

**COUNTY OF DUTCHESS,
NEW YORK**

*Basic Financial Statements, Required
Supplementary Information and
Federal Assistance Information
for the Year Ended December 31, 2012 and
Independent Auditors' Reports*

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FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable County Legislature
County of Dutchess, New York

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dutchess Community College, the Dutchess County Resource Recovery Agency, or the Dutchess County Water and Wastewater Authority, which represent 52.2%, 18.9%, and 27.6%, respectively, of the assets and 71.5%, 19.7%, and 7.7%, respectively of the revenues of the aggregate discretely presented component units. We did not audit the financial statements of the Dutchess County Industrial Development Agency, the Dutchess County Soil and Water Conservation District, or the Dutchess County Local Development Corporation which are aggregated as non-major component units and represent 100% of the aggregated non-major component units and 1.3% and 1.1%, respectively of the assets and revenues of the aggregate discretely presented component units. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, the County has restated its Governmental Activities net position, General Fund fund balance and Dutchess Tobacco Asset Securitization Corporation (“DTASC”) fund balance as of December 31, 2011. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 4-13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County’s basic financial statements. The accompanying required supplementary budgetary schedule for the General Fund and the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying required supplementary budgetary schedule for the General Fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

 Duesch & Melchior LLP

September 9, 2013

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COUNTY OF DUTCHESS, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2012

As management of the County of Dutchess (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the County's financial activities for the fiscal year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements. For comparative purposes, certain items relating to the year ended December 31, 2011 presentations have been reclassified. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The liabilities of the County exceeded assets and deferred outflows of resources of the County at December 31, 2012 by \$21,374,430 (deficit net position) compared to \$2,623,777 (deficit net position) at December 31, 2011, as restated. The County anticipates net position to continue to decrease due to the effect of recognizing the other postemployment benefits liability. The County's total net position decreased by \$18,750,653. Governmental Activities decreased the County's net position by \$16,599,099, while the net position of Business-type Activities decreased by \$2,151,554.
- On December 13, the County issued a total of \$10,671,442 in Public Improvement (Serial) Bonds with a true interest cost represented by an average interest rate of 1.78% providing funding of \$10,341,842 for the governmental activities and \$329,600 for business type activities. The funding was used for a variety of capital projects, including improvements to various county facilities, equipment and vehicle purchases.
- In the fiscal year 2012, Government Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" was implemented for the year end December 31, 2012. GASB Statement No. 63 establishes a framework detailing how these elements should be reported, which will result in standardizing the presentation of deferred balances and their effect on the government's net position. In addition, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting, was implemented early.
- At December 31, 2012, unassigned fund balance for the General Fund was \$12,072,960.
- The principal sources of County revenue, other than state and federal aid, consist of property taxes and sales tax. Property tax collections for 2012, including adjustments (interest and penalty; real property tax auction) were \$112,220,983 which represents a 3.1% increase over 2011 and 25.4% of total revenues.
- In 2012, the County offered a "Workforce Adjustment Incentive Program" to reduce the County's workforce. The program provided an opportunity for eligible county employees to receive a one-time \$20,000 cash benefit to voluntarily leave County service no later than November 30, 2012.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the County's assets, liabilities, and deferred inflows/outflows of resources, with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish function of the County that principally are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, county roads, health and social services, public safety, general administrative services, culture and recreation, and home and community services.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and the fiduciary fund.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital Projects Fund and the DTASC, which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided as required supplementary information for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds. The County maintains two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for the operations of its Airport and Mass Transportation.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of the funds are not available to support the County's own programs. The accounting for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 24 and 25 of this report.

Discretely presented component units. The combining statements of discretely presented component units present the major component units in separate columns and the non-major component units aggregated into a single column. These statements are presented separately from the financial data of the primary government to emphasize that they are legally separate from the County.

The combining statements of discretely presented component units can be found on page 26 and 27 of this report.

Notes to the financial statements. The notes provide additional information that is essential to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*.

The additional required supplementary information can be found on page 78 of this report.

The Federal Awards section presents the County's Schedule of Expenditures of Federal Awards. This section can be found beginning on page 79 of this report.

Government-wide Financial Analysis

At December 31, 2012, the County liabilities exceeded its assets and deferred outflows of resources of the primary government by \$21,374,430 at the close of the most recent fiscal year.

The County's combined deficit net position for fiscal year ended December 31, 2012 decreased from \$2,623,777, as restated, to \$21,374,430. By far, the largest portion of the County's net position, \$61,104,737, reflects its investment in capital assets (e.g. land, buildings, machinery and equipment and infrastructure) net of 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.

An additional portion of the County's net position, \$16,134,292, represents resources subject to external restrictions on how they may be used and are reported as restricted net position. The remaining category of total net position, \$98,613,459, is considered to be an unrestricted net deficit. The negative unrestricted net position is a result of accounting and financial reporting by employers for postretirement benefits other than pensions, which results in a cumulative unfunded liability for the County of \$119,672,612, \$880,833 for the Airport and \$12,874 for Mass Transit.

Our analysis on the next page focuses on the net position (Table 1), and changes in net position (Table 2), of the County's Governmental and Business-type Activities.

Table 1—Condensed Statements of Net Position—December 31, 2012 and December 31, 2011

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 198,805,551	\$ 204,049,768	\$ 5,631,109	\$ 6,114,104	\$ 204,436,660	\$ 210,163,872
Noncurrent assets	9,053,405	13,778,092	-	-	9,053,405	13,778,092
Capital assets	<u>170,055,503</u>	<u>161,499,441</u>	<u>24,972,033</u>	<u>26,475,588</u>	<u>195,027,536</u>	<u>187,975,029</u>
Total assets	<u>377,914,459</u>	<u>379,327,301</u>	<u>30,603,142</u>	<u>32,589,692</u>	<u>408,517,601</u>	<u>411,916,993</u>
Deferred outflows of resources	<u>2,189,374</u>	-	-	-	<u>2,189,374</u>	-
Current liabilities	84,908,323	94,623,464	1,568,792	1,327,989	86,477,115	95,951,453
Noncurrent liabilities	<u>339,329,569</u>	<u>304,480,823</u>	<u>6,274,681</u>	<u>6,353,440</u>	<u>345,604,250</u>	<u>310,834,263</u>
Total liabilities	<u>424,237,892</u>	<u>399,104,287</u>	<u>7,843,473</u>	<u>7,681,429</u>	<u>432,081,365</u>	<u>406,785,716</u>
Net position:						
Net investment in capital assets	40,918,597	36,125,187	20,186,140	20,853,187	61,104,737	56,978,374
Restricted	16,134,292	13,935,908	-	-	16,134,292	13,935,908
Unrestricted	<u>(101,186,988)</u>	<u>(69,838,081)</u>	<u>2,573,529</u>	<u>4,058,036</u>	<u>(98,613,459)</u>	<u>(65,780,045)</u>
Total net position	<u>\$ (44,134,099)</u>	<u>\$ (19,776,986)</u>	<u>\$ 22,759,669</u>	<u>\$ 24,911,223</u>	<u>\$ (21,374,430)</u>	<u>\$ 5,134,237</u>

Total State and Federal Receivables within the General Fund, which is included in the governmental activities as current and other assets, have decreased from \$56.1 million in 2011 to \$52.4 million in 2012. Such reimbursements are principally for mental health and other ongoing programs.

Table 2, as presented below, shows the changes in net position for the years ending December 31, 2012 and December 31, 2011.

Table 2—Condensed Statement of Revenues, Expenses and Changes in Net Position—Years Ended December 31, 2012 and December 31, 2011

	Governmental activities		Business Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues	\$ 148,274,512	\$ 158,218,303	\$ 8,544,714	\$ 10,206,500	\$ 156,819,226	\$ 168,424,803
General revenues	287,247,905	281,014,742	145,163	174,082	287,393,068	281,188,824
Total revenues	<u>435,522,417</u>	<u>439,233,045</u>	<u>8,689,877</u>	<u>10,380,582</u>	<u>444,212,294</u>	<u>449,613,627</u>
Total program expenses	<u>450,567,182</u>	<u>450,159,539</u>	<u>12,395,765</u>	<u>11,640,983</u>	<u>462,962,947</u>	<u>461,800,522</u>
Transfers	<u>(1,554,334)</u>	<u>(1,528,199)</u>	<u>1,554,334</u>	<u>1,528,199</u>	<u>-</u>	<u>-</u>
Change in net position	(16,599,099)	(12,454,693)	(2,151,554)	267,798	(18,750,653)	(12,186,895)
Net position—beginning	<u>(19,776,986)</u>	<u>(7,322,293)</u>	<u>24,911,223</u>	<u>24,643,425</u>	<u>5,134,237</u>	<u>17,321,132</u>
Restatement per note 2	(7,758,014)	-	-	-	(7,758,014)	-
Net position—beginning, restated	<u>(27,535,000)</u>	<u>(7,322,293)</u>	<u>24,911,223</u>	<u>24,643,425</u>	<u>(2,623,777)</u>	<u>17,321,132</u>
Net position—ending	<u>\$ (44,134,099)</u>	<u>\$ (19,776,986)</u>	<u>\$ 22,759,669</u>	<u>\$ 24,911,223</u>	<u>\$ (21,374,430)</u>	<u>\$ 5,134,237</u>

A summary of sources of revenues for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
Charges for services	\$ 30,770,157	\$ 30,779,257	\$ (9,100)	(0.0)
Operating grants and contributions	110,271,621	118,007,280	(7,735,659)	(6.6)
Capital grants and contributions	7,232,734	9,431,766	(2,199,032)	(23.3)
Real property taxes	113,407,550	108,326,493	5,081,057	4.7
Sales and other taxes	169,858,218	168,273,807	1,584,411	0.9
DTASC revenues	3,698,671	3,637,363	61,308	1.7
Other general revenues	<u>283,466</u>	<u>777,079</u>	<u>(493,613)</u>	<u>(63.5)</u>
Total revenues	<u>\$ 435,522,417</u>	<u>\$ 439,233,045</u>	<u>\$ (3,710,628)</u>	<u>(0.8)</u>

As presented in Table 3, the most significant source of revenues is sales and other taxes, which accounts for \$169,858,218 or 39.0 percent of total governmental activities revenues, for the year ended December 31, 2012, and \$168,273,807 or 38.3 percent of total governmental activities revenues, for the year ended December 31, 2011. The next largest source of revenue is property taxes, which comprises 26.0 percent

and 24.7 percent of total governmental activities revenues for the years ended December 31, 2012 and 2011, respectively.

A summary of program expenses for the years ended December 31, 2012 and December 31, 2011 is presented below in Table 4.

Table 4—Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2012	2011	Dollars	Percent
General government support	\$ 84,524,322	\$ 85,582,430	\$ (1,058,108)	(1.2)
Education	13,208,023	11,790,629	1,417,394	12.0
Public safety	87,301,462	84,489,510	2,811,952	3.3
Public health	63,118,670	66,526,375	(3,407,705)	(5.1)
Transportation	25,082,607	25,650,178	(567,571)	(2.2)
Economic assistance and opportunity	150,603,997	150,879,387	(275,390)	(0.2)
Culture and recreation	4,059,045	3,493,500	565,545	16.2
Home and community services	14,524,012	13,782,198	741,814	5.4
Interest on long-term debt	8,145,044	7,965,332	179,712	2.3
Total program expenses	\$ 450,567,182	\$ 450,159,539	\$ 407,643	0.1

As presented in Table 4, the County’s significant expense items for governmental activities were economic assistance and opportunity of \$150.6 million or 33.4 percent of total governmental activities expenses, public safety of \$87.3 million or 19.4 percent of total governmental activities expenses, and general government support of \$84.5 million or 18.8 percent of total governmental activities expenses for the year ended December 31, 2012. Similarly, for the year ended December 31, 2011 significant expense items were economic assistance and opportunity of \$150.8 million or 33.5 percent of total governmental activities expenses, general government support of \$85.6 million or 19.0 percent of total governmental activities expenses, public safety of \$84.5 million or 18.8 percent of total governmental activities expenses of total governmental activities expenses.

Financial Analysis of the Government's Funds

Governmental funds. As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Table 7—Summary of Fund Balances (Deficits)—Governmental Funds

	General	Capital Projects	DTASC	Other Governmental
Net change in fund balances	\$ 2,019,445	\$ (5,699,538)	\$ 241	\$ 190,835
Unassigned or assigned to the fund's specific use	12,072,960	26,582,016	39,317	2,682,515
Total fund balance	47,483,834	26,852,016	3,533,223	2,974,452
Percentage unassigned or assigned to specific use	25.4%	99.0%	1.1%	90.2%

- Total December 31, 2011 General Fund fund balance, as restated, increased during the year ended December 31, 2012 primary due to favorable tax revenues.
- The ending fund balance for the Capital Projects fund can be attributed to proceeds from prior years and the 2012 borrowing of \$10.3 million. These funds are intended to provide funding for capital projects during 2012 and beyond.

General Fund Budgetary Highlights

Significant differences between the original budget and the modified budget for certain appropriations are summarized as follows (modified accrual basis of accounting):

Appropriations	Original	Increase	Modified	Actual
General Government Support	\$ 36,498,196	\$ 32,679,497	\$ 69,177,693	\$ 65,658,913
Public Safety	56,680,384	3,825,083	60,505,467	57,571,889
Total	<u>\$ 93,178,580</u>	<u>\$ 36,504,580</u>	<u>\$ 129,683,160</u>	<u>\$ 123,230,802</u>

- GASB Statement No. 33 “Accounting and Reporting for Non-exchange Transactions”, as amended by Statement No. 36 “Recipient Reporting for Certain Shared Non-exchange Revenues”, requires the County to recognize sales tax revenues on a gross basis and record expenditures for sales tax revenues that are shared. Gross Sales tax collected in 2012 is \$166.2 million with \$30.7 million in Sales Tax revenue shared between the cities, towns and villages leaving the County portion to be \$135.5 million.
- Increases to Public Safety were required due to increased costs to house inmates at jails outside Dutchess County.

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business-type activities as of December 31, 2012, amounted to \$195,027,536 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. A breakdown of certain current year investments is as follows:

\$5.0 million	Various improvements to roads and bridges
\$4.3 million	Various improvements within Enterprise Funds
\$9.6 million	Various building improvements and purchase of vehicles and equipment
\$2.2 million	Public Safety improvements
\$5.1 million	Various health, community service, culture and recreation improvements

The above have been offset by \$21.0 million in depreciation expense in the current year.

The County expended \$0.5 million on various improvements at Dutchess Community College. Financing for these projects was provided through operations and state and federal funds.

A summary of the County's capital assets is shown below.

Table 8—Capital Assets, net of depreciation

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 8,840,052	\$ 7,683,552	\$ 3,385,364	\$ 3,385,364	\$ 12,225,416	\$ 11,068,916
Right of way and easements	11,281,682	8,467,938	-	-	11,281,682	8,467,938
Construction in progress	14,136,888	7,402,364	292,672	1,035,326	14,429,560	8,437,690
Buildings and improvements	54,842,699	57,796,822	3,912,185	3,232,177	58,754,884	61,028,999
Machinery and equipment	19,846,030	14,250,497	4,356,573	5,819,107	24,202,603	20,069,604
Infrastructure	61,108,152	65,898,268	13,025,239.00	13,003,614	74,133,391	78,901,882
Total	\$ 170,055,503	\$ 161,499,441	\$ 24,972,033	\$ 26,475,588	\$ 195,027,536	\$ 187,975,029

Additional information on the County's capital assets can be found in Note 5 to the basic financial statements.

Debt Administration. The New York State Local Finance Law limits the County's power to contract indebtedness to 7% of the five-year average full valuation of taxable real estate. At the end of 2012, the County's outstanding debt totaled \$107.7 million (without the Tobacco Asset Securitization Corporation) and represents approximately 3.96 % of the County's debt limit.

Economic Factors and Next Year's Budgets and Rates

Dutchess County, like other counties in New York State, is challenged on a fiscal level by State imposed mandates. Medicaid is a federally mandated program that provides health benefits to low income individuals and their families. Medicaid continues to be one of the single largest mandated programs for counties.

The following summarizes the County's spending in this area:

Medicaid Costs

2011	\$ 41,499,889
2012	43,341,836
2013 (budgeted)	43,264,984

In addition to Medicaid costs, Dutchess County participates in the New York State Retirement System, a cost sharing, multiple public employers system. The County of Dutchess is required to contribute at an actuarially determined rate. The following summarizes the County's spending for this appropriation:

New York State Retirement

2011	\$ 16,437,430
2012	20,096,929
2013 (budgeted)	22,306,587

The County has appropriated \$7.4 million in fund balance to finance the 2013 budget from various funds to meet budgetary needs. The unassigned fund balance is \$12.1 million in the General Fund as of December 31, 2012.

The total tax levy for the 2013 budget is \$105.9 million resulting in a property tax rate of \$3.45 per thousand of assessed value which is 6.2% higher than \$3.25 in 2012. The true value assessment for the County has decreased from \$31.9 billion for the 2012 budget to \$30.65 billion for the 2013 budget; a decrease of 3.892%.

Dutchess County contains a diverse mix of industries, including service related sectors, state and local governments, microelectronics, education, high tech manufacturing, agriculture and retail trades. IBM is the largest single employer with approximately 8,000 employees. ReCommunity (formerly Hudson Baylor Corporation) recently opened its \$17 million 56,000 square foot Materials Recovery Facility. Located in the City of Beacon, the development created nearly 100 construction jobs, and now has more than 60 full-time employees. Vassar Brothers Medical Center recently opened its 78,000 square foot medical building housing a same-day ambulatory surgery center and office suites. Vassar College announced plans for an 80,000 square foot, \$120 million science facilities project. The project will include rehabilitation of three existing buildings and construction of a new building. The Culinary Institute of America broke ground on a 40,000 square foot facility to advance the culinary arts and provide conference space. Marist College completed construction of a 23,000 square foot academic building and simultaneously completed a 99,000 square foot renovation of its Student Center. IBM has committed to a \$50 million investment in the Hudson Valley Research Park in the Town of East Fishkill. The commitment is part of a PILOT deal worked out with the Dutchess County Industrial Development agency. This is in addition to the \$50 million investment IBM agreed to in April 2011 for improvements at its Poughkeepsie site. While no new jobs are anticipated from these investments, it will help IBM to remain competitive in the market and retain jobs in Dutchess County. The Walkway Over The Hudson and related Rail Trail continue to be a strong model for success. The Walkway, which is now the second most visited park in the state, broke ground on its elevator to the City of Poughkeepsie Waterfront.

Agriculture continues to play a significant role in the economy of the County. There are dairy, produce and horse farms as well as vineyards and wine operations which in recent years have increased in importance, and the County participated in a first-ever regional Food shed Conservation Plan, as well as the establishment of the Food and Beverage Alliance at the Culinary Institute of America in Hyde Park,

which supports farms like Madava Farms in the Town of Dover. Madava expanded its maple syrup production and completed a multimillion dollar visitors center, creating a agri-tourism destination in Dutchess County. Approximately 1,500 workers benefit from direct employment through these operations and an additional 2,000 from farm related jobs. Annually, the agricultural sector contributes between \$100 to \$150 million to the County's economy.

Wealth levels for Dutchess County residents are above National averages. The Bureau of Economic Analysis estimated the per capita personal income of the County residents in 2011 was \$45,521 which placed the County eleventh among all counties in the State for the year. Unemployment for the County was 7.1% as of July 2013, which is lower than both New York State (7.5) and the United States (7.4) rates.

Contacting the County's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pamela Barrack, Commissioner of Finance, 22 Market Street, Poughkeepsie, New York 12601.

BASIC FINANCIAL STATEMENTS

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COUNTY OF DUTCHESS, NEW YORK
Statement of Net Position
December 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 33,778,401	\$ 3,963,139	\$ 37,741,540	\$ 27,083,991
Restricted cash and investments	41,755,056	-	41,755,056	16,294,206
Receivables (net of allowances for estimated uncollectible amounts):				
Taxes	49,994,357	-	49,994,357	-
Accounts receivable	4,451,242	305,953	4,757,195	11,439,352
Due from other governments	63,332,054	1,367,544	64,699,598	1,283,132
Internal balances	93,037	(93,037)	-	-
Prepaid items	5,316,142	33,057	5,349,199	1,560,439
Inventories	85,262	54,453	139,715	542,466
Total current assets	<u>198,805,551</u>	<u>5,631,109</u>	<u>204,436,660</u>	<u>58,203,586</u>
Noncurrent assets:				
Other assets	9,053,405	-	9,053,405	10,777,708
Capital assets:				
Capital assets not being depreciated	34,258,622	3,678,036	37,936,658	3,232,651
Capital assets being depreciated (net of accumulated depreciation)	<u>135,796,881</u>	<u>21,293,997</u>	<u>157,090,878</u>	<u>160,679,804</u>
Total noncurrent assets	<u>179,108,908</u>	<u>24,972,033</u>	<u>204,080,941</u>	<u>174,690,163</u>
Total assets	<u>377,914,459</u>	<u>30,603,142</u>	<u>408,517,601</u>	<u>232,893,749</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges	<u>2,189,374</u>	<u>-</u>	<u>2,189,374</u>	<u>1,492,756</u>
Total deferred outflows of resources	<u>2,189,374</u>	<u>-</u>	<u>2,189,374</u>	<u>1,492,756</u>
LIABILITIES				
Current liabilities:				
Accounts payable	39,926,326	1,430,108	41,356,434	9,795,690
Accrued liabilities	648,567	131,862	780,429	7,089,871
Due to other governments	39,520,320	-	39,520,320	2,004,552
Unearned revenue	2,874,488	6,822	2,881,310	5,146,589
Other liabilities	<u>1,938,662</u>	<u>-</u>	<u>1,938,662</u>	<u>-</u>
Total current liabilities	<u>84,908,363</u>	<u>1,568,792</u>	<u>86,477,155</u>	<u>24,036,702</u>
Noncurrent liabilities:				
Due within one year	14,142,662	560,211	14,702,873	5,916,438
Due in more than one year	<u>325,186,907</u>	<u>5,714,470</u>	<u>330,901,377</u>	<u>123,649,879</u>
Total noncurrent liabilities	<u>339,329,569</u>	<u>6,274,681</u>	<u>345,604,250</u>	<u>129,566,317</u>
Total liabilities	<u>424,237,932</u>	<u>7,843,473</u>	<u>432,081,405</u>	<u>153,603,019</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,145,167</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,145,167</u>
NET POSITION				
Net investment in capital assets	40,918,597	20,186,140	61,104,737	57,067,122
Restricted for:				
Debt service restrictions	3,493,906	-	3,493,906	-
Capital projects	7,227,062	-	7,227,062	-
Other	5,413,324	-	5,413,324	22,293,442
Unrestricted	<u>(101,186,988)</u>	<u>2,573,529</u>	<u>(98,613,459)</u>	<u>(25,722,245)</u>
Total net position	<u>\$ (44,134,099)</u>	<u>\$ 22,759,669</u>	<u>\$ (21,374,430)</u>	<u>\$ 53,638,319</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Activities
Year Ended December 31, 2012

Functions/Programs	Net (Expense) Revenue and Changes in Net Position							Component Units
	Expenses	Program Revenues			Primary Government			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government support	\$ 84,524,322	\$ 6,941,127	\$ 1,709,494	\$ 70,113	\$ (75,803,588)	\$ -	\$ (75,803,588)	\$ -
Education	13,208,023	900	-	2,151,051	(11,056,072)	-	(11,056,072)	-
Public safety	87,301,462	4,928,033	4,318,056	-	(78,055,373)	-	(78,055,373)	-
Public health	63,118,670	5,847,400	28,272,991	-	(28,998,279)	-	(28,998,279)	-
Transportation	25,082,607	2,010,121	1,931,214	5,011,570	(16,129,702)	-	(16,129,702)	-
Economic assistance and opportunity	150,603,997	9,640,350	70,246,129	-	(70,717,518)	-	(70,717,518)	-
Culture and recreation	4,059,045	783,091	292,454	-	(2,983,500)	-	(2,983,500)	-
Home and community services	14,524,012	619,135	3,501,283	-	(10,403,594)	-	(10,403,594)	-
Interest and fiscal charges	8,145,044	-	-	-	(8,145,044)	-	(8,145,044)	-
Total governmental activities	<u>450,567,182</u>	<u>30,770,157</u>	<u>110,271,621</u>	<u>7,232,734</u>	<u>(302,292,670)</u>	<u>-</u>	<u>(302,292,670)</u>	<u>-</u>
Business-type activities:								
Airport	4,281,306	1,840,139	-	1,055,820	-	(1,385,347)	(1,385,347)	-
Transportation	8,114,459	1,154,114	4,137,999	356,642	-	(2,465,704)	(2,465,704)	-
Total business-type activities	<u>12,395,765</u>	<u>2,994,253</u>	<u>4,137,999</u>	<u>1,412,462</u>	<u>-</u>	<u>(3,851,051)</u>	<u>(3,851,051)</u>	<u>-</u>
Total primary government	<u>\$ 462,962,947</u>	<u>\$ 33,764,410</u>	<u>\$ 114,409,620</u>	<u>\$ 3,381,683</u>	<u>(302,292,670)</u>	<u>(3,851,051)</u>	<u>(306,143,721)</u>	<u>-</u>
Component units:								
Dutchess Community College	\$ 81,133,253	\$ 45,431,542	\$ 16,187,080	\$ 480,707				\$ (19,033,924)
Resource Recovery Agency	18,991,512	15,864,543	-	-				(3,126,969)
Water and Wastewater Authority	7,614,623	4,959,789	-	-				(2,654,834)
Aggregated non-major component units	1,159,012	323,339	622,896	-				(212,777)
Total component units	<u>\$ 108,898,400</u>	<u>\$ 66,579,213</u>	<u>\$ 16,809,976</u>	<u>\$ 480,707</u>				<u>\$ (25,028,504)</u>
General revenues:								
					101,626,198	-	101,626,198	-
					11,781,352	-	11,781,352	-
					166,186,650	-	166,186,650	-
					3,671,568	-	3,671,568	-
					283,466	145,163	428,629	946,829
					3,698,671	-	3,698,671	-
					-	-	-	18,013,042
					(1,554,334)	1,554,334	-	-
Total general revenues and transfers					<u>285,693,571</u>	<u>1,699,497</u>	<u>287,393,068</u>	<u>18,959,871</u>
Change in net position					(16,599,099)	(2,151,554)	(18,750,653)	(6,068,633)
Net position—beginning, as restated (see note 2)					(27,535,000)	24,911,223	(2,623,777)	59,706,952
Net position—ending					<u>\$ (44,134,099)</u>	<u>\$ 22,759,669</u>	<u>\$ (21,374,430)</u>	<u>\$ 53,638,319</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Balance Sheet—Governmental Funds
December 31, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>DTASC</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$ 30,186,136	\$ -	\$ 49,611	\$ 3,542,654	\$ 33,778,401
Restricted cash	8,299,935	29,961,215	3,493,906	-	41,755,056
Receivables (net of allowances for estimated uncollectible amounts):					
Taxes	49,994,357	-	-	-	49,994,357
Accounts receivable	4,327,896	-	-	123,346	4,451,242
Due from other funds	1,265,497	-	-	-	1,265,497
Due from other governments	54,526,082	4,320,315	-	983,649	59,830,046
Inventory	85,262	-	-	-	85,262
Prepaid items	5,024,205	-	-	291,937	5,316,142
Total assets	<u>\$ 153,709,370</u>	<u>\$ 34,281,530</u>	<u>\$ 3,543,517</u>	<u>\$ 4,941,586</u>	<u>\$ 196,476,003</u>
LIABILITIES					
Accounts payable	\$ 32,047,913	\$ 5,913,262	\$ 10,294	\$ 1,954,857	\$ 39,926,326
Due to other governments	39,520,320	-	-	-	39,520,320
Due to other funds	-	1,172,460	-	-	1,172,460
Unearned revenue	3,564,963	-	-	-	3,564,963
Other liabilities	1,312,593	613,792	-	12,277	1,938,662
Total liabilities	<u>76,445,789</u>	<u>7,699,514</u>	<u>10,294</u>	<u>1,967,134</u>	<u>86,122,731</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues—grants and aid	11,056,678	-	-	-	11,056,678
Unavailable revenues—property taxes	18,723,069	-	-	-	18,723,069
Total deferred inflows of resources	<u>29,779,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,779,747</u>
FUND BALANCES					
Nonspendable	5,109,467	-	-	291,937	5,401,404
Restricted	7,890,649	-	3,493,906	-	11,384,555
Assigned	22,410,758	26,582,016	39,317	2,682,515	51,714,606
Unassigned	12,072,960	-	-	-	12,072,960
Total fund balances	<u>47,483,834</u>	<u>26,582,016</u>	<u>3,533,223</u>	<u>2,974,452</u>	<u>80,573,525</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 153,709,370</u>	<u>\$ 34,281,530</u>	<u>\$ 3,543,517</u>	<u>\$ 4,941,586</u>	<u>\$ 196,476,003</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Reconciliation of Balance Sheet of Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2012

Amounts reported for governmental activities in the statement of net position (page 14) are different because:

Fund balances—total governmental funds (page 16)	\$	80,573,525
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$407,894,420 and the accumulated depreciation is \$237,838,917.		170,055,503
To recognize interest accrual on long term debt. Accrued interest for general obligation bonds is:		(648,567)
Other long-term assets are not available to pay for current period expenditures and, therefore, are recorded as unearned revenues or deferred inflows of resources in the funds but are considered government-wide revenues:		
Unearned revenues	\$	690,475
Deferred inflows of resources - aid and other revenue		11,056,678
Deferred inflows of resources - property taxes		<u>18,723,069</u>
		30,470,222
Intangible assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		9,053,405
Certain accrued DTASC revenues reported in the statement of net position are received after the availability period for recognition of revenue in the governmental funds.		3,502,008
Long-term liabilities, including bonds payable, judgments and claims, other post-employment benefits ("OPEB"), compensated absences, and environmental clean up costs are not due and payable in the current period and, therefore are not reported in the funds. Also, bond premiums and discounts are recorded as other financing sources in the fund financial statements and amortized over the life of the debt issuance. The effect of these items are:		
General obligation bonds ("GOB")	\$	(102,355,337)
Premiums on GOB bonds		(3,945,173)
DTASC bonds		(59,516,279)
Discount on DTASC Bonds		1,326,613
Accreted interest on DTASC bonds		(15,664,368)
Judgments and claims		(30,710,899)
OPEB		(119,672,612)
Compensated absences		(8,471,514)
Environmental clean up costs		<u>(320,000)</u>
		(339,329,569)
For refunding bonds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred charge and recognized as a component of interest expense over either the lesser of the life of the debt issuance or the bonds refunded for the government-wide statements. The deferred charge on refunding debt is:		<u>2,189,374</u>
Net position of governmental activities	\$	<u><u>(44,134,099)</u></u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds
Year Ended December 31, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>DTASC</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$ 100,423,214	\$ -	\$ -	\$ 11,797,769	\$ 112,220,983
Sales and use tax	166,186,650	-	-	-	166,186,650
Other taxes	3,671,568	-	-	-	3,671,568
Departmental income	26,789,009	-	-	1,919,820	28,708,829
Use of money and property	987,730	25,000	164,701	5,564	1,182,995
Miscellaneous	8,632,246	-	3,508,941	157,065	12,298,252
Grants and aid	<u>104,733,642</u>	<u>7,376,372</u>	<u>-</u>	<u>5,557,416</u>	<u>117,667,430</u>
Total revenues	<u>411,424,059</u>	<u>7,401,372</u>	<u>3,673,642</u>	<u>19,437,634</u>	<u>441,936,707</u>
EXPENDITURES					
Current:					
General government support	65,658,913	-	71,107	-	65,730,020
Education	13,065,156	-	-	-	13,065,156
Public safety	57,571,889	-	-	261,999	57,833,888
Health	53,349,045	-	-	-	53,349,045
Transportation	2,712,623	-	-	8,457,695	11,170,318
Economic assistance and opportunity	133,169,702	-	-	2,725,885	135,895,587
Culture and recreation	1,923,276	-	-	-	1,923,276
Home and community services	9,308,710	-	-	3,625,101	12,933,811
Employee benefits	55,018,848	-	-	4,176,119	59,194,967
Debt service:					
Principal	13,138,171	-	1,585,000	-	14,723,171
Interest and fiscal charges	3,940,803	-	2,017,294	-	5,958,097
Capital outlay	<u>-</u>	<u>22,435,896</u>	<u>-</u>	<u>-</u>	<u>22,435,896</u>
Total expenditures	<u>408,857,136</u>	<u>22,435,896</u>	<u>3,673,401</u>	<u>19,246,799</u>	<u>454,213,232</u>
Excess (deficiency) of revenues over expenditures	<u>2,566,923</u>	<u>(15,034,524)</u>	<u>241</u>	<u>190,835</u>	<u>(12,276,525)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	1,626,394	-	-	-	1,626,394
Transfers out	(2,173,872)	(1,006,856)	-	-	(3,180,728)
Proceeds of issuance of serial bonds	<u>-</u>	<u>10,341,842</u>	<u>-</u>	<u>-</u>	<u>10,341,842</u>
Total other financing sources (uses)	<u>(547,478)</u>	<u>9,334,986</u>	<u>-</u>	<u>-</u>	<u>8,787,508</u>
Net change in fund balances	2,019,445	(5,699,538)	241	190,835	(3,489,017)
Fund balances—beginning, as restated (see note 2)	<u>45,464,389</u>	<u>32,281,554</u>	<u>3,532,982</u>	<u>2,783,617</u>	<u>84,062,542</u>
Fund balances—ending	<u>\$ 47,483,834</u>	<u>\$ 26,582,016</u>	<u>\$ 3,533,223</u>	<u>\$ 2,974,452</u>	<u>\$ 80,573,525</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-wide Statement of Activities
Year Ended December 31, 2012

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Net change in fund balances (deficit)—total governmental funds (page 18) \$ (3,489,017)

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

Capital asset additions	\$ 26,219,590	
Depreciation expense	<u>(17,503,464)</u>	8,716,126

Net disposition of capital assets is recorded in the statement of activities but not in the statement for governmental funds. (160,064)

Governmental funds report the Wastewater Authority's other asset capital outlays as expenses in the statement of activities amortized over its estimated useful life. (274,570)

For refunding bonds, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred charge on the government-wide statements and recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. (223,400)

Certain tax and other revenue in the governmental funds is deferred or not recognized because it is not available soon enough after year end to pay for the current period's expenditures. On the accrual basis, however, this is recognized regardless of when it is collected.

Change in deferred inflows of resources - property taxes	\$ 1,186,567	
Change in deferred inflows of resources	(1,323,323)	
Change in long-term receivable	<u>25,029</u>	(111,727)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds, installment purchase debt and related items is as follows:

Principal payments on serial bonds	\$ 14,723,171	
Issuance of serial bonds	(10,341,842)	
Accreted interest on DTASC bonds	(2,685,551)	
Adjustment to premium and accreted interest	57,878	
Amortization of bond premium	261,907	
Amortization of bond discount	(75,742)	
Change in accrued interest	<u>65,129</u>	2,004,950

In the statement of activities, certain operating expenses—other post employment benefits ("OPEB"), compensated absences (vacation & compensatory time) and judgements and claims—are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences is as follows:

Judgments and claims	\$ (946,920)	
OPEB	(22,842,707)	
Compensated absences	<u>728,230</u>	(23,061,397)

Change in net position of governmental activities \$ (16,599,099)

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Net Position
Proprietary Funds
December 31, 2012

	<u>Business-type Activities—</u>		<u>Total</u>
	<u>Airport</u>	<u>Transportation</u>	
ASSETS			
Current assets:			
Cash	\$ 266,458	\$ 3,696,681	\$ 3,963,139
Accounts receivable, net of allowances for estimated uncollectible amounts	84,925	221,028	305,953
Inventories	54,453	-	54,453
Due from other governments	583,819	783,725	1,367,544
Prepaid items	<u>29,352</u>	<u>3,705</u>	<u>33,057</u>
Total current assets	<u>1,019,007</u>	<u>4,705,139</u>	<u>5,724,146</u>
Noncurrent assets:			
Capital assets not being depreciated:			
Land	3,136,399	248,965	3,385,364
Construction in progress	-	292,672	292,672
Capital assets net of accumulated depreciation:			
Buildings and improvements	554,576	3,357,609	3,912,185
Infrastructure	13,025,238	-	13,025,238
Machinery and equipment	<u>1,697,181</u>	<u>2,659,393</u>	<u>4,356,574</u>
Total noncurrent assets	<u>18,413,394</u>	<u>6,558,639</u>	<u>24,972,033</u>
Total assets	<u>19,432,401</u>	<u>11,263,778</u>	<u>30,696,179</u>
LIABILITIES			
Current liabilities:			
Accounts payable	607,111	822,997	1,430,108
Accrued liabilities	128,932	2,930	131,862
Unearned revenues	6,822	-	6,822
Due to other funds	<u>48,907</u>	<u>44,130</u>	<u>93,037</u>
Total current liabilities	<u>791,772</u>	<u>870,057</u>	<u>1,661,829</u>
Noncurrent liabilities:			
Due within one year	393,506	166,705	560,211
Compensated absences	34,870	-	34,870
Long-term debt	3,309,417	1,476,476	4,785,893
Other postemployment benefits	<u>880,833</u>	<u>12,874</u>	<u>893,707</u>
Total noncurrent liabilities	<u>4,618,626</u>	<u>1,656,055</u>	<u>6,274,681</u>
Total liabilities	<u>5,410,398</u>	<u>2,526,112</u>	<u>7,936,510</u>
NET POSITION			
Net investment in capital assets	15,103,977	5,082,163	20,186,140
Unrestricted	<u>(1,081,974)</u>	<u>3,655,503</u>	<u>2,573,529</u>
Total net position	<u>\$ 14,022,003</u>	<u>\$ 8,737,666</u>	<u>\$ 22,759,669</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended December 31, 2012

	<u>Business-type Activities—</u>		<u>Total</u>
	<u>Airport</u>	<u>Transportation</u>	
Operating revenues:			
Charges for services	\$ 1,840,139	\$ 1,154,114	\$ 2,994,253
Operating grants and revenues	-	4,137,999	4,137,999
Other	<u>5,803</u>	<u>6,412</u>	<u>12,215</u>
Total operating revenues	<u>1,845,942</u>	<u>5,298,525</u>	<u>7,144,467</u>
Operating expenses:			
Personal services	631,177	81,535	712,712
Employee benefits	548,598	46,651	595,249
Depreciation	1,673,330	1,541,136	3,214,466
Contracted services	<u>1,274,733</u>	<u>6,398,264</u>	<u>7,672,997</u>
Total operating expenses	<u>4,127,838</u>	<u>8,067,586</u>	<u>12,195,424</u>
Operating loss	<u>(2,281,896)</u>	<u>(2,769,061)</u>	<u>(5,050,957)</u>
Nonoperating revenues (expenses):			
Interest income	130,443	2,505	132,948
Interest expenses	<u>(153,468)</u>	<u>(46,873)</u>	<u>(200,341)</u>
Total nonoperating revenues (expenses)	<u>(23,025)</u>	<u>(44,368)</u>	<u>(67,393)</u>
Income (loss) before contributions and transfers	(2,304,921)	(2,813,429)	(5,118,350)
Capital contributions	1,055,820	356,642	1,412,462
Transfers in	866,138	1,577,986	2,444,124
Transfers out	<u>(890)</u>	<u>(888,900)</u>	<u>(889,790)</u>
Change in net position	(383,853)	(1,767,701)	(2,151,554)
Total net position—beginning	<u>14,405,856</u>	<u>10,505,367</u>	<u>24,911,223</u>
Total net position—ending	<u>\$ 14,022,003</u>	<u>\$ 8,737,666</u>	<u>\$ 22,759,669</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

	<u>Business-type Activities—</u>		<u>Total</u>
	<u>Airport</u>	<u>Transportation</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from services provided and other	\$ 1,676,283	\$ 2,852,100	\$ 4,528,383
Receipts from operating grants and revenue	-	3,354,274	3,354,274
Receipts from other operating revenue	5,803	6,412	12,215
Payments to employees	(1,032,214)	(171,571)	(1,203,785)
Payments to suppliers of contracted services	(1,110,660)	(6,106,623)	(7,217,283)
Net cash used for operating activities	<u>(460,788)</u>	<u>(65,408)</u>	<u>(526,196)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	866,138	1,577,986	2,444,124
Operating transfers out	(890)	(888,900)	(889,790)
Net cash provided by noncapital financing activities	<u>865,248</u>	<u>689,086</u>	<u>1,554,334</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions to non-current asset	1,055,820	356,642	1,412,462
Capital purchases	(1,282,551)	(628,701)	(1,911,252)
Proceeds received from debt issuance	-	329,600	329,600
Principal paid on long-term debt	(505,729)	(100,167)	(605,896)
Interest paid on long-term debt	(153,468)	(46,873)	(200,341)
Net cash used for capital and related financing activities	<u>(732,460)</u>	<u>(42,626)</u>	<u>(775,086)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	130,443	2,505	132,948
Net cash provided by investing activities	<u>130,443</u>	<u>2,505</u>	<u>132,948</u>
Net (decrease) increase in cash and cash equivalents	(197,557)	583,557	386,000
Cash and cash equivalents—beginning	464,015	3,113,124	3,577,139
Cash and cash equivalents—ending	<u>\$ 266,458</u>	<u>\$ 3,696,681</u>	<u>\$ 3,963,139</u>

(continued)

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2012

(concluded)

	Business-type Activities—		Total
	Airport	Transportation	
Reconciliation of operating loss to net cash used for operating activities:			
Operating loss	\$ (2,281,896)	\$ (2,769,061)	\$ (5,050,957)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation expense	1,673,330	1,541,136	3,214,466
(Increase) decrease in receivables	(131,168)	883,573	752,405
Decrease in inventories	29,693	-	29,693
(Increase) in other assets	(4,785)	(1,389)	(6,174)
Increase in accounts payable	134,380	291,641	426,021
(Decrease) in accrued liabilities	(38,511)	(48,676)	(87,187)
(Decrease) in compensated absences	(7,290)	-	(7,290)
(Decrease) increase in due to/from other funds	(35,076)	30,688	(4,388)
Increase in unearned revenues	2,388	-	2,388
Increase in other postemployment benefits	198,147	6,680	204,827
Total adjustments	1,821,108	2,703,653	4,524,761
Net cash used for operating activities	\$ (460,788)	\$ (65,408)	\$ (526,196)

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Net Position—Fiduciary Funds
December 31, 2012

	<u>Private Purpose</u>	<u>Agency</u>
ASSETS		
Cash	\$ 4,352	\$ 5,852,992
Due from other governments	-	412,976
Investments, at fair value	<u>1,500</u>	<u>-</u>
Total assets	<u>5,852</u>	<u>\$ 6,265,968</u>
 LIABILITIES		
Agency liabilities	<u>-</u>	<u>6,265,968</u>
Total liabilities	<u>-</u>	<u>\$ 6,265,968</u>
 NET POSITION		
Restricted	<u>\$ 5,852</u>	

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Statement of Changes in Net Position—Fiduciary Funds
December 31, 2012

	<u>Private Purpose</u>
Additions	
Total additions	\$ -
Deductions	
Economic assistance and opportunity	<u>3</u>
Change in net position	(3)
Net position, beginning	<u>5,855</u>
Net position, ending	<u><u>\$ 5,852</u></u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Combining Statements of Net Position—
Discretely Presented Component Units
December 31, 2012

	Dutchess Community College	Dutchess County Resource Recovery Agency	Dutchess County Water and Wastewater Authority	Aggregated Non-Major Component Units	Total Aggregate Discretely Presented Component Units
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 20,065,218	\$ 395,754	\$ 3,742,579	\$ 2,880,440	\$ 27,083,991
Restricted cash and investments	7,732,516	6,461,288	2,086,907	13,495	16,294,206
Receivables, net	8,584,288	1,308,137	1,543,488	3,439	11,439,352
Due from other governments	-	1,204,974	-	78,158	1,283,132
Prepaid items	1,432,220	48,474	78,086	1,659	1,560,439
Inventories	542,466	-	-	-	542,466
Noncurrent assets:					
Other assets	1,902,427	6,173,489	2,701,792	-	10,777,708
Capital assets, not being depreciated	1,180,881	517,591	1,534,179	-	3,232,651
Capital assets, net of accumulated depreciation	80,292,022	27,737,676	52,646,684	3,422	160,679,804
Total assets	<u>121,732,038</u>	<u>43,847,383</u>	<u>64,333,715</u>	<u>2,980,613</u>	<u>232,893,749</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges	-	491,569	1,001,187	-	1,492,756
Total deferred outflows of resources	<u>-</u>	<u>491,569</u>	<u>1,001,187</u>	<u>-</u>	<u>1,492,756</u>
LIABILITIES					
Current liabilities:					
Accounts payable	8,946,477	309,133	452,752	87,328	9,795,690
Accounts liabilities	3,169,962	3,513,839	393,697	12,373	7,089,871
Due to other governments	-	2,004,552	-	-	2,004,552
Unearned revenues	5,146,589	-	-	-	5,146,589
Noncurrent liabilities:					
Due within one year	551,434	3,410,004	1,955,000	-	5,916,438
Due within more than one year	68,515,075	20,134,123	35,000,681	-	123,649,879
Total liabilities	<u>86,329,537</u>	<u>29,371,651</u>	<u>37,802,130</u>	<u>99,701</u>	<u>153,603,019</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenues	-	257,935	26,887,232	-	27,145,167
Total deferred outflows of resources	<u>-</u>	<u>257,935</u>	<u>26,887,232</u>	<u>-</u>	<u>27,145,167</u>
NET POSITION					
Net investment in capital assets	51,874,859	5,343,897	(155,056)	3,422	57,067,122
Restricted	8,011,579	11,648,374	2,621,904	11,585	22,293,442
Unrestricted	(24,483,937)	(2,282,905)	(1,821,308)	2,865,905	(25,722,245)
Total net position	<u>\$ 35,402,501</u>	<u>\$ 14,709,366</u>	<u>\$ 645,540</u>	<u>\$ 2,880,912</u>	<u>\$ 53,638,319</u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF DUTCHESS, NEW YORK
Combining Statements of Activities—
Discretely Presented Component Units
Year Ended December 31, 2012

	<u>Dutchess Community College</u>	<u>Dutchess County Resource Recovery Agency</u>	<u>Dutchess County Water and Wastewater Authority</u>	<u>Aggregated Non-Major Component Units</u>	<u>Total Aggregate Discretely Presented Component Units</u>
Operating Expenses:					
Disposal fees	\$ -	\$ 2,963,907	\$ -	\$ -	\$ 2,963,907
Service fees	-	11,256,248	-	-	11,256,248
Administrative expenses	5,539,912	1,563,578	1,489,187	32,431	8,625,108
Interest expenses	128,778	1,128,449	1,491,666	-	2,748,893
Depreciation	2,369,924	1,984,778	1,259,176	882	5,614,760
Amortization	-	94,552	79,260	-	173,812
Instruction	32,228,696	-	-	-	32,228,696
Public service	49,880	-	-	-	49,880
Academic support	3,774,427	-	-	-	3,774,427
Libraries	1,263,128	-	-	-	1,263,128
Student services	6,450,157	-	-	-	6,450,157
General institution	7,134,754	-	-	-	7,134,754
Operation and maintenance of plant	9,363,470	-	3,257,818	186,837	12,808,125
Student aid	8,079,807	-	-	-	8,079,807
Personal services	-	-	-	433,733	433,733
Employee benefits	-	-	-	155,568	155,568
Purchases and contracted services	-	-	37,516	349,561	387,077
Other	4,750,320	-	-	-	4,750,320
Total operating expenses	<u>81,133,253</u>	<u>18,991,512</u>	<u>7,614,623</u>	<u>1,159,012</u>	<u>108,898,400</u>
Program revenues:					
Tipping fees	-	12,957,726	-	-	12,957,726
Energy sales	-	2,906,817	-	-	2,906,817
Other charges for services	1,839,361	-	4,926,841	322,823	7,089,025
Student tuition and fees	20,654,357	-	-	-	20,654,357
Grants and contracts	14,313,418	-	-	-	14,313,418
Other	8,624,406	-	32,948	516	8,657,870
Operating grants and contributions	16,187,080	-	-	622,896	16,809,976
Capital grants and contributions	480,707	-	-	-	480,707
Total program revenues	<u>62,099,329</u>	<u>15,864,543</u>	<u>4,959,789</u>	<u>946,235</u>	<u>83,869,896</u>
Net program expense	(19,033,924)	(3,126,969)	(2,654,834)	(212,777)	(25,028,504)
General revenues:					
Payments from Dutchess County	10,837,898	4,138,682	2,797,085	239,377	18,013,042
Unrestricted interest and other	562,598	230,477	148,849	4,905	946,829
Total general revenues	<u>11,400,496</u>	<u>4,369,159</u>	<u>2,945,934</u>	<u>244,282</u>	<u>18,959,871</u>
Change in net position	(7,633,428)	1,242,190	291,100	31,505	(6,068,633)
Net position—beginning, as restated (see note 2)	43,035,929	13,467,176	354,440	2,849,407	59,706,952
Net position—ending	<u>\$ 35,402,501</u>	<u>\$ 14,709,366</u>	<u>\$ 645,540</u>	<u>\$ 2,880,912</u>	<u>\$ 53,638,319</u>

The notes to the financial statements are an integral part of this statement.

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COUNTY OF DUTCHESS, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the County of Dutchess, New York (the “County”) and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

B. Financial Reporting Entity

Dutchess County, New York (the “County”) is a municipal corporation which performs local governmental functions within its jurisdiction, including public safety, health and economic assistance and opportunity. The County charter was adopted April 17, 1967 and became effective January 1, 1968. The County is governed by an elected County Executive and a twenty-five member County Legislature.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. The discretely presented component units are reported in combining statement after the fund financial statements to emphasize that each unit is legally separate from the government.

Blended component unit—The Dutchess Tobacco Asset Securitization Corporation (the “DTASC”) is a special purpose local development corporation organized pursuant to Section 1411 of the Not-For-Profit Corporation Law of the State of New York, created by Dutchess County for the purposes of: (i) purchasing from the County all rights, title and interest in certain litigation awards under the Consent Decree and Final Judgment of the Supreme Court of the State of New York dated December 23, 1998 and in all portions due to the County under the Master Settlement Agreement with respect to tobacco related litigation among various settling states and participating manufacturers, (ii) to purchase, acquire, own, hold, sell, dispose of tobacco assets and any future rights of tobacco assets and (iii) to issue and sell bonds to pay for the acquisition of such tobacco assets. The sole member of the Corporation is the County Attorney. There are three directors, one appointed by the County Executive, one appointed by the Chairman of the Dutchess County Legislature and one jointly appointed by the County Executive and Chairman of the County Legislature.

Discretely presented component units—The combining statements of discretely presented component units present the major component units in separate columns and the non-major component units aggregated into a single column. These statements are presented separately from the financial data of the primary government to emphasize that they are legally separate from the County.

Dutchess Community College (Major Component Unit)—The Dutchess Community College (“DCC” or the “College”) was established under Article 126 of the Education Act of the State of New York under the sponsorship of the County and is operated by a Board of Trustees under Paragraph I of Subdivision 6 of Section 6304 of the Education Act of the State of New York. DCC’s year end is August 31. The Dutchess Community College Association, Inc. (the “Association”) is organized under the not-for-profit laws of New York State to supplement and conduct activities and services for the students, faculty, staff and alumni of the College. The Association is presented as a component unit of the College, and its year end is June 30. The Dutchess Community College Foundation, Inc. (the “Foundation”) is organized under the not-for-profit laws of New York State to raise funds to provide scholarships and to provide support for initiatives that will have a significant and measurable impact on the students, faculty and staff of the College. The Foundation is a component unit of the College and its year end is August 31.

Pursuant to New York State Education Law relating to community colleges, title to real property is held by the County in trust for the use of the College in carrying out its institutional purposes. The accompanying debt is also a legal obligation of the County. No revenues or assets of the College have been pledged or will be available to pay the principal and interest on this debt. Principal and interest payments on the debt are payable from amounts appropriated each year by the State of New York pursuant to the State Education Law, and the County in the case of County-related debt through the College’s budget, and from monies in the debt service reserve fund held by the DASNY trustees. Capital appropriations include the annual debt service requirements on the Dutchess County debt. The provisions of the State Education Law regarding the State appropriations for principal and interest payments do not constitute a legally enforceable obligations of the State.

Equipment made available to the College from its inception are stated at cost and were purchased from appropriations of the County and New York State, designated for that purpose, and from Federal grants.

Dutchess County Resource Recovery Agency (Major Component Unit)—The Dutchess County Resource Recovery Agency (“RRA” or the “Agency”) was established as a public benefit corporation to perform the function of solid waste management. The Agency constructed a solid waste disposal resource recovery plant to be used for that purpose. The construction of the plant was financed primarily by the issuance of Dutchess County Resource Recovery Agency revenue bonds and New York State Environmental Quality Bond Act (“EQBA”) grant proceeds. The New York State Environmental Quality Bond Act grant proceeds have been recorded as contributed capital in these financial statements. In fulfilling its function, the Agency also operates a materials recycling facility. The Dutchess County Executive and/or members of the County Legislature appoint all of the Agency’s board members.

Dutchess County Water and Wastewater Authority (Major Component Unit)—The Dutchess County Water & Wastewater Authority (“WWA” or the “Authority”) is a public benefit corporation established under Section 1123 of the New York Local Water and Sewer Act, duly enacted into law as Chapter 592 of the Laws of the State of New York. The Act was requested by the Dutchess County Legislature to assist the County and its municipalities with managing water supplies and wastewater disposal. The legislation empowers the Authority to make plans and studies; develop, construct or maintain projects; acquire or lease real and personal property; to issue bonds and notes for financing; and fix rates and collect charges for the purpose of supplying and selling water and to collect, treat and discharge sewage in Dutchess County. The governing body of the Authority consists of eight members – five voting and three nonvoting. Voting members serve five year terms with two members appointed by the County Executive, two appointed by the Chairman of the County Legislature and the fifth being a joint appointment

confirmed by the entire Legislature. The nonvoting members include the Director of the Dutchess County Environmental Management Council, the Director of the Dutchess County Soil and Water Conservation District, and the Commissioner of the Dutchess County Department of Planning and Economic Development.

Revenues are derived generally from quarterly billing of user fees to customers and are considered to be operating revenues. Non-operating revenues include Dutchess County-funded revenues based on a contract with the Dutchess County Division of Water Resources to provide countywide water and wastewater planning and management. The Authority also derives revenues from Service Fee payments from the County pursuant to several Service Agreements, which are used to pay debt service and related expenses pertaining to debt obligations incurred for specific districts and/or systems.

Receivables represent outstanding user fees. The Authority has an agreement with Dutchess County that provides for collection of outstanding user fees through the real property tax levy. Therefore, the Authority has not established an allowance for uncollectible accounts.

Dutchess County Industrial Development Agency (Nonmajor Component Unit)—The Dutchess County Industrial Development Agency (“IDA”) is a public benefit corporation established June 28, 1977 under the mandate of Article 18-A, “New York State Industrial Development Agency Act,” of New York State general municipal law. The seven member board is appointed by the legislature of Dutchess County. The IDA was established to promote and assist in acquiring or constructing various business and recreational facilities and, in the process, advances the job opportunities, health, general prosperity and economic welfare of the people of Dutchess County. The IDA’s function is to authorize the issuance of industrial revenue bonds for industrial development projects. The IDA reviews and determines whether to recommend approval of those applicants wishing to obtain financing. The IDA receives application fees from applicants and closing fees from those accepted for industrial revenue financing, such fees are recorded when earned.

Dutchess County Soil and Water Conservation District (Nonmajor Component Unit)—The Dutchess County Soil and Water Conservation District (“SWCD”) (including the Dutchess County Environmental Management Council) is a nonprofit organization set up to coordinate state and federal conservation programs on a local level. The SWCD provides education and technical assistance on managing soil, water and related natural resources to municipalities, farmers, business owners and homeowners.

Dutchess County Local Development Corporation (Nonmajor Component Unit)—The Dutchess County Local Development Corporation (“LCD”) is a public benefit corporation established in 2010 under section 1411 of the New York not-for-profit corporation law to act as an “on behalf of” issuer of conduit tax exempt bonds. In January 2008, civic facility legislation expired and Industrial Development Agencies no longer had the authority to issue tax exempt bonds or provide other financial assistance to 501(3) organizations. The LCD was established to address the capital needs of these organizations. The LCD’s function is via the issuance of industrial revenue bonds and other means to promote economic development. The LDC reviews and determines whether to recommend approval of those applicants wishing to obtain financing. The LDC receives fees from applicants and closing fees from those accepted for industrial revenue financing.

Separately issued financial statements for all component units except Dutchess County Soil and Water Conservation District may be obtained from Dutchess County Finance Office at 22 Market Street, Poughkeepsie, New York.

C. Basis of Presentation—Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the government. Elimination of these changes would distort the direct costs and program revenues reported for the various functions covered.

D. Basis of Presentation—Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

- *General Fund*—This fund is the principal operating fund of the County and is used to account for all financial resources except those required to be accounted for in other funds.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment other than those financed by enterprise funds.
- *Dutchess Tobacco Asset Securitization Corporation ("DTASC")*—The DTASC is used to account for the receipt and disbursement of resources related to Tobacco Assets and related obligations.

The County presents the following major enterprise funds:

Enterprise Funds—The enterprise funds are used to account for the operations of the Dutchess County Airport (Airport) and the Dutchess County Bus Transportation System (Transportation). Both are considered to be major funds. These entities are financed and operated in a manner similar to a private business enterprise. The intent of the County is that the operating expenses (including depreciation and amortization expense) of providing goods or services to the general public on a continuous basis are to be financed or recovered primarily through user charges. The County may provide administrative, legal and operational assistance to the proprietary funds, which are not charged. Additionally, the General Fund periodically provides advances to the proprietary funds for operational needs.

Additionally, the County reports the following fund types:

Special Revenue Funds—used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The following Special Revenue Funds are utilized:

- *County Road Fund*—used to account for expenditures for highway purposes authorized by Section 114 of the Highway Law.
- *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.
- *Special Grant Fund*—used to account for funds received under the Job Training Partnership Act/Workforce Investment Act and for Community Block Grant funds received from the Department of Housing and Urban Development.

Fiduciary Fund—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.

The following are the County's Fiduciary Funds:

Agency Funds—Agency funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals or other governmental units.

Private Purpose Trust Funds—This fund represents a trust arrangement under which cemetery plots are maintained.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/due to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are recorded at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of government-wide financial statements. Transfers between the funds included in governmental activities are eliminated as transfer in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers property tax collected within 60 days after year end to be available and recognizes them as revenues of the current year, all other revenues are deemed to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing resources.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within one year of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 90 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary and private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

F. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General, County Road and Road Machinery Funds. The Capital Projects Fund is appropriated on a project-length basis. Other special revenue funds do not have appropriated budgets since other means control the use of these resources (e.g., grant awards) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund, department and object. The government's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level. For the year ended December 31, 2012, expenditures exceeded appropriations in the home and community services and interfund transfers function by \$1,903,633 and \$650,000, respectively. These negative variances occurred due to unanticipated costs within these functions.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriation and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executor contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

G. Assets, Liabilities Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The County's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Short-term investments consist of certificates of deposit, obligations of New York State, the United States Government and its agents.

Investments

Investments are recorded at fair value.

Receivables

Receivables are stated net of allowances for estimated uncollectible amounts. 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.

All major revenues of the County are considered "susceptible to accrual" under the modified accrual basis. These include property tax, sales tax, state tax, State and Federal aid, and various grant program revenues.

Inventory and Prepaid Items

Inventory associated with the governmental and business-type activities is considered immaterial at year-end. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expense when consumed rather than when purchased.

Capital Assets

Capital assets are reported at historical cost or extended historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation method, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

Capitalization Threshold and Useful Lives			
Class of Asset	Threshold	Depreciation Method	Useful Life
Buildings and improvements	\$ 100,000	Straight-line	5-40 years
Infrastructure	100,000	Straight-line	10-50 years
Machinery and equipment	5,000	Straight-line	3-15 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The County has one item

that qualifies for reporting in this category. The item is a deferred charge on refunding bonds that is being amortized over the life of the refunded debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The County has two types of items, which arise only under a modified accrual basis of accounting that qualify for reporting in this category. Accordingly, the items, *unavailable revenue*, are reported as deferred inflows of resources only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and some grants and aid that will more than likely not be realized within one year. These amounts are deferred and recognized in the period that the amounts become available.

Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County’s position to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Fund Balance Flow Assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The County itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for specific purposes determined by a formal action of the government’s highest level of decision-making authority. The Board of Legislators is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Legislators has by resolution authorized the Commissioner of Finance to assign amounts for specific purposes. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike

commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/expenses

Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Real Property Taxes

The County levies its real property taxes on December 31, prior to the year of collection and attached as an enforceable lien on January 1. On March 1 interest is accrued on all unpaid taxes in accordance with real property tax law. Property tax is only recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period or 60 days thereafter in the Governmental Fund financial statements.

Tax collections are the responsibility of either the city tax collectors for the Cities of Poughkeepsie and Beacon or the town receivers or collectors for the towns in the County and are collected through May 31 or August 31, the later date being for certain towns that pay in installments. After these dates, uncollected real property taxes receivables of the towns are turned over for collection by the County. The towns satisfy the full amount of their tax levies from the first monies collected and remit all amounts thereafter to the County.

A local law provides for the collection, by the County, of delinquent village taxes. This law requires the amount of returned delinquent village taxes remaining unpaid, be paid to the village by the County by the first day of April following the return.

Tax rates are calculated using assessments prepared by individual city and town assessors utilizing the equalization rates established by the New York State Board of Equalization and Assessment for the purpose of comparability. The total taxable equalized assessed value of real property included in the tax levy of 2012 is \$31,895,759,238. The effective tax rate on this value is \$3.25 per thousand. The constitutional tax limit is 1.5% of the 5-year average of the equalized assessment. The 2012 levy represents approximately 16.7% of the constitutional tax limit.

Compensated absences

Vacation leave and other compensated absences with similar characteristics of \$8,471,514 and \$34,870 in the governmental activities and business type activities, respectively at December 31, 2012, are accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Proprietary funds operating and nonoperating revenues and expenses

Operating revenues of enterprise funds consist of user fees. Operating expenses of enterprise funds consist of salaries, wages and benefits, contractual services and depreciation and amortization. Transactions related to capital and financing activities, non-capital financing activities, investing

activities and interfund transfers from other funds and State appropriations are components of non-operating income. Subsidies and grants to proprietary funds which finance capital activities are reported as nonoperating revenue.

I. Other

Judgments and Claims

Costs associated with workers' compensation or legal liabilities for both reported and unreported insured events totaling \$30,710,899 at December 31, 2012, which include estimates of both future payment of losses and related claim adjustment expenses, are recorded as long-term liabilities in the government wide financial statements.

Pensions

Nearly all County employees are members of various New York State retirement systems. The County is invoiced annually by the systems for its share of the costs.

Postemployment Benefits

The County provides health insurance coverage and survivor benefits for retired employees and their survivors. The County's employees may become eligible for these benefits upon retirement, with a minimum of ten years of service. The County's annual OPEB expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years beginning in 2007. The obligation at December 31, 2012 was \$119,672,612 for the County, \$880,833 for the airport and \$12,874 for transportation.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues, expenditures, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

Impacts of Accounting Pronouncements

During the year ended December 31, 2012, the County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net assets reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The County also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources, certain items that were previously reported as assets and liabilities. Other than that discussed in Note 2, GASB Statement Nos. 63 and 65 did not have a material impact on the County's financial position or results from operations.

Additionally, during the year ended December 31, 2012, the County completed the process of evaluating the impact that will result from adopting GASB Statements No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and No. 64, *Derivative Employer Plans; Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. GASB Statements No. 57, 60, 62 and 64 did not have a material impact on the County's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The County has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 15 and No. 34*; and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, effective for the year ending December 31, 2013; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending December 31, 2014; and No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the year ending December 31, 2015. The County is therefore unable to disclose the impact that adopting GASB Statements No. 61, 66, 67, 68, 69 and 70 will have on its financial position and results of operations.

J. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

The County's annual procedures in establishing the budgetary data reflected in the basic financial statements are as follows:

- No later than November 1, the County Executive submits a tentative budget to the Board of Legislators for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
- After public hearings are conducted to obtain taxpayer comments, no later than December 21, the governing board adopts the budget.
- All modifications of the budget must be approved by the governing board. (However, the Budget Officer is authorized to transfer certain budgeted amounts within departments, upon request of the department head).
- Budgets are prepared for proprietary funds to establish the estimated contributions required from other funds and to control expenditures.

2. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE AND NET POSITION

CHANGES IN ACCOUNTING PRINCIPLES

During the year ended December 31, 2012, the County elected to change its revenue recognition period for governmental funds to 90 days. Previously, revenues estimated to be received within one year of the end of the current fiscal period were considered available and recognized in governmental funds. Fund balance at December 31, 2011 has been restated by \$12,380,001 to remove revenues recognized in the prior year beyond the 90 day availability period. The County believes that this is the preferable policy of

revenue recognition and that it more accurately reflects its availability period under the modified accrual basis of accounting.

Tobacco settlement payments to be received by the County during the year ending December 31, 2013 are based on tobacco sales made during the year ended December 31, 2012. While they are not considered receivable under the modified accrual basis of accounting, they are considered receivable within the governmental activities during the current year. Previously, DTASC accrued an estimate of the tobacco settlement revenue to be received in the subsequent year in both the governmental fund financial statements and the government-wide financial statements. Fund balance at December 31, 2011 has been restated to remove the tobacco settlement revenue receivable of \$3,476,979 from the fund financial statements.

As discussed in Note 1, during the year ended December 31, 2012, the County implemented GASB Statement No. 65. As a result of this implementation, existing bond issuance costs are expensed. Net position at December 31, 2011 has been restated to remove unamortized bond issuance costs of \$1,036,446.

PRIOR PERIOD ADJUSTMENT

Based on the County’s aging analysis, an outstanding receivable balance in the amount of \$7,711,771 was determined to be recorded in error in the 2010 fiscal year. During the 2011 fiscal year, an allowance of \$990,208 was set up against this receivable. As a result of this error, revenues and fund balance were overstated for the year ended December 31, 2010 in the amount of \$7,711,771. Subsequently, the net change in fund balance/net position and ending fund balance/net position were understated by \$990,208 and overstated by \$6,721,568, respectively for the year ended December 31, 2011.

To correct this error, fund balance and net position at December 31, 2011 have been restated in the amount of \$6,721,568.

The effect of these changes to beginning fund balance is summarized below:

	<u>General Fund</u>	<u>DTASC Fund</u>	<u>Governmental Funds</u>
Fund balance, December 31, 2011, as previously reported	\$ 64,565,958	\$ 7,009,961	\$ 106,641,090
Change in revenue recognition policy	(12,380,001)	-	(12,380,001)
Change in recognition of TSR Revenues	-	(3,476,979)	(3,476,979)
Correction of error in receivables	<u>(6,721,568)</u>	<u>-</u>	<u>(6,721,568)</u>
Fund balance, December 31, 2011, as restated	<u>\$ 45,464,389</u>	<u>\$ 3,532,982</u>	<u>\$ 84,062,542</u>

The effect of these changes to beginning net position is summarized below:

	<u>Primary Government</u>
	<u>Governmental Activities</u>
Beginning net position, as previously reported	\$ (19,776,986)
Recognition of unamortized issuance costs	(1,036,446)
Correction of error in receivables	<u>(6,721,568)</u>
Beginning net position, as restated	<u>\$ (27,535,000)</u>

A. Discretely Presented Component Unit

i) Dutchess Community College

CHANGE IN ACCOUNTING PRINCIPLE

In fiscal 2012, the College changed its method of revenue recognition for capital assets contributed by the State and County.

Contributions of capital assets are now recognized when the assets are purchased by the County, as opposed to when the State and County make debt service payments on related borrowings.

The change in revenue recognition for State and County appropriations is preferable and is consistent with accounting for capital grants. As the debt is a legal obligation of the State and County the change will more accurately reflect the debt on the State and County financial statements and not on the College's financial statements. The College believes that this is the preferable method of revenue recognition and that it more accurately reflects the nature of the transaction.

The change in accounting policy resulted in an increase to beginning net position of the College by \$20,080,231.

The effect of this change to beginning net position is summarized below:

	<u>DCC</u>
Beginning net position, as previously reported	\$ 22,955,698
Cumulative effect of change in accounting policy	<u>20,080,231</u>
Beginning net position, as restated	<u>\$ 43,035,929</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Statutes authorize the County to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Cash and cash equivalents and restricted cash and cash equivalents at year-end consisted of:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Balance</u>
Petty cash (uncollateralized)	\$ 25,515	\$ 900	\$ -	\$ 26,415
Money market funds	53,018	-	-	53,018
Discount note	3,440,888	-	-	3,440,888
Deposits	<u>72,014,036</u>	<u>3,962,239</u>	<u>5,857,344</u>	<u>81,833,619</u>
Total	<u>\$ 75,533,457</u>	<u>\$ 3,963,139</u>	<u>\$ 5,857,344</u>	<u>\$ 85,353,940</u>

Cash equivalents include money market accounts and a discount note with a maturity date within three months of year end. These investments are carried at fair value.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Deposits—All deposits are carried at fair value.

	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 4,171,270	\$ 4,138,630
Uninsured:		
Collateral held by bank's agent in the County's name	92,283,104	77,694,989
Total	\$ 96,454,374	\$ 81,833,619

Custodial Credit Risk—In the case of deposits, this is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. For investments, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of an outside party. By State statute all deposits in excess of FDIC insurance coverage must be collateralized. As of December 31, 2012, all uninsured bank deposits were fully collateralized with securities held by the pledging financial institution’s trust department or agent in the County’s name.

Restricted cash—Restricted cash of the County consists of unexpended debt proceeds restricted for capital projects in the amount of \$29,961,215 and cash restricted for future debt service within both the General Fund and DTASC of \$2,477,325 and \$3,493,906, respectively. Also included in restricted cash is General Fund (including self-insurance) balances subject to externally enforceable legal purpose restrictions, totaling \$5,822,610.

A. Discretely presented component units

i) Dutchess Community College

Cash and Cash Equivalents

Cash and cash equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with maturities of less than three months at the time of purchase.

The College’s investment policies are governed by State statutes. The College has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The College is authorized to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies and obligations of New York State or its municipalities.

Collateral is required for demand deposits, time deposits and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Custodial credit risk is the risk that in the event of a bank failure, the College’s deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution’s trust department but not in the College’s name. The College’s aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at August 31, 2012.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment then the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the College manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair value of the College's investments held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the College's investments by maturity. All of the investments below have a remaining maturity of less than one year.

Investments

Investments consist of certificates of deposit with initial maturities of greater than three months.

The College was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate risk or credit risk.

ii) Dutchess County Resource Recovery Agency

Statutes authorize the Agency to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States of America Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Repurchase agreements involve purchases by a broker of portfolio securities concurrently with an agreement by the broker to sell the same securities at a later date at a fixed price. Generally, the effect of such a transaction is that the Agency can invest its excess cash balances at competitive interest rates. The Agency is subject to certain risks, specifically credit risk that parties to the repurchase agreement will not perform as required, market risk in that the value of the underlying securities may decline below cost and legal risk in that investments may be made in securities not authorized by state and local regulations. The Agency believes its contractual arrangements and short-term nature of its investments minimize these risks. Market value of the repurchase agreements, and other investments, approximates cost plus accrued interest.

In addition, the Agency, through the General Bond Resolution adopted August 6, 1998, is authorized to invest funds held under the Resolution in "Qualified Investments". Qualified Investments include the above described investments as well as certain types of commercial paper, money market accounts and investment agreements.

In January 1999, the Agency entered into a Flexible Draw Investment Agreement between the Agency, a commercial entity, and the Bond Trustee, which provides for the investment of certain restricted funds until the maturity date of the bonds. The Agency has obtained a financial guaranty insurance policy, which provides for payment of amounts due under the agreement, if not made when due.

As of December 31, 2012, the Agency had cash deposited in various banks aggregating approximately \$350,000, as insured by the FDIC or collateralized with securities held by the entity's agent in the entity's name. As of December 31, 2012, the Agency had cash and cash equivalents and investments of \$11,694,035 (includes non-current investments of \$5,187,086 reported as part of other assets) in various accounts, which are not covered by FDIC.

Bank balances differ from the Agency's cash balances by the amount of outstanding items clearing in the following month. The cash balances and repurchase agreements are collateralized with securities held by the counter party's trust department or agent in the entity's name and the investments are held by the counter party's trust department in the entity's name.

Cash and cash equivalents, and investments are as follows at December 31, 2012:

Bank Balance	\$ 1,975,200
U.S. Treasury Bills	4,531,749
Insured Investment	<u>5,187,086</u>
Total	<u>\$ 11,694,035</u>

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

Restricted Cash and Investments

In accordance with the terms of the general bond resolution, bond and note proceeds, accrued interest receivable, the initial collection of tipping fees and energy revenues, and investments are administered and reported upon by a trustee on behalf of the Agency and are restricted.

As of December 31, 2012, the trustee reported the following restricted cash and cash equivalents and investments:

1999 Series A

Project Funds	\$ 48,059
Debt Service Reserve Funds	<u>3,600,233</u>
Current Restricted Funds	<u>3,648,292</u>
Reserve and Contingency Fund	447,957
Debt Service Reserve Fund	<u>3,794,303</u>
Non-Current Restricted Funds	<u>4,242,260</u>
Total 1999 Series A	<u><u>\$ 7,890,552</u></u>

2007 Series

Project Fund	\$ 413,893
Cost of Issuance Fund	98,199
Debt Service Reserve Fund	<u>371,346</u>
Current Restricted Funds	<u>883,438</u>
Reserve and Contingency Fund	85,891
Debt Service Reserve Fund	<u>858,935</u>
Non-Current Restricted Funds	<u>944,826</u>
Total 2007 Series	<u><u>\$ 1,828,264</u></u>

The Debt Service Reserve Funds are funded in an amount equal to the greater of any annual principal and interest or sinking fund payments, but limited to 10% of the original principal amount of the 1998 C and 1999 A Series bonds. The Reserve and Contingency Fund is funded in an amount at least equal to 10% of the debt service payments required for the current year. However, since these funds are not anticipated to be used in the subsequent year, they have been classified as restricted noncurrent assets in the statement of net assets.

The proceeds from collections of energy revenues, which had not yet been released by the trustee, and funds available for the January 1, bond principal and interest payments, amounted to \$1,929,558 at December 31, 2012, and are included in restricted cash and cash equivalents.

Restricted assets are summarized as follows as of December 31, 2012:

Current Restricted Assets	
Series 1999 A	3,648,292
Series 2007	883,438
Energy Revenues and Debt Service Funds	<u>1,929,558</u>
Total Current-Restricted Assets	<u>6,461,288</u>
Non-Current Restricted Assets	
Series 1999 A	4,242,260
Series 2007	<u>944,826</u>
Total Non-Current Restricted Cash and Investments	<u>5,187,086</u>
Total Restricted Cash and Investments	<u>\$ 11,648,374</u>

iii) Dutchess County Water and Wastewater Authority

Cash Equivalents and Investments

State statutes authorized the Authority to maintain deposits with financial institutions and to invest in certificates of deposits, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

In addition, the Authority, through the General Bond Resolution adopted June 1, 1998 is authorized to invest funds held under the Resolution in — “Qualified Investments”. Qualified Investments include the above-described investments as well as certain types of commercial paper, money market accounts and investment agreements.

Cash deposits are secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The Authority’s deposits are categorized below to give an indication of the level or risk assumed by the Authority.

1. Insured or collateralized with securities held by the Authority or by its agent in the Authority’s name’
2. Collateralized with securities held by the pledging institution’s trust department or agent in the Authority’s name;

Cash and cash equivalents and investments by category are as follows as of December 31, 2012:

	Total
Cash in Banks	<u>\$ 3,742,579</u>
Investments	
Money Market Funds	3,248,136
U.S. Treasury Bills & Notes	<u>1,540,563</u>
Investment Total	<u><u>\$ 4,788,699</u></u>

Disclosures relating to risk and type of investments as presented above are indicative of activity and positions held during the year.

Restricted Cash and Investments

The restricted cash and investments of the Authority consist of unexpended bond and note proceeds, which are invested in cash funds and investments under the control of bank trustees. These assets are restricted in use by bond covenants as described below as of December 31, 2012:

Construction Reserve Funds	\$ 1,966,619
Debt Service Sinking Funds	4,348
Debt Service Reserve Funds	<u>115,940</u>
Current Restricted Funds	<u>2,086,907</u>
Debt Service Reserve Funds Non Current	<u>2,701,792</u>
	<u><u>\$ 4,788,699</u></u>

The Debt Service Reserve Funds are funded in an amount equal to an amount which is the lesser of, the maximum annual debt service required under the bond resolutions, 125% of the average annual debt service required by certain bond resolutions or the maximum amount that may be held in the Debt Service Reserve Fund without adversely affecting the tax-exempt status of bond series intended to be tax-exempt, currently 10% of the original issue amount. Since these reserves are not anticipated to be used in the subsequent year, they have classified as restricted noncurrent assets on the balance sheet. Interest earnings on these reserves have been classified as current as they are available to pay current debt.

4. RECEIVABLES

Accounts receivable as of December 31, 2012, are as follows:

Governmental Activities:

Various fees and charges:

General Fund	\$ 5,054,957	
Other governmental funds	123,346	
Less allowance for doubtful accounts	<u>(727,061)</u>	
Total	\$ 4,451,242	

Business-type Activities:

Various fees and charges:

Airport	\$ 84,925	
Transportation	<u>221,028</u>	
Total	\$ 305,953	

Due to the length of time it takes to receive reimbursement from other governments for some requested reimbursements, currently have approximately \$11,056,678 in receivables that are not anticipated to be received within 90 days of year end.

Due from other governments as of December 31, 2012, are as follows:

Governmental Activities:

General Fund

Due from State and Federal	\$ 52,408,916	
Other	<u>2,117,166</u>	\$ 54,526,082

Capital Projects Fund

Due from State and Federal	4,296,775	
Other	<u>23,540</u>	4,320,315

DTASC Fund

Due from State and Federal		3,502,008
Other governmental funds		
Due from State and Federal		<u>983,649</u>

Total		\$ <u>63,332,054</u>
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Business-type Activities:

Airport

Due from State and Federal		\$ 583,819
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Transportation

Due from State and Federal	783,291	
Other	<u>434</u>	<u>783,725</u>

Total		\$ <u>1,367,544</u>
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A. Discretely presented component units

i) Dutchess Community College

Significant receivables include amounts due from students for fees and tuitions. These receivables are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated and recorded based on the College's historical bad debt experience, and based on management's judgment. At August 31, 2012, the College reported total accounts receivable of \$8,336,475.

5. CAPITAL ASSETS

A. Governmental activities—Capital asset activity for the primary government's governmental activities, for fiscal year ending December 31, 2012, was as follows:

	Balance 1/1/2012	Additions and Reclassifications	Disposals and Reclassifications	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 7,683,552	\$ 1,156,500	\$ -	\$ 8,840,052
Right of way and easements	8,467,938	2,813,744	-	11,281,682
Construction in progress	<u>7,402,364</u>	<u>21,985,896</u>	<u>(15,251,372)</u>	<u>14,136,888</u>
Total capital assets not being depreciated	<u>23,553,854</u>	<u>25,956,140</u>	<u>(15,251,372)</u>	<u>34,258,622</u>
Capital assets, being depreciated:				
Buildings and improvements	138,912,466	2,105,213	(575,800)	140,441,879
Machinery and equipment	57,856,356	8,862,499	(1,964,543)	64,754,312
Infrastructure	<u>163,892,497</u>	<u>4,547,110</u>	<u>-</u>	<u>168,439,607</u>
Total capital assets being depreciated	<u>360,661,319</u>	<u>15,514,822</u>	<u>(2,540,343)</u>	<u>373,635,798</u>
Less accumulated depreciation for:				
Buildings and improvements	(81,115,644)	(5,059,336)	575,800	(85,599,180)
Machinery and equipment	(43,605,859)	(3,106,902)	1,804,479	(44,908,282)
Infrastructure	<u>(97,994,229)</u>	<u>(9,337,226)</u>	<u>-</u>	<u>(107,331,455)</u>
Total accumulated depreciation	<u>(222,715,732)</u>	<u>(17,503,464)</u>	<u>2,380,279</u>	<u>(237,838,917)</u>
Total capital assets, being depreciated, net	<u>137,945,587</u>	<u>(1,988,642)</u>	<u>(160,064)</u>	<u>135,796,881</u>
Governmental activities capital assets, net	<u>\$ 161,499,441</u>	<u>\$ 23,967,498</u>	<u>\$ (15,411,436)</u>	<u>\$ 170,055,503</u>

Depreciation expense for governmental activities was charged to functions and programs of the primary government as follows:

Governmental activities:	
General government support	\$ 4,057,540
Public safety	2,606,106
Health	25,476
Transportation	9,081,610
Economic assistance and opportunity	370,633
Culture and recreation	1,283,153
Home and community services	<u>78,946</u>
Total depreciation expense—governmental activities	<u>\$ 17,503,464</u>

B. Business-type activities—Capital asset activity for the primary government’s business-type activities (Enterprise Funds), for fiscal year ending December 31, 2012, as presented below:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Capital assets, not being depreciated:				
Land	\$ 3,385,364	\$ -	\$ -	\$ 3,385,364
Construction in progress	<u>1,035,326</u>	<u>1,710,913</u>	<u>(2,453,567)</u>	<u>292,672</u>
Total capital assets not being depreciated	<u>4,420,690</u>	<u>1,710,913</u>	<u>(2,453,567)</u>	<u>3,678,036</u>
Capital assets, being depreciated:				
Buildings and improvements	10,740,263	1,193,373	-	11,933,636
Machinery and equipment	13,855,490	41,342	(962,957)	12,933,875
Infrastructure	<u>27,126,904</u>	<u>1,218,850</u>	<u>-</u>	<u>28,345,754</u>
Total capital assets being depreciated	<u>51,722,657</u>	<u>2,453,565</u>	<u>(962,957)</u>	<u>53,213,265</u>
Less accumulated depreciation for:				
Buildings	(7,508,086)	(513,365)	-	(8,021,451)
Machinery and equipment	(8,036,383)	(1,503,876)	962,957	(8,577,302)
Infrastructure	<u>(14,123,290)</u>	<u>(1,197,225)</u>	<u>-</u>	<u>(15,320,515)</u>
Total accumulated depreciation	<u>(29,667,759)</u>	<u>(3,214,466)</u>	<u>962,957</u>	<u>(31,919,268)</u>
Total capital assets, being depreciated, net	<u>22,054,898</u>	<u>(760,901)</u>	<u>-</u>	<u>21,293,997</u>
Business-type activities capital assets, net	<u>\$ 26,475,588</u>	<u>\$ 950,012</u>	<u>(2,453,567)</u>	<u>\$ 24,972,033</u>

C. Discretely presented component units

i) Dutchess Community College

	Balance 9/1/2011	Additions	Deletions	Balance 8/31/2012
Capital assets, not being depreciated				
Land	\$ 1,148,465	\$ -	\$ -	\$ 1,148,465
Construction-in-progress	<u>54,520</u>	<u>-</u>	<u>(22,104)</u>	<u>32,416</u>
Total capital assets not being depreciated	<u>1,202,985</u>	<u>-</u>	<u>(22,104)</u>	<u>1,180,881</u>
Capital assets, being depreciated				
Building and improvements	83,394,041	1,150,741	-	84,544,782
Furniture and equipment	<u>7,645,564</u>	<u>861,672</u>	<u>(302,329)</u>	<u>8,204,907</u>
Total capital assets, being depreciated	<u>91,039,605</u>	<u>2,012,413</u>	<u>(302,329)</u>	<u>92,749,689</u>
Less: Accumulated depreciation	<u>37,097,366</u>	<u>2,330,601</u>	<u>(302,329)</u>	<u>39,125,638</u>
Total capital assets, being depreciated, net	<u>53,942,239</u>	<u>(318,188)</u>	<u>-</u>	<u>53,624,051</u>
Capital assets, net	<u>\$ 55,145,224</u>	<u>\$ (318,188)</u>	<u>\$ (22,104)</u>	<u>\$ 54,804,932</u>

In addition to the College’s capital assets, its component units, the Association and Foundation reported net capital assets of \$26,633,429 of \$34,542, respectively.

Assets under capital lease agreements are as follows at August 31:

	<u>2012</u>	<u>2011</u>
Cost basis	\$ 5,227,174	\$ 5,227,174
Accumulated depreciation	<u>(2,524,759)</u>	<u>(2,174,186)</u>
	<u>\$ 2,702,415</u>	<u>\$ 3,052,988</u>

Depreciation expense for the year ended August 31, 2012 was approximately \$2,330,601.

ii) Dutchess County Resource Recovery Agency

	<u>Balance</u>			<u>Balance</u>
	<u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2012</u>
Property	\$ 517,591	\$ -	\$ -	\$ 517,591
Plant	66,181,536	-	-	66,181,536
Equipment	<u>1,164,191</u>	<u>-</u>	<u>-</u>	<u>1,164,191</u>
	67,863,318	-	-	67,863,318
Less: Accumulated depreciation	<u>(37,553,972)</u>	<u>(2,054,079)</u>	<u>-</u>	<u>(39,608,051)</u>
Capital assets, net	<u>\$ 30,309,346</u>	<u>\$ (2,054,079)</u>	<u>\$ -</u>	<u>\$ 28,255,267</u>

Accumulated depreciation increased by \$2,054,079. After deducting amortization of deferred revenues associated with the funding of capital improvements of \$69,297 depreciation expense for the year ended December 31, 2012 is \$1,984,779.

iii) Dutchess County Water and Wastewater Authority

	<u>Balance</u>			<u>Balance</u>
	<u>1/1/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2012</u>
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	120,255	55,652	-	175,907
Buildings	12,368,977	845,610	(675)	13,213,912
Water system	49,003,594	1,183,634	-	50,187,228
Machinery and equipment	6,289,468	640,645	-	6,930,113
Sewage collection system	1,364,871	-	-	1,364,871
Construction-in-progress	<u>2,087,613</u>	<u>1,231,049</u>	<u>(2,619,291)</u>	<u>699,371</u>
	72,069,586	3,956,590	(2,619,966)	73,406,210
Less: Accumulated depreciation	<u>(17,370,319)</u>	<u>(4,093,555)</u>	<u>2,238,527</u>	<u>(19,225,347)</u>
Net capital assets	<u>\$ 54,699,267</u>	<u>\$ (136,965)</u>	<u>\$ (381,439)</u>	<u>\$ 54,180,863</u>

Accumulated depreciation was increased by \$1,855,028, after deducting amortization of deferred revenues associated with the Central Dutchess Water Transmission Line of \$595,852 (which was put into service in 2007) for the year ended December 31, 2012. Depreciation expense for the year ended December 31, 2012 is \$1,259,176.

6. RETIREMENT PLANS

Plan Description—The County participates in the New York State and Local Employees’ Retirement System (“ERS”). In addition, all faculty and administrators of the College (a Component Unit) have the option of participating in the New York State Teachers’ Retirement System (“TRS”) or the Teachers’ Insurance and Annuity Association, College Retirement Equities Fund (TIAA-CREF). These are cost-sharing multiple-employer 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.

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 for the first ten years of membership, and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the New York State Local Retirement System’s fiscal year ending March 31. Included in the amount billed to the County are amounts for Dutchess Community College. The College reimburses its share to the County.

Contributions for the current year and two preceding years were equal to 100% of contributions required, and were as follows:

	ERS
<u>Year</u>	<u>Contribution</u>
2012	\$ 20,111,400
2011	16,437,430
2010	13,918,830

The College’s share for the current and two preceding years were:

	ERS
<u>Year</u>	<u>Contribution</u>
2012	\$ 1,768,650
2011	1,526,362
2010	1,088,701

7. OTHER POST-EMPLOYMENT BENEFITS

GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Post-Employment Benefits other than Pensions* requires an accrual by the County for post-retirement benefits and related liabilities.

Plan Description— Dutchess County Retiree Medical Program is a single-employer defined benefit healthcare plan administered by the New York State Employee Retirement System. The County provides certain health care benefits for retired employees including employees at the Airport and one employee at Mass Transit (enterprise funds). The various collective bargaining agreements stipulate the employees covered and the percentage of contribution.

Funding Policy— Contributions by the primary government and Airport (enterprise fund) may vary according to length of service. Substantially all employees may become eligible for those benefits if they reach normal retirement age and length of service requirement while working for these entities. The cost of retiree health care benefits is recognized as expenditure as premiums are paid within the governmental funds.

Annual OPEB Cost and Net OPEB Obligation—The County’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution, (ARC), of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees’ medical insurance. As a result, reporting of expenses and liabilities will no longer be recorded on a “pay-as-you-go” approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a “normal cost”, an “actuarial accrued liability”, and ultimately the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. For the year ended December 31, 2012, the County’s, Airport’s and Transportation’s annual OPEB costs of \$22,842,707, \$198,147 and \$6,680, respectively, was recognized through the government wide statement of activities. Participating employees and active plan members are required to contribute to the plan at rates expressed as percentages of the payroll of active plan members. The percentage that is contributed is determined by the class of employee and their adjusted benefit date. For management employees there is no contribution, confidential employees have no contribution if their adjusted benefit date is prior to January 1, 1982 and if it is after they contribute 10%. For CSEA employees their rate is 5%, 15%, or 20% if their adjusted benefit dates are prior to July 1, 1979 and January 1, 2007 and after January 1, 2007, respectively. For DCSEA employees there is no contribution, 15%, or 20% if their adjusted benefit dates are prior to November 1, 1979, between November 1, 1979 and January 1, 2004 and after January 1, 2004, respectively. For PBA employees there is no contribution and a 20% contribution if their adjusted benefit date is prior to November 1, 1979 and after November 1, 1979, respectively.

The following tables show the calculation of the projected net OPEB obligation at December 31, 2012 and 2011:

	Year Ended December 31, 2012			
	Governmental Activities	Business-type Activities		
		Airport	Transportation	Total
Annual required contribution	\$ 27,167,179	\$ 199,535	\$ 6,670	\$ 27,373,384
Interest on net OPEB obligation	3,873,196	27,307	247	3,900,750
Adjustment to annual required contribution	(3,700,035)	(26,087)	(237)	(3,726,359)
Annual OPEB cost (expense)	27,340,340	200,755	6,680	27,547,775
Contributions made (expected)	(4,497,633)	(2,608)	-	(4,500,241)
Increase in net OPEB obligation	22,842,707	198,147	6,680	23,047,534
Net OPEB obligation - beginning of year	96,829,905	682,686	6,194	97,518,785
Net OPEB obligation - end of year	<u>\$ 119,672,612</u>	<u>\$ 880,833</u>	<u>\$ 12,874</u>	<u>\$ 120,566,319</u>

	Year Ended December 31, 2011			
	Governmental Activities	Business-type Activities		
		Airport	Transportation	Total
Annual required contribution	\$ 25,737,096	\$ 187,455	\$ 6,194	\$ 25,930,745
Interest on net OPEB obligation	2,997,012	19,788	-	3,016,800
Adjustment to annual required contribution	(2,863,079)	(18,904)	-	(2,881,983)
Annual OPEB cost (expense)	25,871,029	188,339	6,194	26,065,562
Contributions made (expected)	(3,966,424)	(353)	-	(3,966,777)
Increase in net OPEB obligation	21,904,605	187,986	6,194	22,098,785
Net OPEB obligation - beginning of year	74,925,300	494,700	-	75,420,000
Net OPEB obligation - end of year	<u>\$ 96,829,905</u>	<u>\$ 682,686</u>	<u>\$ 6,194</u>	<u>\$ 97,518,785</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 and the preceding two years were as follows:

Year Ended December 31,	Total		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 27,547,776	16.30%	\$ 120,566,319
12/31/2011	26,065,562	15.20%	97,518,785
12/31/2010	24,392,300	19.80%	75,420,000

Year Ended December 31,	Governmental Activities		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 27,340,340	16.50%	\$ 119,672,612
12/31/2011	25,871,029	15.30%	96,829,905
12/31/2010	24,247,200	19.80%	74,925,300

Year Ended December 31,	Airport		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 200,755	1.30%	\$ 880,833
12/31/2011	188,339	0.20%	682,686
12/31/2010	145,100	5.20%	494,700

Year Ended December 31,	Transportation		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2012	\$ 6,681	0.00%	\$ 12,875
12/31/2011	6,194	0.00%	6,194

Funding Status and Funding Progress—As of December 31, 2012, the actuarial accrued liability for benefits was \$317,867,649 all of which was unfunded. Local New York State governments do not have the authority to establish trusts in which to accumulate assets for other post-employment benefits or to establish an OPEB investment fund for the investment of OPEB assets. Funding for the plan has been established on a pay-as-you-go basis. The County currently has no assets set aside for the purpose of paying post-retirement benefits.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The County's Schedule of Funding Progress is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL as a Percentage of Covered Payroll
December 31, 2012	\$ -	\$ 317,867,649	\$ 317,867,649	0.0%	\$ 111,789,696	284.3%
December 31, 2011	-	295,827,044	295,827,044	0.0%	113,067,608	261.6%
December 31, 2010	-	267,025,000	267,025,000	0.0%	Not Available	Not Available

Actuarial Methods and Assumptions— Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Health insurance premiums – 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Medical Trend Assumption – Medical and prescription drug costs are assumed to increase: 3.30% from 2011 to 2012; 7.00% per year from 2012 to 2015; then decreasing to an ultimate rate of 4.20% by 2081.

Payroll growth rate – The expected long-term payroll growth was assumed to be 3%.

Actuarial Methods – The actuarial cost method is the projected unit credit. The unfunded actuarial accrued liability is amortized as a level percentage of pay roll on an open group basis over 30 years.

Based on the historical and expected returns of the County's short-term investment portfolio, a discount rate of 4% was used. This rate is subject to market conditions and could change in the future. In addition, a simplified version of the projected unit credit cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2012 was 26 years.

A. Discretely presented component unit—Dutchess Community College

In addition to providing pension benefits, the College provides certain health care benefits for retired employees through a single employer defined benefit plan. The various collective bargaining agreements stipulate the employees covered and the percentage of contribution. Contributions by the College may vary according to length of service. The cost of providing post-employment health care benefits is shared between the college and the retired employee. Substantially all of the College’s employees may become eligible for those benefits if they reach normal retirement age while working for the College.

The College’s annual other post-employment benefit (“OPEB”) cost (expense) is calculated based on the annual required contribution, (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. GASB Statement No. 45 establishes standards for the measurement, recognition and display of the expenses and liabilities for retirees’ medical insurance. As a result, reporting of expenses and liabilities will no longer be accounted for under the “pay-as-you-go” approach. Instead of expensing the current year premiums paid, a per capita claims cost will be determined, which will be used to determine a “normal cost”, an “actuarial accrued liability”, and ultimately the annual required contribution ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the assumptions and projections utilized do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. The actuarial calculations of the OPEB plan reflect a long-term perspective.

The amortization basis is the level dollar of payroll method with an open amortization approach with 26 years remaining in the amortization period. The actuarial assumptions included a 4.0% investment return. The College currently has no assets set aside for the purpose of paying post-employment benefits. The actuarial cost method utilized was the unit credit method.

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 8,532,734	\$ 8,076,122
Interest on net OPEB obligation	1,422,923	1,178,434
Adjustment to annual required contribution	<u>(1,978,071)</u>	<u>(1,638,196)</u>
Annual OPEB cost (expense)	7,977,586	7,616,360
Contributions made	<u>(1,791,004)</u>	<u>(1,504,143)</u>
Increase in net OPEB obligation	6,186,582	6,112,217
Net OPEB obligation—beginning of year	<u>35,573,064</u>	<u>29,460,847</u>
Net OPEB obligation—end of year	<u>\$ 41,759,646</u>	<u>\$ 35,573,064</u>

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Year Ended, August 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2012	\$ 7,977,586	18.85%	\$ 41,759,646
2011	7,616,360	24.16	35,573,064
2010	8,291,349	18.26	29,460,847

Funding Status and Funding Progress—The funded status of the plan as of August 31, 2012 was as follows:

Actuarial Accrued Liability ("AAL")	\$ 78,962,149
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability ("UAAL")	78,962,149
Funded ratio (actuarial value of plan assets/AAL)	<u>0.00%</u>
Covered payroll (active plan members)	<u>\$ 26,304,038</u>
UAAL as percentage of covered payroll	<u>300.19%</u>

The Schedule of Funding Progress presents multi-year trend information that is useful in determining whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability. The projection of benefits is based on the types of benefits provided under the substantive Plan at the time of the valuation date and on the pattern of cost-sharing between the employer and Plan members. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and Plan members of the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The College's Schedule of Funding Progress is presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability ("AAL")</u>	<u>Unfunded AAL ("UAAL")</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Ratio of UAAL as a Percentage of Covered Payroll</u>
August 31, 2012	-	\$ 78,962,149	\$ 78,962,149	0.00%	\$ 26,304,038	300%
August 31, 2011	-	73,704,326	73,704,326	0.00%	24,981,995	295%
August 31, 2010	-	82,309,965	82,309,965	0.00%	25,084,626	328%

8. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. In October 1997 the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. This statement established accounting and

financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

As of October 1, 1997 the New York State Deferred Compensation Board (the “Board”) created a Trust and Custody agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Since the Board is no longer the trustee of the plan, the plan no longer meets the criteria for inclusion in New York State’s financial statements. Municipalities which participate in New York State’s Deferred Compensation Plan are no longer required to record the value of the plan assets.

At December 31, 2012, the market value, as reported by the New York State Deferred Compensation Plan, of the plan assets totaled \$99,856,739.

9. RISK FINANCING ACTIVITIES

The Dutchess County Self-Insured Workers’ Compensation Plan was organized in 1980 to provide a program of workers’ compensation coverage for its member organizations. All political subdivisions in the County of Dutchess are eligible to participate. The program’s general objectives are to formulate, develop, and administer, on behalf of the member political subdivisions, a program of workers’ compensation insurance and to develop a comprehensive loss control program. Fund members are subject to a supplemental assessment in the event of deficiencies. If the assets of the Fund were to be exhausted, members would not be responsible for the Fund’s liabilities but would remain responsible for their individual liabilities which would include their estimated claims and related administrative obligations. A Fund member would also be responsible for its individual liabilities if it were to withdraw from the Fund. Fund members currently include three towns, one village, Dutchess Community College, Dutchess County Resource Recovery Agency and Dutchess County. The activity of the Plan is recorded in the General Fund.

The Plan maintains insurance coverage for claims in excess of \$800,000.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following information supplied by the Plan Administrator represents changes in those aggregate liabilities for the Plan during the past two years:

Year Ended December 31,	Liability Beginning of Year	Claims and Adjustments	Claim Payments	Liability End of Year
2012	\$ 28,763,980	\$ 2,765,556	\$ 1,818,637	\$ 29,710,899
2011	28,498,778	2,030,869	1,765,667	28,763,980

The financial information for the self-insurance fund is reported on the modified accrual basis within the General Fund. Total assets, revenues and expenses of the self-insurance fund were \$6,801,821, \$4,803,229, and \$4,115,083, respectively at December 31, 2012.

10. SHORT-TERM DEBT

Bond anticipation notes issued in anticipation of proceeds from the subsequent sale of bonds are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds. Such notes may be classified as long-term debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. State law requires that bond anticipation notes issued for capital purposes be converted to long-term financing within seven years after the original issue date.

During the year ended December 31, 2012, the County did not issue or redeem any bond anticipation notes.

11. LEASE OBLIGATIONS

Primary Government:

The County leases, buildings and equipment under non-cancelable operating leases. Total costs for such leases were \$2,972,694 for governmental activities for the year ended December 31, 2012. Future minimum lease payments at December 31, 2012 were as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2013	\$ 2,648,528
2014	1,919,879
2015	1,685,172
2016	1,492,722
2017	<u>2,285,316</u>
	<u>\$ 10,031,617</u>

A. Discretely Presented Component Units:

i) Dutchess Community College

Capital Lease

The College has entered into an installment purchase agreement for equipment. The agreements provide that payments for any future fiscal period will not be required should funding not be appropriated. Interest on the purchase agreements ranges from 4.4% to 4.9%.

The future minimum payments required under the lease as of August 31, 2012 presented on the following page.

Year Ending August 31,	Principal	Interest
2013	\$ 291,434	\$ 115,011
2014	277,942	106,411
2015	207,623	90,917
2016	216,988	81,517
2017	226,776	71,693
Thereafter	<u>1,517,261</u>	<u>198,155</u>
	<u>\$ 2,738,024</u>	<u>\$ 663,704</u>

Interest expense related to capital lease obligations was approximately \$128,778 in 2012.

Operating Leases

The College leases buildings for use in its operations under operating lease agreement which expire at various times through August 2017. The agreements require the following minimum future annual lease payments as of August 31, 2012:

Year Ending August 31,	
2013	\$ 573,570
2014	573,570
2015	573,570
2016	573,570
2017	<u>573,570</u>
	<u>\$ 2,867,850</u>

Rental expense for 2012 was approximately \$551,000.

Broadband Channel Leases

The College has been authorized by the Federal Communications Commission to operate certain educational broadband channels. In 2006, the College leased the excess capacity of those educational broadband channels to a third-party communications company. The rental lease term was for 10 years, with two 10-year renewal periods for up to a maximum duration of 30 years. The College is the lessor under these agreements. Under the lease agreements, the College received one-time up-front payments totaling approximately \$1.5 million and will receive monthly payments of approximately \$4,000 per month from the lessee. The initial up-front payments are being amortized on a straight-line basis over the initial term of the leases.

12. LONG-TERM DEBT

A summary of changes in the County's long-term liabilities for the year ended December 31, 2012 is presented below:

	Balance 1/1/2012	Additions	Decreases	Balance 12/31/2012	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds ("GOB")	\$ 105,151,666	\$ 10,341,842	\$ 13,138,171	\$ 102,355,337	\$ 13,846,231
Premium on GOB	3,516,605	690,475	261,907	3,945,173	296,431
Tobacco Settlement Bonds (DTASC)	34,865,000	-	1,585,000	33,280,000	-
Discount	(1,402,355)	-	(75,742)	(1,326,613)	-
Subordinate turbo CABs (DTASC)	26,236,279	-	-	26,236,279	-
Total bonds payable	168,367,195	11,032,317	14,909,336	164,490,176	14,142,662
Accreted interest on CABs (DTASC)	12,978,817	2,685,551	-	15,664,368	-
Judgments and claims	29,763,979	2,765,556	1,818,636	30,710,899	-
Other post-employment benefits	96,829,905	31,040,375	8,197,668	119,672,612	-
Compensated absences	9,199,744	-	728,230	8,471,514	-
Environmental clean up	320,000	-	-	320,000	-
Total governmental activities	<u>\$ 317,459,640</u>	<u>\$ 47,523,799</u>	<u>\$ 25,653,870</u>	<u>\$ 339,329,569</u>	<u>\$ 14,142,662</u>
Business type activities:					
Bonds Payable:					
Airport bonds	\$ 4,208,652	\$ -	\$ 505,729	\$ 3,702,923	\$ 393,506
Transportation bonds	1,413,748	329,600	100,167	1,643,181	166,705
Total bonds payable	<u>\$ 5,622,400</u>	<u>\$ 329,600</u>	<u>\$ 605,896</u>	<u>\$ 5,346,104</u>	<u>\$ 560,211</u>
Compensated absences	42,160	-	7,290	34,870	-
Other post-employment benefits	688,880	233,759	28,932	893,707	-
Total business-type activities	<u>\$ 6,353,440</u>	<u>\$ 563,359</u>	<u>\$ 642,118</u>	<u>\$ 6,274,681</u>	<u>\$ 560,211</u>

Bond indebtedness—General obligation bonds of the County (not including the DTASC debt) are issued principally as serial bonds, which are due at various times through 2028. The bonds are issued primarily to finance acquisition or construction of capital facilities. Bonds have been issued to advance-refund previously issued bonds. These bonds are guaranteed by the full faith and credit of the County and are being repaid from applicable taxes. Principal and interest payments are included in the expenditures of the General Fund. The County has utilized 3.94% of its constitutional debt limit as of December 31, 2012.

Prior Years' Advanced Refundings—In June 1993, the County issued \$7.445 million in General Obligation Bonds with an average interest rate of 4.37 percent to advance refund \$6.525 million of outstanding 1988 Series bonds with an average interest rate of 7.26 percent. The net proceeds of \$7.373 million (after payment of \$118,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series bonds. As a result, the 1988 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$150,000 at December 31, 2012.

In August 2001, the County refunded its outstanding 1990 Series bonds of \$1,575,000, its 1994 Series bonds of \$5,370,000 and its 1995 Series bonds of \$8,905,000, carrying a weighted average interest rate of 5.64% with new debt of \$16,360,000 issued with a weighted average interest rate of 3.25%. The net proceeds of \$16,360,000 plus an additional \$439,000 premium from bond issuance and \$53,000 of County monies (net of \$130,000 of issuance costs and discount) were used to purchase U.S. Government Securities, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service for the 1990, 1994 and 1995 bonds. As a result, the bonds are considered to be defeased and the liabilities for these bonds have been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$2,445,000 at December 31, 2012. In May 2006, the County refunded its outstanding 1996 Public Improvement Bond of \$5,800,000, its 1997 Public Improvement Bond of \$1,500,000 and its 1998 Public Improvement Bond of \$2,920,000 carrying a weighted average interest rate of 5.07% with new debt of \$10,265,000 issued with a weighted average interest rate of 4.46%. The net proceeds of the \$10,265,000 were used to purchase U.S. Government Securities, which were placed in an irrevocable trust with an escrow agent to provide for all future debt service for the 1996, 1997 and 1998 bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the County's long-term liabilities. The balance of the defeased debt is approximately \$5,340,000 at December 31, 2012.

The County issued \$15,095,000 Public Improvement Refunding (Serial) Bonds, 2009 Series dated February 18, 2009. The series consisted of \$2.165 million Public Improvement (Serial) Bonds 2009, Series A, maturity date February 15, 2018; and \$12.930 million Public Improvement (Serial) Bonds, Series B, maturity date August 15, 2021. Their interest rates range from 3% to 4%. The 2009 bonds were issued to advance refund \$15,485,000 in Public Improvement (Serial) Bonds originally issued by the County as follows: \$2.24 million remaining from the \$8.55 million Public Improvement (Serial) Bonds, February 15, 1998, maturity date February 15, 2018 and \$13.24 million remaining from the \$29.85 million Public Improvement (Serial) Bonds, August 1, 2001, maturity date August 15, 2021. Their interest rates ranged between 4.875% and 4.00%. As a result of the refunding, the 1998 and 2001 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's long-term liabilities. The balance of the defeased debt is approximately \$9,090,000 at December 31, 2012.

During the year ended December 31, 2011, the County issued \$5,395,000 in Serial Bonds with an average interest rate of 4.2% per annum. These proceeds were used to advance refund \$5,750,000 of the 2003 public improvement serial bonds. The balance of the debt is \$5,330,000 at December 31, 2012.

In December 2012, the County issued \$10,671,442 in public improvements serial bonds of which \$10,341,842 and \$329,600 are for governmental activities and business-type activities, respectively. These bonds mature in 2032 and carry an annual interest rate that range from 2.0 – 4.0 percent. The proceeds will be used to finance various capital projects.

DTASC Debt

In 2003, DTASC issued \$47,815,000 of the New York Counties Tobacco Trust III Tobacco Settlement Pass-Through Bonds, Series 2003 pursuant to an indenture dated as of December 18, 2003. The issue value of the bonds was \$45,912,363, net of a bond discount of \$1,902,637. Proceeds of \$41,970,350 were paid to the County for deposit to an escrow fund as a purchase from the County of all of the County's right, title and interest, under the MSA and the Decree, including the Tobacco Settlement Revenues ("TSR").

The payment of the Series 2003 Term Bonds is dependent on the receipt of TSRs. The amount of TSRs actually collected is dependent on many factors including cigarette consumption and the continued operations of the OPMs. Such bonds are secured by and payable solely from TSRs and investment earnings pledged under the Bond Indenture and amounts established and held in accordance with the Bond Indenture. The Series 2003 Term Bonds are subject to "Turbo Redemptions", which represent the requirement contained in the Indenture to apply 100% of all collections that are in excess of the requirements in the Indenture for the funding of the operating expenses; interest, sinking fund installments, and term bond maturities; maintenance of the Liquidity Reserve Account; to the redemption of Series 2003 Term Bonds on each distribution date in ascending order of maturity. Such surplus collections will be deposited in an account established and maintained by the trustee under the Indenture (the Turbo Redemption Account). Turbo Redemptions will be credited against sinking fund installments for any particular Series 2003 Term Bonds in ascending order of sinking fund installment dates. Turbo Redemptions are not scheduled amortization payments are to be made only from surplus collections. In June 2012, DTASC made a Turbo Redemption payment of \$1,585,000.

In the event sufficient funds are not available to meet Planned Payment Maturities, Rated Maturity dates will be used.

Interest is payable on the Series 2003 Term Bonds on June 1 and December 1 of each year. Planned Principal Payments and Rate Maturities are scheduled only on June 1 of each year although principal could be paid semiannually if actual principal payments are slower than Planned Principal Payments. Failure to pay interest on the Series 2003 Term Bonds when due or principal of the Series 2003 Term Bonds when due on a Rated Maturity Date will constitute a default.

On November 15, 2005, DTASC participated in New York Counties Tobacco Trust V ("NYCTT"), along with 23 other New York County Tobacco Corporations, and issued Tobacco Settlement Pass-Through Bonds—Subordinate Turbo CABs in various series for the purpose of securitizing additional future tobacco settlement revenues. The proceeds of these bonds, \$25,500,000 (after the deduction of \$736,279 in bond issuance and underwriter costs), were used to purchase tobacco settlement rights from the County. The issuance has four components and payments on the Subordinate Turbo CABs are subordinate to the Series 2003 Term Bonds.

Changes in Tobacco Settlement Bonds, Series 2003, for the year ended December 31, 2012 is presented on the following page.

Description	Year of Maturity	Yield	Beginning Balance 1/1/2012	Additions	Deletions	Ending Balance 12/31/2012
Tobacco Settlement Bonds:						
Series 2003	2043	various	\$ 34,865,000	\$ -	\$ 1,585,000	\$ 33,280,000
Bond Discount			<u>(1,402,355)</u>	<u>-</u>	<u>(75,742)</u>	<u>(1,326,613)</u>
Net Tobacco Settlement Bonds			<u>\$ 33,462,645</u>	<u>\$ -</u>	<u>\$ 1,509,258</u>	<u>\$ 31,953,387</u>

DTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2003 are as follows:

Year ended December 31,	Principal	Interest	Total
2013	\$ -	\$ 1,975,775	\$ 1,975,775
2014	-	1,975,775	1,975,775
2015	-	1,975,775	1,975,775
2016	-	1,975,775	1,975,775
2017	-	1,975,775	1,975,775
2018-2022	-	9,878,875	9,878,875
2023-2027	-	9,878,875	9,878,875
2028-2032	6,720,000	9,011,487	15,731,487
2033-2037	9,805,000	6,575,838	16,380,838
2038-2042	13,510,000	3,103,800	16,613,800
2043	<u>3,245,000</u>	<u>97,350</u>	<u>3,342,350</u>
	<u>\$ 33,280,000</u>	<u>\$ 48,425,100</u>	<u>\$ 81,705,100</u>

Subordinate Turbo CABs—Interest on the Subordinate Turbo CABs is compounded semiannually on June 1 and December 1, but is not payable until bond maturity. Interest accretes until both principal and accreted interest are paid. Future interest accretion has been recorded as bond discount and amortized as the current interest accretes. The accreted interest on the Subordinate Turbo CABs is reflected within the Subordinate Turbo CABs payable liability.

A summary of the Subordinate Turbo CABs net bond balance activity for the year ended December 31, 2012 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2012	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2012
Subordinate Turbo CABs	6.00% - 7.85%	<u>\$ 26,236,279</u>	<u>\$ 39,215,096</u>	<u>\$ 2,685,551</u>	<u>\$ -</u>	<u>\$ 41,900,647</u>

Redemption of the Subordinate Turbo CABs consists of four installments, and will be due and payable on the maturity dates as presented below:

Series 2005 S1	June 1, 2038
Series 2005 S2	June 1, 2050
Series 2005 S3	June 1, 2055
Series 2005 4B	June 1, 2060

Claims and Judgments—The County is self-insured. Liabilities are established for workers' compensation and general claims in accordance with GASB requirements. At December 31, 2012, the County reported \$29,710,899 of workers' compensation liability and \$1,000,000 as general claims liability. Estimated long-term contingent loss liabilities in the governmental fund types have been reported as long-term liabilities in the government-wide financial statements. The Proprietary Fund has no loss contingency liability except worker's compensation which is only recognized when invoice from the County.

Environmental Clean Up— The results of the County's evaluation of their underground storage tank removal during 2009 concluded with an estimate of \$320,000 liability being recorded in the governmental activities of the government-wide financial statements.

Compensated Absences—Represents the value of earned and unused portion of the liability for compensated absences and is liquidated in various funds.

As of December 31, 2012, the County debt service requirements relating to bonds payable are as follows:

Year Ending December 31,	Governmental Activities		Total	Business-type Activities		
	General Obligation Bonds Principal	Interest		Principal	Interest	Total
2013	\$ 13,846,231	\$ 3,785,385	\$ 17,631,616	\$ 560,211	\$ 189,488	\$ 749,699
2014	13,240,973	3,333,578	16,574,551	529,027	172,547	701,574
2015	12,123,266	2,831,087	14,954,353	526,733	156,121	682,854
2016	9,562,269	2,393,493	11,955,762	527,731	137,188	664,919
2017	8,510,492	2,020,512	10,531,004	504,508	112,863	617,371
2018-2022	29,674,109	5,823,077	35,497,186	1,840,891	329,766	2,170,657
2023-2027	13,495,497	1,567,275	15,062,772	854,503	79,923	934,426
2028-2032	1,902,500	136,248	2,038,748	2,500	168	2,668
Total	<u>\$ 102,355,337</u>	<u>\$ 21,890,655</u>	<u>\$ 124,245,992</u>	<u>\$ 5,346,104</u>	<u>\$ 1,178,064</u>	<u>\$ 6,524,168</u>

A. Discretely presented component units

i) Dutchess Community College

The following table summarizes changes in the College's long-term liabilities for the year ended August 31, 2012:

	Balance September 1, 2011	Reclassifications	September 1, 2011, as restated	New Issues/ Additions	Maturities and/or Payments	Balance August 31, 2012	Due within one-year
Bonds Payable - Capital Projects:							
DASNY	\$ 20,281,812	\$ (20,281,812)	\$ -	\$ -	\$ -	\$ -	\$ -
Sponsor	11,573,758	(11,573,758)	-	-	-	-	-
Total Bonds Payable	<u>31,855,570</u>	<u>(31,855,570)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Lease Obligations	3,078,702	-	3,078,702	-	340,678	2,738,024	291,434
Other non-current liabilities							
Compensated Absences	2,666,896	-	2,666,896	199,197	267,000	2,599,093	260,000
Other Post Employment Benefit Obligations Payable	35,573,064	-	35,573,064	7,977,586	1,791,004	41,759,646	-
Total Long-Term Liabilities	<u>\$ 73,174,232</u>	<u>\$ (31,855,570)</u>	<u>\$ 41,318,662</u>	<u>\$ 8,176,783</u>	<u>\$ 2,398,682</u>	<u>\$ 47,096,763</u>	<u>\$ 551,434</u>

In addition to the College, its component unit, the Association reported a long-term mortgage payable in the amount of \$21,969,746 as of August 31, 2012.

ii) Dutchess County Resource Recovery Agency

Bond Terms

1999 A and 2007 Tax-Exempt Forward Series

In October 1999 the Agency issued the 1999 A Series Bonds in the amount of \$31,210,000, the proceeds of which were used to refund the 1998 A Series Bonds. The 1998 A Series Bonds, which were subject to a mandatory call and optional redemption on November 15, 1999, were called and payment of \$31,200,000 in principal and \$688,671 in interest was made.

In November 2007, the Agency issued the 2007 Series Bonds in the amount of \$16,140,000 to permanently finance the Agency’s plant improvements to be in compliance with the standards set forth by the U.S. Environmental Protection Agency (E.P.A.).

The 1999, and 2007 Series Bonds are payable from and secured by an express lien on the unexpended proceeds of the bonds held by the Trustee; the Agency’s right to receive and/or enforce receipt of revenues; and the Agency’s rights and remedies under certain agreements. In addition, the Agency is required to fulfill certain covenants as described below.

Bonds payable, with interest payable semiannually on January 1, and July 1, consist of the following as of December 31, 2012:

Interest Rate	Issue Date	Maturity Date	Outstanding December 31, 2012
Serial Bonds			
5.40%	1999	2013	\$ 3,410,000
5.45%	1999	2014	3,595,000
5.00%	2007	2015	925,000
5.00%	2007	2016	975,000
5.00%	2007	2017	1,020,000
5.00%	2007	2018	1,070,000
5.00%	2007	2019	1,125,000
4.25%	2007	2020	1,180,000
4.25%	2007	2021	1,230,000
4.25%	2007	2022	1,285,000
4.50%	2007	2023	1,340,000
4.50%	2007	2024	1,400,000
4.50%	2007	2025	1,465,000
4.50%	2007	2026	1,530,000
4.50%	2007	2027	1,595,000
			<u>23,145,000</u>
			Less: Current Portion
			<u>(3,410,000)</u>
			<u>\$ 19,735,000</u>

Annual amortization and sinking fund requirements for Bonds Payable are as follows:

Year ended December 31,	Principal	Interest	Total
2013	\$ 3,410,000	\$ 1,030,636	\$ 4,440,636
2014	3,595,000	840,602	4,435,602
2015	925,000	719,513	1,644,513
2016	975,000	672,013	1,647,013
2017	1,020,000	622,138	1,642,138
2018-2022	5,890,000	2,314,470	8,204,470
2023-2027	7,330,000	853,427	8,183,427
	<u>\$ 23,145,000</u>	<u>\$ 7,052,799</u>	<u>\$ 30,197,799</u>

Bond Covenants

The Agency has covenanted under the indenture that operating revenues earned from the disposal of solid waste at the plant plus investment earnings will equal or exceed the sum of (i) all operating expenses of the Agency contained in the budget for such bond year, (ii) an amount equal to 110% of the debt service requirement for such bond year and (iii) amounts, if any, necessary to fund the debt service reserve fund to the debt service reserve requirement or to fund the reserve and contingency fund to the reserve and contingency fund requirement.

The Agency must obtain additional certifications regarding events of default occurring, landfill capacity and the quantity of waste processed. The Agency must maintain various accounts, described as restricted assets, which are subject to minimum funding requirements. At December 31, 2012 these debt service reserves exceeded their funding requirements.

iii) Dutchess County Water and Wastewater Authority

Bonds Payable

The Authority issues revenue bonds to finance the acquisition of systems and the cost of the capital renovations to those systems and to pay costs of issuance. Such debt has been issued under the following authorizations:

Trust Indenture

As of June 1, 1995 the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. This trust indenture was amended in 2007 to authorize debt issued for Part Country Server Districts # 1 and 2. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below.

Special Bond Resolution

As of September 30, 1997 the Authority adopted a special bond resolution authorizing debt to be sold at private sale for the purpose of acquiring a privately held water system.

Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2012 are as follows:

2013	\$ 1,955,000	\$ 901,327	\$ 2,856,327
2014	1,990,000	858,297	2,848,297
2015	2,070,000	807,594	2,877,594
2016	2,055,000	746,377	2,801,377
2017	2,105,000	679,956	2,784,956
2018-2022	8,791,295	5,750,629	14,541,924
2023-2027	5,884,909	7,968,732	13,853,641
2028-2032	3,230,675	5,175,974	8,406,649
2033-2037	1,819,859	3,547,016	5,366,875
2038-2042	777,013	1,881,224	2,658,237
	<u>\$ 30,678,751</u>	<u>\$ 28,317,126</u>	<u>\$ 58,995,877</u>

Advance Refunding and Defeasance of Debt

In July 2002, the Authority refinanced a portion of the 2001 Series (Zone D project) and a portion of the 1999 Series (Water Pollution Control) bonds in transactions accounted for as advance refunding of debt. The Authority defeased bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. As of December 31, 2011, the bonds were called and paid from the escrow funds.

In July 2011, the Authority participated in a refinancing initiated by the New York State Environmental Facilities Corporation on behalf of the municipalities that participated in the State Drinking Water and Clean Water Revolving Funds Series 2002G, amounting to \$2,340,000. A net present value savings of \$203,036 over the life of the new debt resulted from the refinancing transactions.

General Bond Resolution

As of June 1, 1998 the Authority adopted a General Bond Resolution which enabled the Authority to issue additional debt pursuant to supplemental resolutions without having to modify the form or general terms of the debt, referred to as additional parity debt. The Authority has issued eleven supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001, 2004 and two issues during 2002, 2007 and 2008, and one debt issue in 2009, 2010 and 2011.

As of August 1, 2004, the Authority adopted a general bond resolution pertaining to the Part County Sewer District No. 3, which enabled it to issue bonds to finance the purchase of Dalton Farms Sewer System.

Description

Debt issued under the above listed authorizations as of December 31, 2012 is presented on the following page.

	<u>2012</u>
New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 2005D, due in various installments through 2015, interest 3.70%-5.55%	\$ 175,000
1998 Revenue Bonds (Zero Coupon) Series One, due in various installments starting in 2021 through 2029, interest 3.90%-5.40%	3,817,818
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	440,000
2001 Service Agreement Revenue (Refunding) Bond Series 2001, due in various installment through 2041, interest 3.00%-5.36% - Partially refunded in 2002 as described below.	1,198,409
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,440,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,530,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%	1,725,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%	330,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	6,645,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments starting in 2030 through 2039, interest 5.62%-5.96%	1,347,524
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Recolcing Fund Revenue (Refunding) Bond Series 2010C, due in various installments through 2019, interest .8450%-3.355%	8,150,000
New York State Environmental Facilities Corporation State Drinking Water Recolcing Fund Revenue (Refunding) Bond Series 2011C, due in various installments through 2023, interest .540%-3.165%	1,975,000
2011 Service Agreement Revenue Bond Series 2011, due in various installments starting in 2012 through 2041, interest 3.50%-4.25%	1,905,000
Total Bonds Payable	30,678,751
Accreted Interest Recorded on Zero Coupon Bonds	<u>5,333,055</u>
Total Bonded Debt Payable	36,011,806
Portion due within one year	<u>(1,955,000)</u>
New Long Term Debt Payable	<u>\$ 34,056,806</u>

	Balance	New Issues/ Additions**	Maturities and/or Payments	Balance	Due Within One Year
	<u>January 1, 2012</u>			<u>December 31, 2012</u>	
Bonds Payable	\$ 37,376,854	\$ 554,952	\$ (1,920,000)	\$ 36,011,806	\$ 1,955,000
OPEB Liability	<u>775,500</u>	<u>168,375</u>	<u>-</u>	<u>943,875</u>	<u>-</u>
	<u>\$ 38,152,354</u>	<u>\$ 723,327</u>	<u>\$ (1,920,000)</u>	<u>\$ 36,955,681</u>	<u>\$ 1,955,000</u>

**Bonds payable increased by \$554,952 in adjustments for accreted interest on 1998 series one, 2001 debt, and 2009 debt.

Bond Covenants

The Authority has agreed to maintain dedicated sources of revenues with respect to the projects financed in accordance with the State Act and in amounts such that the revenues of the Authority with respect to the financial projects shall be sufficient, together with all other funds available to the Authority for cash purposes, to pay all costs of operating and maintaining the projects and to pay principal and interest requirements. The bonds payable are special obligations of the Authority, collateralized by the assets of the Authority and to be amortized solely from the revenues of the Authority.

The Authority has pledged its revenues, subject to the right to pay operating expenses, its interest in its Service Agreement with Dutchess County, its interest in cash and investments held by the Bond Trustee and any other property subsequently pledged.

In addition to pledging its revenues and other rights as described above, the Authority made certain covenants including that it will fix, charge and collect water rates together with other Authority revenues in amounts sufficient to provide for operating expenses as included in the Authority’s budget. The Authority also pledges to maintain, in full force and effect, the service agreement with Dutchess County, as is further described in Note 16 – Commitments and Contingencies.

13. NET POSITION AND FUND BALANCE

A. Net Position—The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Capital assets, net of accumulated depreciation	\$ 170,055,503
Intangible asset, net of amortization	9,053,405
Related debt:	
Serial bonds issued	(160,545,003)
Serial bonds issued on behalf of Dutchess Community College	8,913,000
Unspent proceeds reported within the Capital Projects Fund	<u>13,441,691</u>
Debt issued for capital assets	<u>(138,190,312)</u>
Net investment in capital assets	<u>\$ 40,918,596</u>

- **Restricted**—This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- **Unrestricted**—This category represents net assets of the County not restricted for any project or other purpose.

B. Fund Balance—GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (“GASB 54”). This Statement defines the different types of fund balances that

a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance to be properly reported within one of the fund balance categories listed below.

Nonspendable—Amount of assets that cannot be spent in the current period because of their form or because they must be maintained intact. As of December 31, 2012, the County had \$5,316,142 of prepaid expenses and \$85,262 of inventory that were classified as nonspendable funds.

Restricted—Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. As of December 31, 2012, the County had the restricted funds listed below.

	General Fund	DTASC Fund	Total
Restricted for:			
Workers' compensation	\$ 3,725,657	\$ -	\$ 3,725,657
Self insurance	1,444,637	-	1,444,637
Capital projects	4,567	-	4,567
Debt service	2,477,325	3,493,906	5,971,231
Other	238,463	-	238,463
Total restricted fund balance	<u>\$ 7,890,649</u>	<u>\$ 3,493,906</u>	<u>\$ 11,384,555</u>

Committed—Amounts that are subject to a purpose constraint imposed by a formal action of the County's highest level of decision-making authority, or by their designated body or official. As of December 31, 2012, the County had no committed fund balance at year end.

Assigned—Amounts that are subject to a purpose constraint that represents an intended use established by the County's Board of Legislators, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. As of December 31, 2012, the following balances were considered to be assigned:

	General Fund	Capital Projects Fund	DTASC Fund	Other Governmental Funds	Total
Assigned for:					
Encumbrances	\$ 14,860,778	\$ -	\$ -	\$ -	\$ 14,860,778
Assigned to workers' compensation	1,149,980	-			1,149,980
Appropriated for subsequent years' expenditures	6,400,000	-	-	950,000	7,350,000
Assigned to capital projects	-	26,582,016	-	-	26,582,016
Assigned to DTASC			39,317		
Assigned to community development	-	-	-	69,363	69,363
Assigned to county road	-	-	-	1,467,464	1,467,464
Assigned to road machinery	-	-	-	195,688	195,688
Total assigned fund balance	<u>\$ 22,410,758</u>	<u>\$ 26,582,016</u>	<u>\$ 39,317</u>	<u>\$ 2,682,515</u>	<u>\$ 51,714,606</u>

The County considers encumbrances significant if they are in excess of \$1,000,000. As of December 31, 2012, there were the following significant encumbrances:

Department of Health - Pre-school - General Fund	\$ 1,328,349
Department of Social Services - CSE Placement - General Fund	1,409,813
Department of Social Services - Instructional care - General Fund	2,000,000
Department of Social Services - State Training School - General Fund	2,231,725

Unassigned—Represents the residual classification of the government’s General Fund, and could report a surplus or deficit. As of December 31, 2012 the unassigned fund balance totaled \$12,072,960.

Order of Fund Balance Spending Policy—The County’s policy is to expend fund balances in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

14. RELATED PARTY TRANSACTIONS

The following schedule presents significant transactions between the primary government and its component units during the year ended December 31, 2012:

	Component Unit	Nature of Transaction
Dutchess County Community College	\$ 10,837,898	Operating and capital support
Dutchess County Resource Recovery Agency	4,138,682	Net service fee
Dutchess County Water and Wastewater Authority	2,797,085	Net service fee
Aggregated Non-major Component Units	<u>239,377</u>	Charges for services
	<u>\$ 18,013,042</u>	

The County paid economic support to the above component units based on contractual obligations between the parties (see Note 16).

There was one related party payable that is included in due to other governments on the County’s financial statements. This is due to the Resource Recovery Agency for \$1,204,974.

A. Discretely Presented Component Units:

i) Dutchess County Resource Recovery Agency:

Dutchess County is responsible for net service fees due to the Agency. These fees amounted to \$4,138,682 and \$3,644,079 during 2012 and 2011, respectively. At December 31, 2012 and 2011, \$1,201,974 and \$785,651 was due from Dutchess County and included in due from related party.

During 2012 and 2011, the Agency participated in the health and dental insurance plan administered by Dutchess County and was charged \$140,578 and \$122,637 respectively.

In addition, Dutchess County allows the Agency to use the building designated for the Dutchess County Materials Recovery Facility rent-free. The Agency has been responsible for the repairs and maintenance on the building. The Agency discontinued operations at the plant as of December 31, 2012.

ii) Dutchess County Water and Wastewater Authority:

The Authority has entered into service agreements with Dutchess County for the Water District and Part Country Sewer Districts to provide water and/or sewer services and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the years ended 2012 and 2011, the Authority recorded net revenues of \$2,797,085 and \$2,730,392, having recorded a return of \$37,672 (including savings on debt re-financing) and \$102,695 to the County during those years. Of those amounts, \$0 and \$22 was due to the County at each respective year-end. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

15. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All interfund balances are expected to be collected/paid within the subsequent year. Interfund transfers are routine annual events for both the budget and accounting process and are necessary to present funds in their proper fund classification.

Interfund receivables, payables, and transfers of the County as of, and for the year ended December 31, 2012 are presented below:

Fund	Interfund			
	Receivables	Payables	Transfers In	Transfers Out
Governmental Activities:				
General Fund	\$ 1,265,497	\$ -	\$ 1,626,394	\$ 2,173,872
Capital Projects Fund	-	1,172,460	-	1,006,856
Total	<u>1,265,497</u>	<u>1,172,460</u>	<u>\$ 1,626,394</u>	<u>\$ 3,180,728</u>
Business-type activities:				
Airport Fund	-	48,907	866,138	890
Transportation Fund	-	44,130	1,577,986	888,900
Total	<u>-</u>	<u>93,037</u>	<u>2,444,124</u>	<u>889,790</u>
Total primary government	<u>\$ 1,265,497</u>	<u>\$ 1,265,497</u>	<u>\$ 4,070,518</u>	<u>\$ 4,070,518</u>

16. COMMITMENTS AND CONTINGENCIES

Grant Programs

The County participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

Litigation

The County is a defendant in a number of lawsuits. In the opinion of the County Attorney, after considering all relevant facts, such litigation will not in the aggregate have a material adverse effect on the financial position or results of operations of the County. The County has an accrued liability of \$1,000,000 included in the judgments and claims in the government wide financial statements. This estimate is based upon assessments of individual cases reported at December 31, 2012 for which the estimate of possible exposure is a range between \$1,000,000 and \$4,000,000.

Commitments

The County had the following outstanding construction projects in progress as of December 31, 2012, as evidenced by contractual commitments.

<u>Project</u>	<u>Commitment Remaining</u>
Transportation	\$ 292,672
County roads and bridges	5,787,163
Parks and recreation	2,709,492
Building and building improvements	760,731
Highway equipment	6,078
Jail security system	2,270,989
Medical Examiner facility	1,637,383
Nelson house demolition	965,051
	<u>\$ 14,429,559</u>

In 2006, the County entered into the Dutchess Utility Corridor Contract with Dutchess County Water and Wastewater Authority. The contract requires Dutchess County to provide \$10,375,000 to the Authority to pay for certain project costs. The County, in exchange, will receive the rights to utilize 50% of the capacity of the new system and be paid a service fee by the Authority for its usage of the line in conjunction with their operations. At December 31, 2012, the County has provided \$9,053,405 to the Authority which is reflected as "Other Assets" in the Statement of Net Position. The project is being amortized on a straight-line basis over the next 40 years with amortization expense of \$274,570 in 2012.

Economic Support for Component Units

The County is responsible to pay economic support to the Dutchess County Resource Recovery Agency and the Dutchess County Water and Wastewater Authority based on contracted formulas when revenues at these component units are insufficient to cover their operating expenses and debt service requirements.

The County is required by New York State Education Law to pay to Dutchess Community College a portion of the college's operating costs for nonresident students. This amount is determined based on the rate reported by the State of New York.

A. Discretely Presented Component Units

i) Dutchess Community College

Litigation

The College is a defendant in several lawsuits. While the outcome of these lawsuits or other proceedings against the College cannot be predicted with certainty, the College does not expect that these matters will have a material adverse effect on its financial position.

State and Federal Grant Programs and State Aid

The College participates in various State and Federal grant programs. These programs are subject to program compliance audits by the grantors or their representative. The audits of these programs are an on-going process and many have not yet been conducted or completed. Accordingly, the College's compliance with applicable grant requirements will be established at a future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the College anticipates such amounts, if any, will not be material. The College's Federal compliance audit under OMS Circular A-133 is performed in conjunction with the audit of the Sponsor and is included in the Sponsor's report.

The College is subject to audits of State aid by New York State. The amount of aid previously paid to the College which may be disallowed cannot be determined at this time, although the College anticipates such amounts, if any, to be immaterial.

Rate Adjustment – Operating Chargebacks

The College is authorized by the New York State Education Law to charge and collect from each county within the State for each nonresident student an allocable portion of the operating costs of the College. The College calculates this charge on a yearly basis and bills the respective counties at this rate. This rate is adjusted by the State on a two year lag period.

ii) Dutchess County Resource Recovery Agency

Solid Waste Disposal Service Agreement

The Agency and Dutchess County entered into a solid waste disposal service agreement dated December 1, 1984, amended September 20, 1990 and September 1993. The County agreed to deliver at least 140,000 tons per year of solid waste to the plant and to pay net service fees to the Agency amounting to the excess of payments for debt service and reserves, fees to the contractor and accrued expenses over tipping fees, energy and other revenues. It is the Agency's obligation to process and to provide for disposal of the solid waste. The terms of the agreement were extended during 2007 to remain in effect through July 1, 2027.

Operations Service Agreement

The Agency has entered into an operations service agreement, with a commercial corporation wherein the corporation has agreed to operate the resource recovery plant, and the Agency is required to provide the plant with a guaranteed amount of solid waste, provide an ash landfill, and pay fees to the corporation. The agreement is to be in effect through June 2014.

The Agency has contracted to pay to the corporation \$34 per net ton of solid waste processed, adjusted based upon changes in labor and material price indexes, 15% of revenues from energy sales and 50% of revenues from energy sales in excess of agreed-upon levels, and, after meeting certain stream production levels, additional compensation based on 15% of the related electrical energy sales. In addition, the Agency has contracted to pay utilities, insurance and certain other expenses pertaining to plant operations subject to certain maximum levels.

In addition, the Agency is required to pay the corporation \$500,000 per year, plus an adjustment for price index increases to reimburse the corporation for repairs and replacement of major components of the plant.

The Agency's current operating permit allows for up to 164,000 tons to be delivered to the plant. However, the Agency is required to supply the corporation with a minimum of 140,000 tons or pay the corporation \$34 a ton for each ton of solid waste below that amount which is not delivered to the plant adjusted based upon changes in labor and material price indexes. However, during 2012 and 2011, the Agency caused to have delivered 142,584 and 141,563 acceptable tons.

Power Sales Agreement

The Agency and a commercial corporation have entered into a power sales agreement dated November 1, 1984. The Agency agrees to sell all electricity produced by the plant in excess of its own requirements to the corporation at a price based on tariffs filed with the New York State Public Service Commission. The terms of the agreement are effective through January 1, 2008 and include provisions for an automatic renewal for two consecutive 5-year periods.

Transportation of Ash Residue and Non-processable Waste

Effective January 2, 1999, the Agency executed a contract with a commercial corporation for the transportation of ash residue and non-processable waste to a municipal landfill for the period of January 2, 1999 through December 31, 2001 for incineration residue up to 40,000 tons per year, and up to 6,000 tons for unprocessed waste per year. The contract has continued in effect through report date on similar terms.

Commencing in November 2004, the Agency executed an amendment to the contract that the commercial corporation shall deliver up to 10,000 tons per year at a cost of \$25 per ton to an alternate landfill site.

Landfill Agreement

As of January 2008, the Agency entered into contracts with four different landfills to deliver ash residue and by-pass waste. Three of the contracts with the landfills are five year agreements which expire on December 31, 2012. The fourth contract expired on December

31, 2011 and was extended for a term of one year, from January 1, 2012 to December 31, 2012. The terms of these agreements vary based on amount of tons that can be delivered to each landfill and the cost per ton. Effective January 1, 2013, the Agency entered into a contract with a hauler and a landfill for the transportation and disposal of ash residue. The contract period is through June 30, 2014 with provisions for renewal at the Agency's option for four one year periods and provisions for fee increases accordingly.

and has been renewed/extended for a term of one year, from January 1, 2012 to December 31, 2012. The terms of these agreements vary based on amount of tons that can be delivered to each landfill and the cost per ton.

Recyclable Processing Agreement

The Agency and Dutchess County entered into a revised recyclable processing agreement dated February 1, 1999. The County agreed to deliver at least 125 tons per week of uncontaminated recyclable materials to the Materials Recovery Facility, and it is the Agency's obligation to accept, process, and market recyclable materials. The Agency shall have the right to charge the County and the County shall have the obligation to pay the Agency net processing fees, as defined in the contract. The original terms of the agreement were in effect through December 2002, but include provisions for automatic renewal in five-year increments.

Materials Recovery Facility Project Agreement

The Agency entered into an agreement through December 31, 2008, with a commercial corporation to operate its materials recovery facility. This agreement has been extended on a month to month basis through June 2011. The Agency provided the plant with commingled and source separated recyclable materials, provided the removal and disposal of rejected materials, and paid to the corporation service fees to operate the facility \$0 and \$151,085, respectively, for the years ending December 31, 2012 and 2011. Effective June 30, 2011 through December 31, 2012, all recyclable materials received are transferred to the corporation's facility. The Agency is responsible for scale functions and receives a per ton fee effective June 30, 2011, payment of service fees has been eliminated and is no longer required.

Economic Dependency

The Agency is entitled to receive net service fees from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover operating expenses and debt service requirements. Although these payments are subject to resolutions by the Dutchess County Legislature approving the appropriation, no approvals have been withheld by the Legislature. For the year ended 2012 and 2011, the Agency recorded net service revenue of \$4,138,682 and \$3,644,079.

Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility. The 360 Operating permit expired in July 2011 and the Title V Air Control permit expired in September 2011. Applications to renew each permit were submitted to the New York State Department of Environmental Conservation (NYSDEC) prior to their expiration. The Title V Air Control permit has been renewed and runs through

September 2016. The 360 Operating permit is pending NYSDEC approval of a Local Solid Waste Management Plan, which is to be submitted by Dutchess County.

Operations Service Agreement

The Agency is in the process of finalizing its 2008, 2009, 2010, 2011 and 2012 annual engineer reports with the corporation that is operating the resource recovery plant. Certain amounts and calculations from the final engineer reports may vary from those originally prepared based on continuing negotiations between the Agency and the corporation. The Agency has classified certain receivables and payables related to the reconciliations performed by the engineer as long-term, as payment is not expected in the near-term.

iii) Dutchess County Water and Wastewater Authority

The Authority is subject to various litigation and claims arising out of the course of its operations. While the results of the lawsuits cannot be predicted with certainty, management does not believe these matters will have an adverse effect on the Authority's overall financial position.

The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. 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. The Authority has purchased insurance with limits as follows: umbrella coverage of \$20,000,000, business auto of \$1,000,000, general liability of \$3,000,000, property of \$37,096,826 and workers compensation of \$100,000.

Authorized Debt

In February 2004, the Authority authorized the issuance of up to \$625,000 in debt to fund renovations to the Fairview Pump Station. These renovations are part of the improvements needed to supply increased transmission capacity to the Dutchess Central Utility Corridor pipeline described above. No debt has been issued under this authorization, and current plans provide for the use of Corridor funds instead.

Economic Dependency

The Authority has entered into a service agreement with Dutchess County for the Water District and Part County Sewer Districts to provide water and/or sewer services and receive a service fee from Dutchess County based on a contractual formula, generally when revenues are insufficient to cover certain operating expenses and debt service requirements. The Authority also receives payments from Dutchess County for the completion of certain consulting projects. Although these payments are subject to budgetary resolutions by the Dutchess County Legislature for approval, no approvals have been withheld by the Legislature. For the years ended 2012 and 2011, the Authority recorded net revenues of \$2,797,082 and \$2,730,392, having recorded a return of \$37,672 (including savings on debt re-financing) and \$102,695 to the County during those years. Of those amounts, \$0 and \$22 was due to the County at each respective year-end. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 9, 2013, which is the date the financial statements are available for issuance, and have determined, except as described below, there are no subsequent events that require disclosure under generally accepted accounting principles.

In June 2013 a new Sales and Use Tax Distribution Agreement was reached between the County and the cities of Beacon and Poughkeepsie.

The agreement for sales and use tax distribution is for 2013-2022. It provides for a \$25 million to be distributed annually to the two cities and remaining towns and villages. It provides for the City of Poughkeepsie to receive \$9,566,212 and the City of Beacon to receive \$4,158,686 annually. The remaining \$11,275,102 is distributed to the towns and villages outside the two Cities pursuant to the provisions of Section 1262(c) of the Tax Law annually.

In addition, the County shall allocate on an annual basis, an additional sum of money derived from “growth” in the net collections of Sales and Use Tax. The “growth” shall be determined annually as the difference in the net collections realized by the County for 2013 and each succeeding fiscal year, less the net collections realized by the County for its 2012 fiscal year.

REQUIRED SUPPLEMENTAL
INFORMATION

COUNTY OF DUTCHESS, NEW YORK
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	98,127,415	101,056,872	100,423,214	(633,658)
Sales and use taxes (includes other taxes)	137,639,554	168,305,976	169,858,218	1,552,242
Departmental income	26,303,559	26,384,196	26,789,009	404,813
Use of money and property	883,885	883,885	987,730	103,845
Miscellaneous	5,110,138	5,138,511	8,632,246	3,493,735
Grants and aid	93,882,229	96,253,255	104,733,642	8,480,387
Self insurance (reclassified to departmental, misc.)	2,336,490	2,336,490	-	(2,336,490)
Total revenues	<u>364,283,270</u>	<u>400,359,185</u>	<u>411,424,059</u>	<u>11,064,874</u>
EXPENDITURES				
Current:				
General government support	36,498,196	69,177,693	65,658,913	3,518,780
Education	12,997,208	13,066,215	13,065,156	1,059
Public safety	56,680,384	60,505,467	57,571,889	2,933,578
Health	59,377,356	59,722,312	53,349,045	6,373,267
Transportation	2,701,560	2,712,623	2,712,623	-
Economic assistance and opportunity	140,788,488	140,176,255	133,169,702	7,006,553
Culture and recreation	2,108,780	2,123,639	1,923,276	200,363
Home and community services	7,405,299	7,405,077	9,308,710	(1,903,633)
Employee benefits	56,850,584	57,204,109	55,018,848	2,185,261
Debt service:				
Principal	13,079,611	13,138,172	13,138,171	1
Interest	4,147,098	4,088,537	3,940,803	147,734
Self insurance	2,336,490	2,336,490	-	2,336,490
Transfers out	-	-	-	-
Total expenditures	<u>394,971,054</u>	<u>431,656,589</u>	<u>408,857,136</u>	<u>20,315,228</u>
Excess (deficiency) of revenues over expenditures	<u>(30,687,784)</u>	<u>(31,297,404)</u>	<u>2,566,923</u>	<u>33,864,327</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	1,626,394	1,626,394
Transfers out	(1,452,538)	(1,523,872)	(2,173,872)	(650,000)
Total other financing sources (uses)	<u>(1,452,538)</u>	<u>(1,523,872)</u>	<u>(547,478)</u>	<u>976,394</u>
Net change in fund balance	(32,140,322)	(32,821,276)	2,019,445	
Fund balances—beginning, as restated	<u>45,464,389</u>	<u>45,464,389</u>	<u>45,464,389</u>	
Fund balances—ending	<u>\$ 13,324,067</u>	<u>\$ 12,643,113</u>	<u>\$ 47,483,834</u>	

The notes to the Required Supplementary Information are an integral part of this statement.

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**FEDERAL AWARD
SCHEDULES AND REPORTS**

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures	
U.S. DEPARTMENT OF AGRICULTURE				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	U.S. Department of Agriculture	\$ 2,048,828	
Healthy Communities Grant	10.583	U.S. Department of Agriculture	<u>1,977</u>	
TOTAL U.S. DEPARTMENT OF AGRICULTURE				\$ 2,050,805
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Community Development Block Grant—Entitlement Grant	14.218	U.S. Department of Housing and Urban Development	486,358	
HUD Shelter Plus Care	14.238	U.S. Department of Housing and Urban Development	431,763	
HOME Investment Partnerships Program	14.239	U.S. Department of Housing and Urban Development	1,888,426	
Homeless Prevention - ARRA	14.257	U.S. Department of Housing and Urban Development	<u>18,185</u>	
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				2,824,732
U.S. DEPARTMENT OF JUSTICE				
Violence Against Women Formula Grant	16.588	NY State Division of Criminal Justice Services	76,530	
State Criminal Alien Assistance Program	16.606	U.S. Department of Justice	115,815	
Bulletproof Vest Partnership Program	16.607	U.S. Department of Justice	448	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	NY State Division of Criminal Justice Services	<u>11,410</u>	
TOTAL U.S. DEPARTMENT OF JUSTICE				204,203
U.S. DEPARTMENT OF LABOR				
Trade Adjustment Assistance	17.245	NY State Department of Labor	70,785	
<i>Workforce Investment cluster:</i>				
WIA—Adult Program	17.258	NY State Department of Labor	605,696	
WIA—Youth Activities	17.259	NY State Department of Labor	621,751	
WIA—National Emergency Grant	17.277	NY State Department of Labor	863,016	
WIA—Dislocated Workers	17.278	NY State Department of Labor	<u>564,637</u>	
<i>Total Workforce Investment cluster</i>				
TOTAL U.S. DEPARTMENT OF LABOR			<u>2,655,100</u>	2,725,885

(continued)

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures	
U.S. DEPARTMENT OF TRANSPORTATION				
Airport Improvement Program	20.106	U.S. Department of Transportation		1,005,086
Highway Planning and Construction	20.205	NY State Department of Transportation	2,727,598	
Highway Planning and Construction - ARRA	20.205	NY State Department of Transportation	<u>680,220</u>	
<i>Total Highway Planning and Construction</i>				3,407,818
Federal Transit Capital Investment Grants	20.500	U.S. Department of Transportation		2,500,101
Federal Transit Metropolitan Planning Grants	20.505	NY State Department of Transportation		566,488
Formula Grants for Other than Urbanized Areas	20.509	U.S. Department of Transportation		77,000
New Freedom Program	20.521	U.S. Department of Transportation		89,433
<i>Highway Safety cluster:</i>				
State and Community Highway Safety	20.600	NY State Department of Transportation	105,430	
State and Community Highway Safety	20.600	NY State Department of Transportation	<u>87,844</u>	
<i>Total Highway Safety cluster</i>				193,274
Occupant Protection	20.602	NY State Department of Transportation		15,094
Safety Incentive Grants for Use of Seatbelts	20.604	NY State Department of Transportation		<u>17,644</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				7,871,938
NATIONAL SCIENCE FOUNDATION				
Ecology of Infectious Diseases - Anaplasma Grant	47.047	National Science Foundation		<u>6,083</u>
TOTAL U.S. DEPARTMENT OF EDUCATION				6,083
U.S. DEPARTMENT OF EDUCATION				
Special Education—Grants for Infants and Families	84.181	NY State Department of Health		<u>179,852</u>
TOTAL U.S. DEPARTMENT OF EDUCATION				179,852
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Medical Reserve Corps	93.008	U.S. Department of Health and Human Services		5,000
Special Programs for Aging , Title III , Part D	93.043	NY State Office for the Aging		14,500
Special Programs for Aging, Title IV & Title II Discretionary Grants	93.048	NY State Office for the Aging		37,879
<i>Aging Cluster</i>				
Special Programs for Aging, Title III, Part B	93.044	NY State Office for the Aging	303,406	
Special Programs for Aging, Title III, Part C	93.045	NY State Office for the Aging	385,868	
Nutrition Services Incentive Program	93.053	NY State Office for the Aging	<u>97,842</u>	
<i>Total Aging Cluster:</i>				787,116
National Family Caregiver Support Title III, Part E	93.052	NY State Office for the Aging		110,997
Public Health Emergency Preparedness	93.069	NY State Department of Health		158,353
Medicare Enrollment Assistance Program	93.071	NY State Office for the Aging		12,611
Immunization Grants	93.268	NY State Department of Health		45,412

(continued)

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Federal Expenditures	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Temporary Assistance to Needy Families (TANF)	93.558	NY State Office of Temporary and Disability Assistance	9,477,568	
Child Support Enforcement, Title IV-D	93.563	NY State Office of Temporary and Disability Assistance	1,120,602	
Child Support Enforcement, Title IV-D - ARRA	93.563	NY State Office of Temporary and Disability Assistance	<u>358,688</u>	
<i>Total Child Support Enforcement:</i>			1,479,290	
Low Income Home Energy Assistance (HEAP)	93.568	NY State Office of Temporary and Disability Assistance	5,409,020	
Voting Access for Individuals with Disabilities	93.617	NY State Board of Elections	11,119	
Foster Care - Title IV-E	93.658	NY State Office of Children and Family Services	3,870,012	
Adoption Assistance - ARRA	93.659	NY State Office of Children and Family Services	99,297	
Social Services Block Grant	93.667	NY State Office of Temporary and Disability Assistance	4,511,002	
Chafee Foster Care Independent Living	93.674	NY State Office of Children and Family Services	45,240	
Medical Assistance Program	93.778	NY State Office of Mental Health	3,563,888	
Centers for Medicare and Medical Services (CMS)	93.779	NY State Office for the Aging	37,327	
HIV Emergency Relief Formula Grants	93.917	U.S. Department of Health and Human Services	498,592	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	NY State Division of Alcoholism and Alcohol Abuse	206,247	
Maternal and Child Health Services Block Grant	93.994	NY State Department of Health	71,120	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				30,451,590
U.S. DEPARTMENT OF HOMELAND SECURITY				
Disaster Grants - Public Assistance	97.036	NY State Office Division of Homeland Security and Emergency Services	31,453	
Disaster Grants - Public Assistance	97.036	NY State Office Division of Homeland Security and Emergency Services	<u>64,043</u>	
<i>Total Disaster Grants - Public Assistance</i>			95,496	
Emergency Management Performance Grant	97.042	NY State Office Division of Homeland Security and Emergency Services	112,547	
Homeland Security Grant Program	97.067	NY State Office Division of Homeland Security and Emergency Services	546,088	
Homeland Security Grant Program	97.067	NY State Office Division of Homeland Security and Emergency Services	<u>609,927</u>	
<i>Total Homeland Security Program</i>			1,156,015	
Law Enforcement Terrorism Prevention Program (LETPP)	97.073	NY State Office Division of Homeland Security and Emergency Services	<u>151,886</u>	<u>1,515,944</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 47,831,032</u>

(concluded)

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards-Subrecipients
Year Ended December 31, 2012

Program Title/Subrecipient	Federal CFDA Number	Federal Expenditures
Satate Administrative Matching Grants for Food Stamps	10.561	247,993
Community Development Block Grant (Entitlement Grants)	14.218	1,086,358
Shelter Plus Care	14.238	431,763
Home Investment Partnership Program	14.239	1,888,426
Homeless Prevention and Rapir Rehousing Program (Recovery Act Funded)	14.257	18,185
Highway Planning and Construction	20.205	3,514
Public Health Preparedness	93.069	4,972
Temporary Assistance for Needy Families	93.558	1,918,940
Low Income Home Energy Assistance	93.568	345,750
Child Care Block Grant	93.575	255,317
Community Development Block Grant (Entitlement Grants)	93.778	729,621
HIV Emergency Relief	93.917	365,065
Block Grants for Prevention and Treatment of Substance Abuse	93.959	140,778
Total		<u>\$ 7,436,682</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

COUNTY OF DUTCHESS, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of County of Dutchess, New York (the "County") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

2. 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.

3. MATCHING COSTS

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

4. DEPARTMENT OF SOCIAL SERVICES – ADMINISTRATIVE COSTS

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

5. RECONCILIATION

A reconciliation to the basic financial statements is available.

6. PRIOR YEAR REPORTING OF ARRA FUNDS

The County's Child Support Enforcement Program, CFDA#93.563 received \$87,253 in ARRA funding during 2010 that was not reported on the County's 2010 or 2011 Schedule of Expenditures of Federal Awards.

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Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

Honorable County Executive and County Legislature
County of Dutchess, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Dutchess (the "County"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 9, 2013. Our report includes a reference to other auditors and contains an emphasis of matter paragraph relating to the restatement of beginning fund balance and net position. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness in internal control.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency presented in the accompanying schedule of findings and questioned costs as item 2012-2 to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County Response to Findings

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

Purpose of this Report

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

 Duesch & Malach LLP

September 9, 2013

Certified Public Accountants

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

Honorable County Executive and County Legislature
County of Dutchess, New York:

Report on Compliance for Each Major Federal Program

We have audited the County of Dutchess, New York's (the "County") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County's basic financial statements include the operations of the Dutchess Community College (the "College") which received \$19,953,911 in federal awards which are not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2012. Our audit, described below, did not include the operations of the College because other auditors were engaged to perform such audit in accordance with OMB Circular A-133, as applicable.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 items 2012-3 and 2012-4. Our opinion on each major federal program is not modified with respect to these matters.

The County's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dessler & Malachuk LLP

September 9, 2013

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COUNTY OF DUTCHESS, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Part I. Summary of auditors' results

Financial Statements

Type of auditors' report issued: Unmodified*

* which report refers to other auditors and includes an emphasis of matter paragraph relating to the restatement of beginning fund balance and net position.

Internal control over financial reporting:

1. Material weakness(es) identified? ✓ Yes No
2. Significant deficiency(ies) identified? ✓ Yes None reported
3. Noncompliance material to financial statements noted? Yes ✓ No

Federal Awards:

Internal control over major programs:

4. Material weakness(es) identified? Yes ✓ No
5. Significant deficiency (ies) identified? Yes ✓ None reported

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

6. Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? ✓ Yes No
7. The County's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
HOME Investment Partnerships Program	14.239
Homeless Prevention - ARRA	14.257
Highway Planning and Construction	20.205
Highway Planning and Construction – ARRA	20.205
Child Support Enforcement, Title IV-D	93.563
Child Support Enforcement, Title IV-D – ARRA	93.563
Foster Care – Title IV-E	93.658
Adoption Assistance – Title IV-E - ARRA	93.659
Medical Assistance Program	93.778

8. Dollar threshold used to distinguish between Type A and Type B programs? \$ 1,434,931
9. Auditee qualified as low-risk auditee? ✓ Yes No

COUNTY OF DUTCHESS, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Part II. Financial statement findings section

We consider the deficiency presented below to be a material weakness in internal control.

Finding 2012-1—Receivables Policies and Procedures

Criteria: The accounts receivable and due from other governments ledger should be reviewed and analyzed to reflect valid and collectible balances on a current basis. It is important to reconcile supporting schedules to the general ledger to ensure the accuracy of financial information and minimize the risk of misstatement or misappropriation.

Condition: During our current-year audit procedures we found that a material amount related to federal claiming was recorded twice in error by the County. We noted that the accounts receivable and due from other governments balances are not routinely reconciled and evaluated within the aging analysis. This practice serves as a check on the accuracy of the record-keeping process and maintains the receivables on a more timely and accurate basis. The detail listing of accounts receivable and due from other governments should be reconciled and analyzed for aging at the end of each month. Any differences should be investigated and resolved as soon as possible.

Effect: As a result of this error, the County's revenues and fund balance were overstated in prior years and require a prior period adjustment to beginning fund balance for the year ended December 31, 2012 to remove the net \$6,721,568 receivable amount.

Cause: The County's review and aging analysis of the accounts receivable and due from other government's balances is not performed on a regular basis or in adequate detail. A reassignment of federal funds to a different program that required a transfer of assets resulted in the double recording of such material amount due to lack of review.

Audit Recommendation: We suggest that formal procedures for review and aging analysis of receivable balances be established. All cash receipts should be matched to the accounts receivable aging and any discrepancy should be researched and resolved by either writing off the remaining receivable or reevaluating its collectability. We also recommend that appropriate management-level personnel review the receivable analysis for accuracy and document evidence of their review for audit purposes.

Management Response: The County department responsible for which the receivable was recorded twice is in the process of developing a corrective action plan. The department is working with New York State to receive additional claims training and also will implement policies and procedures to include the attributes recommended herein. The goal of such corrective action plan is to improve communication with the central finance department of the County to maintain the most current and accurate revenues and aging analysis on a continuous basis. It has been recommended that additional personnel be assigned the task of reviewing the receivable analysis for accuracy and document evidence of this review.

We consider the deficiency presented below to be a significant deficiency in internal control.

Finding 2012-2—Airport Operations

Criteria: Adequate controls and procedures should be in place regarding cash receipts and recordkeeping at the Airport.

Condition: During our testing of monthly rental billing, we noted that amounts billed did not agree to amounts stated in contracts. Also, amounts that were past due were not charged a late fee. There was not an updated copy of liability insurance for each customer as required by the County. Additionally, cash receipts and deposits are performed by the same employee and billing and recordkeeping processes are not formally documented.

Effect: Without updated contracts, it cannot be determined if a customer is being billed the appropriate amount. Since customers are able to make late payments and avoid penalties, it cannot be assured that payments will be received in a timely manner. Without the confirmation of current liability insurance, the Airport could potentially find itself liable for damage to a plane while on its premises. Inadequate segregation of duties increases the risk of misappropriation of assets and fraud, while the lack of formal procedures documentation creates the opportunity for the Airport to a delay in operations if the current Account Clerk leaves or is out for an extended period of time.

Cause: The Airport has not adopted formal controls and procedures regarding cash receipts and recordkeeping.

Audit Recommendation: We recommend that contracts are updated for the current billing amounts and signed memos are returned from customers indicating their agreement to the current billing amount. Also, we recommend that late fees are enforced and charged for customers that do not pay on time. We suggest that all customers furnish an updated copy of liability insurance to comply with the Airport policies. Lastly, we recommend that the cash process be segregated and overseen by more than one employee, with the current process for monthly billing and all recordkeeping procedures formally documented.

Management Response: The Airport intends on achieving the suggested recommendations. The Airport will send out memos to be signed and returned, stating each customer's current rates. Additionally, the Airport will evaluate and adjust its billing system to accommodate the use of late fees. Current insurance policies will be required and obtained directly from all customers. The current staffing situation has made certain segregation of duties very difficult to achieve; however, the Airport is in the process of training a new employee to perform other duties so as to allow for more adequate segregation. Lastly, the Airport is in the process of preparing a formal procedures document for backup purposes and reference in the future.

Part III. Federal award findings and questioned costs section

Finding 2012-3—Allowable Costs/Cost Principles

Child Support Enforcement CFDA#93.563, Foster Care – Title IV-E CFDA#93.658, Adoption Assistance CFDA#93.659, Medical Assistance Program CFDA#93.778

Criteria: When a County claims central service costs under Federal Awards, a Central Service Cost Plan (“CAP”) should be developed. This CAP should include costs that will be claimed in accordance with the requirements of OMB Circular A-87. The rate determined by the CAP should be applied each month to claim central service costs of the federal program.

Condition: During our procedures it was discovered that the County claimed central service costs for 2012 using indirect cost rates from the CAP prepared for the 2011 fiscal year as opposed to the updated 2012 rates.

Effect: When the incorrect central service CAP is used for claiming, the County is not in compliance with the requirements of OMB A-133. As presented below, the use of the outdated CAP resulted in the following likely questioned costs attributed to the federal programs tested.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Likely Questioned Costs</u>
Child Support Enforcement	93.563	32,990
Foster Care - Title IV-E	93.658	93,084
Adoption Assistance	93.659	2,880
Medical Assistance Program	93.778	<u>38,493</u>
Total		<u>\$ 167,447</u>

Cause: The County does not have adequate procedures in place to ensure that the proper CAP is being used for federal claiming.

Audit Recommendation: We recommend that the County develop adequate controls to ensure that the most current CAP rates are used for claiming federal awards.

Management Response: In 2013, the County has submitted a supplemental claim to correct this error. Additionally, the County will review its policies and procedures to ensure future compliance.

Finding 2012-4—Reporting

Home Investment Partnership Program, CFDA# 14.239

Criteria: Performance required by U.S. Department of Housing and Urban Development (“HUD”) should be completed and submitted by the County for the HOME Investment Partnership Program.

Condition: While testing reporting compliance for the HOME Investment Partnership program, it was noted that the County has not submitted HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons.

Effect: Non-compliance with HUD reporting standard.

Cause: The County was not aware of all the required HUD performance reports for the HOME program.

Audit Recommendation: We recommend that all necessary performance reports are submitted to HUD in a complete and timely manner.

Management Response: This has been noted and the department responsible will ensure adequate completion and submission of the necessary reporting standards per the compliance requirements stated within OMB Circular A-133.

COUNTY OF DUTCHESS, NEW YORK
Schedule of Prior Year Audit Findings
Year Ended December 31, 2012
(Follow Up on December 31, 2011 Findings)

Finding 2011-1—*Eligibility*

Criteria: Recertification of eligibility reports should be retained within the case file to meet the eligibility requirements for recertification for Medical Assistance. Per 42 CFR Section 435.916.

Condition: Of forty participants tested for eligibility, one certification report was not included in the file.

Cause: When the eligible participant changed nursing homes, the file was inadvertently closed. When the file was reopened, the participant was not required to complete the certification form for 2011.

Effect: It is possible that participants receiving benefits may not be eligible or may receive a larger benefit than he/she is eligible for.

Audit Recommendation: All case files be reviewed and that a check list be developed to ensure that all required information is obtained prior to an individual being deemed eligible for medical assistance.

Management Response: Management has reviewed the current process and implemented procedures to ensure compliance with Medical Assistance Program eligibility.

Current Year Follow Up: No missing recertifications were identified as a result of testing in the current year.