 8,399,708	\$ 8,430,708
Real property tax items	382,500	382,500
Nonproperty tax items	6,181,110	6,181,110
Departmental income	3,732,495	3,886,192
Intergovernmental charges	362,813	362,813
Use of money and property	403,335	403,335
Fines and forfeitures	80,349	64,822
Sale of property and compensation for loss	108,461	108,461
Miscellaneous local sources	13,540	22,540
State sources	4,399,206	4,774,256
Federal sources	3,313,198	4,280,572
Total Revenues	27,376,715	28,897,309
<u>EXPENDITURES</u>		
General governmental support	3,567,189	3,399,426
Education	1,225,000	1,175,884
Public safety	2,881,597	3,138,140
Public health	3,629,943	4,062,602
Transportation	187,959	237,959
Economic assistance and opportunity	10,604,562	10,910,415
Culture and recreation	345,449	433,415
Home and community services	426,917	457,917
Employee benefits	3,456,357	3,513,306
Debt service - Principal and interest	51,350	68,823
Total Expenditures	26,376,323	27,397,887
Excess of Revenues	1,000,392	1,499,422
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in		
Interfund transfers (out)	(2,226,767)	(2,754,175)
Total Other Financing (Uses)	(2,226,767)	(2,754,175)
Excess of (Expenditures) and Other Financing Sources (Uses)	(1,226,375)	(1,254,753)
Appropriated Reserves	30,149	15,259
Appropriated Fund Balances	1,196,226	1,239,494
Net Increase (Decrease)	\$ -0-	\$ -0-
Fund Balances, Beginning as Restated		
Fund Balances, Ending		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable- (Unfavorable)</u>
\$ 8,370,758	\$	\$ (59,950)
454,862		72,362
6,520,708		339,598
4,157,271		271,079
319,160		(43,653)
524,774		121,439
46,011		(18,811)
141,088		32,627
168,022		145,482
4,484,231		(290,025)
4,604,502		323,930
29,791,387	-0-	894,078
3,307,119	69,991	22,316
1,073,045		102,839
3,003,681	113	134,346
3,669,211		393,391
192,726		45,233
10,142,369	26,734	741,312
361,489		71,926
442,904	8,760	6,253
3,346,465		166,841
68,823		-0-
25,607,832	105,598	1,684,457
4,183,555	(105,598)	2,578,535
257		257
(2,754,174)		1
(2,753,917)	-0-	258
1,429,638	\$ (105,598)	\$ 2,578,793
9,081,513		
\$ 10,511,151		

COUNTY OFSCHUYLER
 BUDGETARY COMPARISON SCHEDULE (NON-GAAP)
 COUNTY ROAD FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>
<u>REVENUES</u>		
Use of money and property	\$ 300	\$ 300
Fines and forfeitures	300	300
Sale of property and compensation for loss	600	600
Miscellaneous local sources	500	613
State sources	794,648	853,319
Federal sources	1,115,520	1,179,683
Total Revenues	<u>1,911,868</u>	<u>2,034,815</u>
<u>EXPENDITURES</u>		
Transportation	3,207,150	3,391,318
Employee benefits	360,616	360,616
Total Expenditures	<u>3,567,766</u>	<u>3,751,934</u>
Excess of (Expenditures)	<u>(1,655,898)</u>	<u>(1,717,119)</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	1,655,898	1,705,898
Interfund transfers (out)		(257)
Total Other Financing Sources (Uses)	<u>1,655,898</u>	<u>1,705,641</u>
Excess of (Expenditures) and Other Financing Sources (Uses)	<u>-0-</u>	<u>(11,478)</u>
Appropriated Fund Balances		<u>11,478</u>
Net Increase	<u>\$ -0-</u>	<u>\$ -0-</u>
Fund Balances, Beginning		
Fund Balances, Ending		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance Favorable- (Unfavorable)</u>
\$ 16,510	\$	\$ 16,210
1,240		940
1,230		630
2,697		2,084
808,814		(44,505)
1,150,612		(29,071)
1,981,103	-0-	(53,712)
3,355,674	35,644	-0-
360,204		412
3,715,878	35,644	412
(1,734,775)	(35,644)	(53,300)
1,735,708		29,810
(257)		-0-
1,735,451	-0-	29,810
676	\$ (35,644)	\$ (23,490)
376,629		
\$ 377,305		

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - 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 2006, the budget was modified for unanticipated grants and revenues, anticipated bond revenue and carryover encumbrances.
 - d. Appropriations are adopted at the functional level by department.
 - e. Budgetary controls are established for the Capital Projects Fund through resolutions authorizing individual projects, which remain in effect for the life of the project.
 - f. An annual legal budget is not adopted for the Special Grant Fund, which is a Special Revenue Fund. Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements.
 - g. Appropriations lapse at year end.

2. Encumbrances

Encumbrances are recorded to reserve a portion of fund balance for outstanding commitments to be financed from current appropriations. Encumbrance accounting, under which contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the General and Special Revenue Funds. Encumbrances are reported as reservations of fund balances, as they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America for the General, County Road, and Road Machinery Funds. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered disbursements in the financial plan or expenditures 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. The accompanying Budgetary Comparison Schedules for the budgeted major Governmental Funds, General and County Road Fund, present comparisons of the legally adopted budget with actual data.

COUNTY OF SCHUYLER
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 2 - Reconciliation of the General Fund Budget Basis to GAAP

No adjustment is necessary to convert excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis as there were no encumbrances added to the actual expenditures recorded in the budgetary comparison schedules.

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Certified Public Accountants and Consultants

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

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

County Legislature
County of Schuyler
Watkins Glen, New York

We have audited the financial statements of the County of Schuyler as of and for the year ended December 31, 2006, and have issued our report thereon dated July 18, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Schuyler's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Schuyler's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 06-2, 06-3, 06-4, 06-5, 06-6 and 06-7 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies in internal controls over financial reporting described in the accompanying schedule of findings and questioned costs, we consider items 06-3, 06-4 and 06-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Schuyler's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-1 and 06-7.

We noted certain matters that we reported to management of the County of Schuyler in a separate letter dated July 18, 2007.

The County of Schuyler's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the County of Schuyler's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, 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, likely representing the audit firm, located below the main text of the report.

July 18, 2007
Ithaca, New York

John H. Dietershagen, C.P.A.
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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

County Legislature
County of Schuyler
Watkins Glen, New York

Compliance

We have audited the compliance of the County of Schuyler with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County of Schuyler's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Schuyler's management. Our responsibility is to express an opinion on the County of Schuyler's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Schuyler's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County of Schuyler's compliance with those requirements.

In our opinion, the County of Schuyler complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-2.

Internal Control Over Compliance

The management of the County of Schuyler is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Schuyler's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 06-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The County of Schuyler's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of Schuyler's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of, management, the audit committee, 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.



July 18, 2007
Ithaca, New York

COUNTY OF SCHUYLER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Federal Grantor/ Pass - Through Grantor/ Program Title</u>	<u>Federal Catalog #</u>	<u>Pass - Through Grantor #</u>	<u>Expenditures</u>
<u>Department of Agriculture</u>			
Passed Through NYS Department of Social Services:			
Food Stamps	10.551	(1)	\$ 1,956,606
Passed Through NYS Department of Education:			
School Breakfast Program	10.553	550301100001	2,760
National School Lunch Program	10.555	550301100001	4,284
Direct:			
Conservation Reserve Program	10.069	N/A	1,623
Soil and Water Conservation	10.902	N/A	43,703
Total Department of Agriculture			<u>2,008,976</u>
<u>Department of Housing and Urban Development</u>			
Community Development Block Grants - Small Cities' Program	14.219	N/A	62,000
Total Department of Housing and Urban Development			<u>62,000</u>
<u>Department of Criminal Justice Services</u>			
Passed Through NYS Division of Criminal Justice Services:			
Byrne Formula Grant Program	16.579	C820834	17,720
Byrne Formula Grant Program	16.579	C820835	21,976
Byrne Formula Grant Program	16.579	T847032	30,348
Local Law Enforcement Block Grants	16.592	C379960	9,250
Local Law Enforcement Block Grants	16.592	C370330	15,439
Passed Through NYS Crime Victims Board:			
Crime Victim Assistance	16.575	C302002	5,324
Total Department of Criminal Justice Services			<u>100,057</u>
<u>Department of Labor</u>			
Passed Through NYS Office of Children & Family Services:			
WIA Youth Activities	17.259	C024736	13,155
Total Department of Labor			<u>13,155</u>
<u>Department of Transportation</u>			
Passed Through NYS Department of Transportation:			
Highway Planning and Construction	20.205	D017868	600,306
Highway Planning and Construction	20.205	D022133	513,890
Highway Planning and Construction	20.205	D024544	40,530
Passed Through NYS Governor's Traffic Safety Committee:			
Selective Traffic Enforcement Program	20.600	PT4900071	2,116
Total Department of Transportation			<u>1,156,842</u>
Subtotal			<u>3,341,030</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Federal Grantor/ Pass - Through Grantor/ Program Title</u>	<u>Federal Catalog #</u>	<u>Pass - Through Grantor #</u>	<u>Expenditures</u>
Subtotal Carried Forward			\$ <u>3,341,030</u>
<u>Department of Environmental Conservation</u>			
Passed Through Finger Lakes Association, Inc.:			
Water Quality Management Planning	66.454	C302810	<u>51,702</u>
Total Department of Environmental Conservation			<u>51,702</u>
<u>Department of Education</u>			
Passed Through NYS Department of Health:			
Special Education - Grants for Infants and Families with Disabilities	84.181A	C-017628	<u>30,611</u>
Total Department of Education			<u>30,611</u>
<u>Department of Health and Human Services</u>			
Passed Through NYS Office for the Aging:			
Title III, Part D - Disease Prevention and Health Promotion Services	93.043	(1)	5,821
Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	(1)	51,002
Title III, Part C - Nutrition Services	93.045	(1)	87,432
National Family Caregiver Support	93.052	(1)	40,178
Nutrition Services Incentive	93.053	(1)	26,033
Low-Income Home Energy Assistance	93.568	(1)	25,762
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779	(1)	21,627
State Pharmaceutical Assistance Program	93.786	(1)	42,577
Passed Through NYS Dept. of Health:			
Immunization Grants	93.268	C-018686	11,393
Maternal and Child Health Services Block Grant to the States	93.994	C-020630/C-017628 & C-020218	26,338
Passed Through Health Research, Inc.:			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	001609-04	69,946
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	001609-05	<u>19,542</u>
Subtotal			<u>3,850,994</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Federal Grantor/ Pass - Through Grantor/ Program Title</u>	<u>Federal Catalog #</u>	<u>Pass - Through Grantor #</u>	<u>Expenditures</u>
Subtotal Carried Forward			\$ <u>3,850,994</u>
<u>Department of Health and Human Services (continued)</u>			
Passed Through NYS Office for Alcohol and Substance Abuse Services:			
Medical Assistance Program	93.778	(1)	190,650
Block Grants for Prevention and Treatment of Substance Abuse	93.959	(1)	171,833
Passed Through NYS Department of Social Services:			
Temporary Assistance for Needy Families	93.558	(1)	940,812
Child Support Enforcement	93.563	(1)	189,541
Low-Income Home Energy Assistance	93.568	(1)	1,163,798
Child Care and Development Block Grant	93.575	(1)	523,707
Foster Care - Title IV-E	93.658	(1)	205,798
Adoption Assistance	93.659	(1)	30,887
Social Services Block Grant	93.667	(1)	549,195
State Children's Insurance Program	93.767	(1)	4,734
Medical Assistance Program	93.778	(1)	<u>389,719</u>
Total Department of Health and Human Services			<u>4,788,325</u>
<u>Department of Homeland Security</u>			
Passed Through NYS Emergency Management Office:			
Citizen Corps	97.053	(1)	1,077
Emergency Management Performance Grants	97.042	(1)	14,806
Passed Through NYS Office of Homeland Security:			
Homeland Security Grant Program	97.067	C839450	20,000
Buffer Zone Protection Plan	97.078	C150756	<u>6,212</u>
Total Department of Homeland Security			<u>42,095</u>
Total Expenditures of Federal Awards			\$ <u>8,253,763</u>

(1) Denotes - Unable to Obtain from Pass - Through Entity

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

COUNTY OF SCHUYLER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs administered by the County of Schuyler, an entity as defined in Note 1 to the County of Schuyler's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

Note 2 - Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the basic financial statements.

Note 3 - Indirect Costs

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

Note 4 - Matching Costs

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

Note 5 - Department of Social Services - Administrative Costs

Differences between the amounts reflected in the Schedule of Expenditures of Federal Awards and the Department of Social Service's federal financial reports (RF-2 claims) are due to the allocation of administrative costs to the individual programs.

Note 6 - Non-Monetary Federal Program

The County of Schuyler is the recipient of a federal financial assistance program that does not result in cash receipts or disbursements, termed a "non-monetary program". During the year ended December 31, 2006, the County of Schuyler distributed \$1,602,447 worth of food stamps to eligible persons participating in the Food Stamps Program (CFDA #10.551). This program was considered a major federal financial assistance program in the County of Schuyler's single audit.

COUNTY OF SCHUYLER
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? X yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.551</u>	<u>Food Stamps</u>
<u>93.558</u>	<u>Temporary Assistance to Needy Families</u>
<u>93.044, 93.045, 93.053</u>	<u>Office for the Aging Cluster</u>
<u>93.778</u>	<u>Medical Assistance</u>
<u>20.205</u>	<u>Highway Planning and Construction</u>

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: yes X no

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2006

Section II - Financial Statement Findings

06-1 Uncollateralized Bank Deposits

Condition

As required by General Municipal Law, Schuyler County's deposits over the FDIC limit must be collateralized. At December 31, 2006, the County had uncollateralized bank deposits of \$286,863.

Recommendation

We recommend that collateral agreements be signed with all depository institutions with which the County deposits funds. Also, collateral statements should be compared with deposits at least quarterly to ensure compliance with the collateral agreement.

Management's Response

Collateral agreements have been received from all banking institutions and are now being monitored on a quarterly basis to ensure that the banks are complying with the agreement.

06-2 Office for the Aging

Condition

During our current year review of the Office for the Aging, we noted a lack of compliance with the reporting requirements. State aid claim forms for the year ended December 31, 2006 were not submitted until April 2007.

Recommendation

We recommend that state aid claim forms be filed within the deadline set by the State, that the expenses be properly allocated to each individual grant and that the related program income be deducted from the expenses to create a net expense requested from the State. We also recommend that policies and procedures be created for the accounting function, outlining the specific responsibilities and how to comply with these responsibilities. These procedures should include the proper allocation of expenses to the various programs, the reconciliation of bank statements and County Treasurer's reports to the Agency's records and the recording, reporting and overall handling of cash. In addition, management should review these reconciliations and the reports of the Agency to ensure that the policies and procedures set in place are being completed and followed.

Management's Response

The Office for the Aging has a new Deputy Director and Director who have done their best to get all claims filed in a much timelier and accurate manner. As of July 1, 2007, quarterly submissions are current.

06-3 Bank Statement Reconciliations

Condition

It is the responsibility of the County to provide accurate and timely information to its constituents and Legislature. During our audits, it was noted that the County's bank accounts are not being reconciled to the general ledger system on a monthly basis, resulting in significant differences between the general ledger balances and the reconciled cash balances along with significant time needed at year-end to reconcile the two. Also, cash transactions recorded in the check books were not always posted to the general ledger and vice-versa. This resulted in inaccurate reports being provided to the Legislature.

Recommendation

We recommend that all bank accounts be reconciled monthly to the general ledger and that any discrepancies be resolved at that time. Reconciling bank statements to the financial accounting system will increase the County's controls over the safeguarding of assets.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
DECEMBER 31, 2006

Management's Response

As of July 1, 2007, bank statements will be reconciled to the General ledger.

06-4 General Ledger Oversight

Condition

As noted above, it the responsibility of the County to provide accurate and timely financial statements. However, during our audits it was noted that general ledger balance sheet accounts are not being reviewed or reconciled on a periodic basis, resulting in large negative balances in receivable and payable accounts during the year. As noted above, cash balances did not agree with offline records and bank reconciliations. In addition, Due To and Due From and Interfund revenue and expenditure accounts did not balance between funds and encumbrances did not agree with the manual open purchase order listing. It was also noted that one-time entries were either not made or not made on a timely basis during the year.

Recommendation

We recommend that all asset and liability accounts be reviewed and reconciled monthly. Any discrepancies should be corrected at that time to ensure accurate and timely financial reporting. It is also recommended that training be provided to all the Treasurer Office's personnel on municipal accounting, internal controls and the use of the County's financial general ledger accounting software.

Management's Response

The General Ledger will be reconciled monthly.

06-5 Journal Entries

Condition

During our current year audit, we noted that journal entries were not being reviewed by management, entries posted incorrectly were often corrected by several other incorrect entries and journal entries were being backdated. Also, adequate documentation for journal entries was not, in most instances, attached to the entries. This all resulted in difficulty correcting balances at year-end, as the actual entry backup could not be located.

Recommendation

It is recommended that all journal entries be accompanied by adequate documentation, dated at the time the entry is made or posted to the correct "period," and reviewed by management at the time the entry is made. Any corrections should be made when noted and the incorrect entry should be marked as corrected, noting the date, journal entry number and individual posting the entry.

Management's Response

As of January 1, 2007, journal entries are monitored for accuracy on at least a monthly basis.

06-6 Deficit Fund Balances

Condition

It is the responsibility of County management to monitor County funds and ensure that monies are being properly recorded and reported, and used in accordance with their approved intent. It was noted during our audits that the Capital Projects Fund has had a deficit fund balance dating from at least December 31, 2003. This deficit will be eliminated with the transfer of funds from the General Fund and is due to matching funds not yet transferred. During our current year audit, it was noted that the Road Machinery Fund had a deficit fund balance at December 31, 2006. This was due to expenditures being greater than revenues. This deficit will be eliminated by the transfer of funds from the County Road Fund.

COUNTY OF SCHUYLER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
DECEMBER 31, 2006

Recommendation

We recommend that the General Fund reimburse the Capital Projects Fund and the County Road Fund reimburse the Road Machinery Fund in order to clear the deficit balances.

Management's Response

Management will monitor 2007 actual revenue and expenditures compared to budget and will take necessary measures to eliminate any operational deficits.

06-7 Budgets

Condition

Per GML, management is responsible for following the approved use of County funds in accordance with an approved budget. During our current year audit, we noted that the County's budget, as entered into the financial accounting system, did not balance. This was due to budgeted funds remaining at the prior year-end being recorded as expenditures and not being balanced with an entry to the revenue budget. Most of these grants were closed during the prior year-end and funds were remaining because of incorrect coding of expenditures. In addition, certain expenditure function totals in the General and County Road funds were over-expended at year-end.

Recommendation

It is recommended that departments be urged to properly code grant expenditures and that they periodically review their respective grant budgets per the Treasurer's reports to ensure that grant expenditures are properly being reported. In addition, grant funds remaining at year-end should be reviewed with Department heads before being added to the current year budget to ensure that they are legitimate budget items. Revenue status and expenditures status reports should periodically be checked to ensure that they balance. Also, budget balances should be checked before expenditures are made to ensure budgets are not over-expended, per GML.

Management's Response

As of July 1, 2007, the budget reports are being monitored monthly. Any discrepancies will be investigated and adjustments made as necessary to avoid future overages.

Section III - Federal Award Findings and Questioned Costs

06-2 Office for the Aging

See Section II for condition, recommendation and management's response.