

**COUNTY OF DUTCHESS,
NEW YORK**

*Basic Financial Statements, Required
Supplementary Information and
Federal Awards Information
for the Year Ended December 31, 2013 and
Independent Auditors' Reports*

COUNTY OF DUTCHESS, NEW YORK
Table of Contents

Independent Auditors' Report.....	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	14
Statement of Activities.....	15
Fund Financial Statements:	
Balance Sheet—Governmental Funds	16
Reconciliation of the Balance Sheet—Governmental Funds to the Government-wide Statement of Net Position.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds to the Government-wide Statement of Activities	19
Statement of Net Position—Proprietary Funds.....	20
Statement of Revenues, Expenses and Changes in Fund Net Position—Proprietary Funds	21
Statement of Cash Flows—Proprietary Funds.....	22
Statement of Net Position—Fiduciary Funds	24
Statement of Changes in Net Position—Fiduciary Funds.....	25
Discretely Presented Component Units:	
Combining Statements of Net Position—Discretely Presented Component Units	26
Combining Statements of Activities—Discretely Presented Component Units	27
Notes to the Financial Statements	28

(continued)

COUNTY OF DUTCHESS, NEW YORK
Table of Contents

(concluded)

Required Supplementary Information:

Required Supplementary Budgetary Comparison Schedule—General Fund.....	77
Schedule of Funding Progress—Other Post-Employment Benefits Obligations Plan	78

Federal Awards:

Schedule of Expenditures of Federal Awards	79
Schedule of Expenditures of Federal Awards—Subrecipients	82
Notes to the Schedule of Expenditures of Federal Awards	83
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	84
Independent Auditors’ Report on Compliance for Each Major Program and Report On Internal Control over Compliance Required by OMB Circular A-133	86
Schedule of Findings and Questioned Costs	88
Schedule of Prior Year Audit Findings	91

FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable County Executive and 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, 2013, 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 54.7%, 16.7%, and 27.3%, respectively, of the assets and 77.2%, 15.9%, and 5.6%, 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 or the Dutchess County Local Development Corporation which are aggregated as non-major component units and represent 6.2% of the aggregated component units net position and 1.2% and 0.7%, 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 solely 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 (1) unmodified opinion on the governmental activities, the business-type activities, major funds and aggregate remaining fund information; and (2) qualified audit opinion on the aggregate discretely presented component units.

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements of the Dutchess County Soil and Water Conservation District have not been audited, and we were not engaged to audit the Dutchess County Soil and Water Conservation District's financial statements as part of our audit of the County's basic financial statements. The Dutchess County Soil and Water Conservation District's financial activities are included in the County's basic financial statements as a discretely presented component unit and represent 0.1%, 0.2%, and 0.6% of the assets, net position, and revenues, respectively, of the County's aggregate discretely presented component units.

Qualified Opinion on the Aggregate Discretely Presented Component Units

In our opinion, based on the reports of other auditors, except for the effects of the matter described in the Basis for Qualified Opinion paragraph on the Aggregate Discretely Presented Component Units, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units for the County, as of December 31, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on the Governmental Activities, Business-type Activities, Major Funds and Aggregate remaining Fund information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Dutchess, New York, as of December 31, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, 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 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* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 5, 2014 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.

Drescher & Malecki LLP

September 5, 2014

COUNTY OF DUTCHESS, NEW YORK
Management's Discussion and Analysis
Year Ended December 31, 2013

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, 2013. 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, 2012 presentations have been reclassified. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The liabilities of the County's primary government exceeded assets and deferred outflows of resources of the County's primary government at December 31, 2013 by \$36,021,485 (deficit net position) compared to \$21,374,430 (deficit net position) at December 31, 2012. The County anticipates net position to continue to decrease due to the effect of recognizing its other postemployment benefits liability. The County's primary government total net position decreased by \$14,647,055. Governmental Activities decreased the County's net position by \$13,169,229, while the net position of Business-type Activities decreased by \$1,477,826.
- The General Fund recorded an increase of \$5,999,958 for the year ended December 31, 2013 and ended the year with a fund balance of \$53,483,792. Of this amount, \$5,258,127 is considered nonspendable, \$6,956,066 is restricted, \$14,913,059 is assigned and \$26,356,540 is unassigned.
- On November 26, 2013, the County issued \$6,209,871 in public improvement serial bonds with a true interest cost represented by an average interest rate of 2.43% providing funding of \$5,432,521 for the governmental activities, \$493,000 for business type activities and \$284,350 for Dutchess Community College. The funding was used for a variety of capital projects, including improvements to various County facilities, equipment and vehicle purchases.
- The principal sources of County revenue, other than state and federal aid, consist of property taxes and sales tax. Property tax collections for 2013, including adjustments (interest and penalty; real property tax auction) were \$116,316,603 which represents a 3.6% increase over 2012 and 26.12% of total governmental fund revenues.

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 functions 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, education, transportation, public health, economic assistance and opportunity, public safety, 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 fiduciary funds.

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, which includes the County Road Fund, Road Machinery Fund and Community Development Fund, 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* operations and *Transportation* operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Mass transportation, both of which are considered to be major funds of the County.

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 County maintains two different types of fiduciary funds. The Private Purpose Fund is used to account for trust arrangements for which cemetery plots are maintained. The Agency Fund reports resources held by the County in a custodial capacity for individuals, private organizations and other governments.

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 28-76 of this report.

Required supplementary information and other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the County's budgetary comparison schedule for the General Fund and postemployment benefits obligation, and other information presenting the County's schedule of expenditures of federal awards.

The additional required supplementary information can be found on page 77 and 78 of this report.

The Federal Awards Information 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, 2013, the County liabilities exceeded its assets and deferred outflows of resources of the primary government by \$36,021,485 at the close of the most recent fiscal year.

The County's combined deficit net position for fiscal year ended December 31, 2013 deteriorated from \$21,374,430 to \$36,021,485. By far, the largest portion of the County's net position, \$46,995,346, 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, \$22,475,038, 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, \$122,840,913, is considered to be an unrestricted net deficit. The negative unrestricted net position is primarily the result of accounting and financial reporting by employers for postemployment benefits other than pensions, which results in a cumulative unfunded liability for the County of \$140,031,637, \$1,020,004 for the Airport and \$19,056 for Transportation.

The County's analysis illustrated below and on the following page focuses on the net position (Table 1), and changes in net position (Table 2), of the County's Governmental and Business-type Activities for the primary government.

Table 1—Condensed Statements of Net Position

	Governmental activities		Business-type activities		Total	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 189,910,301	\$ 198,805,551	\$ 5,735,363	\$ 5,631,109	\$ 195,645,664	\$ 204,436,660
Noncurrent assets	8,778,835	9,053,405	-	-	8,778,835	9,053,405
Capital assets	174,671,010	170,055,503	22,598,764	24,972,033	197,269,774	195,027,536
Total assets	373,360,146	377,914,459	28,334,127	30,603,142	401,694,273	408,517,601
Deferred outflows of resources	1,965,974	2,189,374	-	-	1,965,974	2,189,374
Current liabilities	81,884,338	84,908,363	725,607	1,568,792	82,609,945	86,477,155
Noncurrent liabilities	350,745,110	339,329,569	6,326,677	6,274,681	357,071,787	345,604,250
Total liabilities	432,629,448	424,237,932	7,052,284	7,843,473	439,681,732	432,081,405
Net position:						
Net investment in capital assets	46,995,346	40,918,597	17,349,044	20,186,140	64,344,390	61,104,737
Restricted	22,475,038	19,636,300	-	-	22,475,038	19,636,300
Unrestricted	(126,773,712)	(104,688,996)	3,932,799	2,573,529	(122,840,913)	(102,115,467)
Total net position	\$ (57,303,328)	\$ (44,134,099)	\$ 21,281,843	\$ 22,759,669	\$ (36,021,485)	\$ (21,374,430)

Table 2, as presented on the following page, shows the changes in net position for the primary government for the years ending December 31, 2013 and December 31, 2012.

Table 2—Condensed Statement of Changes in Net Position—Primary Government

	Governmental activities		Business-type activities		Total	
	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues	\$ 141,653,612	\$ 148,274,512	\$ 7,877,426	\$ 8,544,714	\$ 149,531,038	\$ 156,819,226
General revenues	<u>290,821,948</u>	<u>287,247,905</u>	<u>262,112</u>	<u>145,163</u>	<u>291,084,060</u>	<u>287,393,068</u>
Total revenues	<u>432,475,560</u>	<u>435,522,417</u>	<u>8,139,538</u>	<u>8,689,877</u>	<u>440,615,098</u>	<u>444,212,294</u>
Total program expenses	<u>442,724,491</u>	<u>450,567,182</u>	<u>12,537,662</u>	<u>12,395,765</u>	<u>455,262,153</u>	<u>462,962,947</u>
Transfers	<u>(2,920,298)</u>	<u>(1,554,334)</u>	<u>2,920,298</u>	<u>1,554,334</u>	<u>-</u>	<u>-</u>
Change in net position	(13,169,229)	(16,599,099)	(1,477,826)	(2,151,554)	(14,647,055)	(18,750,653)
Net position—beginning as restated	<u>(44,134,099)</u>	<u>(27,535,000)</u>	<u>22,759,669</u>	<u>24,911,223</u>	<u>(21,374,430)</u>	<u>(2,623,777)</u>
Net position—ending	<u>\$ (57,303,328)</u>	<u>\$ (44,134,099)</u>	<u>\$ 21,281,843</u>	<u>\$ 22,759,669</u>	<u>\$ (36,021,485)</u>	<u>\$ (21,374,430)</u>

A summary of sources of revenues for the years ended December 31, 2013 and December 31, 2012 is presented below in Table 3.

Table 3—Summary of Sources of Revenues—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Charges for services	\$ 21,642,810	\$ 30,770,157	\$ (9,127,347)	(29.7)
Operating grants and contributions	108,514,824	110,271,621	(1,756,797)	(1.6)
Capital grants and contributions	11,495,978	7,232,734	4,263,244	58.9
Real property taxes	116,316,603	113,407,550	2,909,053	2.6
Sales and other taxes	169,969,541	169,858,218	111,323	0.1
DTASC revenues	3,670,998	3,698,671	(27,673)	(0.7)
Other general revenues	<u>864,806</u>	<u>283,466</u>	<u>581,340</u>	205.1
Total revenues	<u>\$ 432,475,560</u>	<u>\$ 435,522,417</u>	<u>\$ (3,046,857)</u>	(0.7)

As presented in Table 3, the most significant source of revenues is sales and other taxes, which accounts for \$169,969,541 or 39.3 percent of total governmental activities revenues, for the year ended December 31, 2013, and \$169,858,218 or 39.0 percent of total governmental activities revenues, for the year ended December 31, 2012. The next largest source of revenue is real property taxes, which comprises 26.9 percent and 26.0 percent of total governmental activities revenues for the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2013, charges for services decreased \$9,127,347. This was primarily a result of the County's decision to reduce mental hygiene programs which decreased revenues by over \$4.0 million. Further, other treatment programs were condensed which caused a reduction in departmental service fees.

The County's capital grants and contributions increased \$4,263,244 compared to fiscal year 2012. This was a result of increased state and federal aid, \$3.4 million of which is related to transportation projects.

A summary of program expenses for the years ended December 31, 2013 and December 31, 2012 is presented below in Table 4.

Table 4—Summary of Program Expenses—Governmental Activities

	Year Ended December 31,		Increase/(decrease)	
	2013	2012	Dollars	Percent
General government support	\$ 79,497,557	\$ 84,524,322	\$ (5,026,765)	(5.9)
Education	13,979,106	13,208,023	771,083	5.8
Public safety	86,110,810	87,301,462	(1,190,652)	(1.4)
Public health	56,295,697	63,118,670	(6,822,973)	(10.8)
Transportation	24,489,665	25,082,607	(592,942)	(2.4)
Economic assistance and opportunity	157,166,721	150,603,997	6,562,724	4.4
Culture and recreation	4,166,348	4,059,045	107,303	2.6
Home and community services	12,583,508	14,524,012	(1,940,504)	(13.4)
Interest on long-term debt	8,435,079	8,145,044	290,035	3.6
Total program expenses	<u>\$ 442,724,491</u>	<u>\$ 450,567,182</u>	<u>\$ (7,842,691)</u>	(1.7)

As presented in Table 4, the County’s significant expense items for governmental activities were economic assistance and opportunity of \$157,166,721 or 35.5 percent of total governmental activities expenses, public safety of \$86,110,810 or 19.4 percent of total governmental activities expenses, and general government support of \$79,497,557 or 17.9 percent of total governmental activities expenses for the year ended December 31, 2013. Similarly, for the year ended December 31, 2012 significant expense items were economic assistance and opportunity of \$150,603,997 or 33.4 percent of total governmental activities expenses, public safety of \$87,301,462 or 19.4 percent of total governmental activities expenses and general government support of \$84,524,322 or 18.8 percent of total governmental activities expenses.

During the year ended December 31, 2013, general governmental support decreased \$5,026,765. This is largely a result of the County’s new sales tax agreement which limits the sales tax distributions to \$25,000,000, which resulted in 22.7 percent less being distributed in 2013 as 2012.

Public health expenditures decreased by \$6,822,973 compared to December 31, 2012. As previously discussed, the reduction of mental hygiene and other health and wellness programs contribute to these decreased costs.

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 5—Summary of Fund Balances—Governmental Funds

	General	Capital Projects	DTASC	Other Governmental
Net change in fund balances	\$ 5,999,958	\$ (7,631,135)	\$ (7,393)	\$ 12,239
Restricted	6,956,066	18,950,881	3,495,358	-
Unassigned or assigned to the fund's specific use	26,356,540	-	30,472	2,673,305
Total fund balance	53,483,792	18,950,881	3,525,830	2,986,691
Percentage unassigned or assigned to specific use	49.3%	0.0%	0.9%	89.5%

- Total General Fund fund balance increased during the year ended December 31, 2013 primary due to actual results outperforming original budget expectations.

General Fund Budgetary Highlights

The County adopts an annual appropriated budget for all governmental funds, except the Capital Projects Fund. A budgetary comparison schedule for the General Fund has been provided in the Required Supplementary Information section of this report to demonstrate compliance with the budget.

A summary of the General Fund results of operations for the year ended December 31, 2013 is presented in Table 6 below:

Table 6—Summary of General Fund Results of Operations

	Budgeted Amounts		Budgetary	Variance with
	Original	Final	Actual	Final Budget
Revenues and other financing sources	\$ 379,603,048	\$ 410,928,361	\$ 414,165,790	\$ 3,237,429
Expenditures and other financing uses	402,979,071	432,956,420	408,165,832	24,790,588
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (23,376,023)	\$ (22,028,059)	\$ 5,999,958	\$ 28,028,017

Original budget compared to final budget. During the year, the budget is modified, primarily to reflect the acceptance of new state and federal grants. These grants explain the majority of increases in appropriations and revenue from the original adopted budget to the final budget. The largest difference is due to the sales tax revenue, this account is netted with the distribution of sales tax expenditure in the original budget and modified to reflect the actual revenues and expenditures in the final budget.

Final budget compared to actual results. The General Fund had a favorable variance from final budgetary appropriations of \$28,028,017. The primary positive variances were realized in economic assistance and opportunity, general government support, public health and public safety.

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, 2013, amounted to \$197,269,774 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

Capital assets net of depreciation for the governmental activities and business-type activities at the years ended December 31, 2013 and December 31, 2012 are presented in Table 7 below:

Table 7—Capital Assets, net of depreciation

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 9,730,747	\$ 8,840,052	\$ 3,385,364	\$ 3,385,364	\$ 13,116,111	\$ 12,225,416
Right of way and easements	13,149,139	11,281,682	-	-	13,149,139	11,281,682
Construction in progress	4,093,125	14,136,888	164,755	292,672	4,257,880	14,429,560
Buildings and improvements	56,946,798	54,842,699	3,477,366	3,912,185	60,424,164	58,754,884
Machinery and equipment	19,322,389	19,846,030	3,787,694	4,356,574	23,110,083	24,202,604
Improvements other than buildings	69,122	-	-	-	69,122	-
Infrastructure	71,359,690	61,108,152	11,783,585	13,025,238	83,143,275	74,133,390
Total	<u>\$174,671,010</u>	<u>\$170,055,503</u>	<u>\$ 22,598,764</u>	<u>\$ 24,972,033</u>	<u>\$197,269,774</u>	<u>\$195,027,536</u>

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 2013, the County's outstanding debt totaled \$99.5 million (excluding the Tobacco Asset Securitization Corporation) and represents approximately 4.23% of the County's debt limit.

The County's outstanding debt at December 31, 2013 is illustrated in Table 8 below;

Table 8—Debt and Long-Term Liabilities

	Governmental activities		Business-type activities		Total	
	December 31,		December 31,		December 31,	
	2013	2012	2013	2012	2013	2012
Bonds payable	\$ 94,255,150	\$ 102,355,337	\$ 5,249,720	\$ 5,346,104	\$ 99,504,870	\$ 107,701,441
DTASC bonds payable	57,841,279	59,516,279	-	-	57,841,279	59,516,279
Accreted Interest	18,536,780	15,664,368	-	-	18,536,780	15,664,368
Premium/(discount), net	2,650,032	2,618,560	-	-	2,650,032	2,618,560
Judgments and claims	26,460,820	30,710,899	-	-	26,460,820	30,710,899
Other post-employment benefits	140,031,637	119,672,612	1,039,060	893,707	141,070,697	120,566,319
Compensated absences	8,619,412	8,471,514	37,897	34,870	8,657,309	8,506,384
Environmental clean-up	2,350,000	320,000	-	-	2,350,000	320,000
	<u>\$ 350,745,110</u>	<u>\$ 339,329,569</u>	<u>\$ 6,326,677</u>	<u>\$ 6,274,681</u>	<u>\$ 357,071,787</u>	<u>\$ 345,604,250</u>

Total outstanding long-term liabilities increased by \$11,467,537. Major factors that contribute to this increase include;

- Obligations for other post-employment benefits ("OPEB") increased in the governmental and business-type activities by \$20,359,025 and \$145,353, respectively. This obligation is a commitment the County has made to its employees pursuant to contract negotiations. As health costs have risen dramatically over the past several years, County management has attempted to

address these costs as new contracts have been negotiated. Newer contracts require greater employee contributions and increased length of employment to qualify for retiree health benefits.

- Environmental clean-up liability increased by \$2,030,000 which relates to future costs of installation, maintenance and monitoring of storage tanks at various sites throughout the County.

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 and Federal 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		
2012	\$	43,341,836
2013		42,937,237
2014 (budgeted)		43,561,856

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 system costs		
2012	\$	20,096,929
2013		21,284,827
2014 (budgeted)		20,905,363

The County has appropriated \$1.6 million in fund balance to finance the 2014 budget from various funds. The unassigned fund balance is \$26.4 million in the General Fund as of December 31, 2013.

The total tax levy for the 2014 budget is \$107.9 million resulting in a property tax rate of \$3.65 per thousand of assessed value which is 5.8% higher than \$3.45 in 2013. The true value assessment for the County has decreased from \$30.65 billion for the 2013 budget to \$29.58 billion for the 2014 budget; a decrease of 3.64%.

Dutchess County contains a diverse mix of industries, including life sciences, microelectronics, higher education, high tech manufacturing, distribution, agriculture and retail trades. IBM is the largest single employer with approximately 8,000 employees and contractors. IBM is expected to manufacture its next generation mainframe at its Poughkeepsie campus in 2015, and IBM has committed to a \$50 million investment in the Hudson Valley Research Park in the Town of East Fishkill. GAP Inc., recently announced plans to invest \$95 million at its Fishkill logistics center, and hire 1,200 new jobs. Vassar Brothers Medical Center recently opened its 78,000 square foot medical building housing a same-day ambulatory surgery center and office suites. Northern Dutchess Hospital is underway with a \$47 million expansion, and Westchester Medical Center in Valhalla purchased St. Francis hospital in Poughkeepsie, a Level II Trauma Center, and invested in the most advanced 3D high definition DaVinci Xi Robot. The hospital is the only one in the state and only the third in the world to utilize the latest technology. Vassar College is constructing 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 completed a 40,000 square foot expansion 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. The Walkway Over The Hudson and related Rail Trail continue to be a strong model for success. The Walkway, which is the second most visited park in the state, opened its elevator to the City of Poughkeepsie Waterfront, directly connecting the Waterfront to a trail system that goes deep into two counties.

Agriculture continues to play a significant role in the economy of the County. There are dairy, produce, livestock and horse farms as well as vineyards operations, and now three new distillery operations, all spurring agribusiness development. 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. Madava's facility is the most advanced syrup production facility in the country, and produces some of the purest maple syrup on earth. 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 is at 5.7% in July, down from 7.1% for the same month in 2013, and our rate remains below the state and national 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 Heidi Seelbach, Commissioner of Finance, 22 Market Street, Poughkeepsie, New York 12601.

BASIC FINANCIAL STATEMENTS

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

COUNTY OF DUTCHESS, NEW YORK
Statement of Net Position
December 31, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 37,280,895	\$ 4,581,726	\$ 41,862,621	\$ 31,578,686
Restricted cash and investments	30,014,492	-	30,014,492	17,698,372
Receivables (net of allowances for estimated uncollectible amounts):				
Taxes	47,129,322	-	47,129,322	-
Accounts receivable	3,818,286	154,985	3,973,271	9,467,456
Intergovernmental receivables	66,073,336	888,848	66,962,184	143,693
Internal balances	22,457	(22,457)	-	-
Prepaid items	5,485,424	32,983	5,518,407	1,186,710
Inventories	86,089	99,278	185,367	674,568
Total current assets	<u>189,910,301</u>	<u>5,735,363</u>	<u>195,645,664</u>	<u>60,749,485</u>
Noncurrent assets:				
Other assets	8,778,835	-	8,778,835	5,355,590
Capital assets:				
Capital assets not being depreciated	26,973,011	3,550,119	30,523,130	4,338,494
Capital assets being depreciated (net of accumulated depreciation)	147,697,999	19,048,645	166,746,644	160,411,523
Total noncurrent assets	<u>183,449,845</u>	<u>22,598,764</u>	<u>206,048,609</u>	<u>170,105,607</u>
Total assets	<u>373,360,146</u>	<u>28,334,127</u>	<u>401,694,273</u>	<u>230,855,092</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges	1,965,974	-	1,965,974	72,788
Total deferred outflows of resources	<u>1,965,974</u>	<u>-</u>	<u>1,965,974</u>	<u>72,788</u>
LIABILITIES				
Current liabilities:				
Accounts payable	30,731,619	649,529	31,381,148	8,692,656
Accrued liabilities	6,221,732	71,385	6,293,117	8,136,919
Interest payable	796,580	-	796,580	-
Intergovernmental payables	39,505,241	-	39,505,241	1,798,041
Unearned revenue	2,212,636	4,693	2,217,329	5,780,771
Other liabilities	2,416,530	-	2,416,530	-
Total current liabilities	<u>81,884,338</u>	<u>725,607</u>	<u>82,609,945</u>	<u>24,408,387</u>
Noncurrent liabilities:				
Due within one year	14,768,514	513,262	15,281,776	6,938,739
Due in more than one year	335,976,596	5,813,415	341,790,011	129,685,275
Total noncurrent liabilities	<u>350,745,110</u>	<u>6,326,677</u>	<u>357,071,787</u>	<u>136,624,014</u>
Total liabilities	<u>432,629,448</u>	<u>7,052,284</u>	<u>439,681,732</u>	<u>161,032,401</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred charges	-	-	-	26,488,395
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,488,395</u>
NET POSITION				
Net investment in capital assets	46,995,346	17,349,044	64,344,390	58,084,382
Restricted for:				
Debt service restrictions	10,140,680	-	10,140,680	-
Capital projects	8,588,769	-	8,588,769	-
Other	3,745,589	-	3,745,589	19,952,947
Unrestricted	(126,773,712)	3,932,799	(122,840,913)	(34,630,245)
Total net position	<u>\$ (57,303,328)</u>	<u>\$ 21,281,843</u>	<u>\$ (36,021,485)</u>	<u>\$ 43,407,084</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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government support	\$ 79,497,557	\$ 4,114,745	\$ 1,842,978	\$ 253,445	\$(73,286,389)	\$ -	\$(73,286,389)	\$ -
Education	13,979,106	2,043	-	267,680	(13,709,383)	-	(13,709,383)	-
Public safety	86,110,810	4,028,362	3,529,967	-	(78,552,481)	-	(78,552,481)	-
Public health	56,295,697	445,400	28,496,804	-	(27,353,493)	-	(27,353,493)	-
Transportation	24,489,665	2,030,958	2,426,092	4,759,257	(15,273,358)	-	(15,273,358)	-
Economic assistance and opportunity	157,166,721	10,016,827	67,975,528	-	(79,174,366)	-	(79,174,366)	-
Culture and recreation	4,166,348	488,196	296,587	4,349,881	968,316	-	968,316	-
Home and community services	12,583,508	516,279	3,946,868	1,865,715	(6,254,646)	-	(6,254,646)	-
Interest and fiscal charges	8,435,079	-	-	-	(8,435,079)	-	(8,435,079)	-
Total governmental activities	<u>442,724,491</u>	<u>21,642,810</u>	<u>108,514,824</u>	<u>11,495,978</u>	<u>(301,070,879)</u>	<u>-</u>	<u>(301,070,879)</u>	<u>-</u>
Business-type activities:								
Airport	4,166,722	1,997,825	-	112,577	-	(2,056,320)	(2,056,320)	-
Transportation	8,370,940	973,191	4,169,632	624,201	-	(2,603,916)	(2,603,916)	-
Total business-type activities	<u>12,537,662</u>	<u>2,971,016</u>	<u>4,169,632</u>	<u>736,778</u>	<u>-</u>	<u>(4,660,236)</u>	<u>(4,660,236)</u>	<u>-</u>
Total primary government	<u>\$ 455,262,153</u>	<u>\$ 24,613,826</u>	<u>\$ 112,684,456</u>	<u>\$ 12,232,756</u>	<u>(301,070,879)</u>	<u>(4,660,236)</u>	<u>(305,731,115)</u>	<u>-</u>
Component units:								
Dutchess Community College	\$ 89,652,913	\$ 52,732,390	\$ 17,110,318	\$ 417,802				\$(19,392,403)
Resource Recovery Agency	17,666,871	14,475,457	-	-				(3,191,414)
Water and Wastewater Authority	7,827,710	5,089,591	15,795	-				(2,722,324)
Aggregated non-major component units	1,480,996	136,905	1,017,654	-				(326,437)
Total component units	<u>\$ 116,628,490</u>	<u>\$ 72,434,343</u>	<u>\$ 18,143,767</u>	<u>\$ 417,802</u>				<u>\$(25,632,578)</u>
General revenues:								
					102,499,545	-	102,499,545	-
					13,817,058	-	13,817,058	-
					166,428,125	-	166,428,125	-
					3,541,416	-	3,541,416	-
					864,806	262,112	1,126,918	1,172,022
					3,670,998	-	3,670,998	-
					-	-	-	14,547,236
					(2,920,298)	2,920,298	-	-
					<u>287,901,650</u>	<u>3,182,410</u>	<u>291,084,060</u>	<u>15,719,258</u>
					(13,169,229)	(1,477,826)	(14,647,055)	(9,913,320)
					<u>(44,134,099)</u>	<u>22,759,669</u>	<u>(21,374,430)</u>	<u>53,320,404</u>
					<u>\$(57,303,328)</u>	<u>\$21,281,843</u>	<u>\$(36,021,485)</u>	<u>\$ 43,407,084</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, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>DTASC</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash	\$ 33,889,166	\$ -	\$ 30,472	\$ 3,361,257	\$ 37,280,895
Restricted cash	6,818,283	19,700,851	3,495,358	-	30,014,492
Receivables (net of allowances for estimated uncollectible amounts):					
Taxes	47,129,322	-	-	-	47,129,322
Accounts receivable	3,811,763	-	-	5,587	3,817,350
Intergovernmental receivables	52,010,776	9,080,616	-	1,547,099	62,638,491
Due from other funds	4,990,428	-	-	-	4,990,428
Prepaid items	5,172,038	-	-	313,386	5,485,424
Inventories	86,089	-	-	-	86,089
Total assets	<u>\$ 153,907,865</u>	<u>\$ 28,781,467</u>	<u>\$ 3,525,830</u>	<u>\$ 5,227,329</u>	<u>\$ 191,442,491</u>
LIABILITIES					
Accounts payable	\$ 24,773,645	\$ 4,166,531	\$ -	\$ 1,791,443	\$ 30,731,619
Accrued liabilities	5,818,764	5,157	-	397,811	6,221,732
Intergovernmental payables	39,505,241	-	-	-	39,505,241
Due to other funds	-	4,931,313	-	35,722	4,967,035
Unearned revenue	2,212,636	-	-	-	2,212,636
Other liabilities	1,673,283	727,585	-	15,662	2,416,530
Total liabilities	<u>73,983,569</u>	<u>9,830,586</u>	<u>-</u>	<u>2,240,638</u>	<u>86,054,793</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues—grants and aid	8,316,056	-	-	-	8,316,056
Unavailable revenues—property taxes	18,124,448	-	-	-	18,124,448
Total deferred inflows of resources	<u>26,440,504</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,440,504</u>
FUND BALANCES					
Nonspendable	5,258,127	-	-	313,386	5,571,513
Restricted	6,956,066	18,950,881	3,495,358	-	29,402,305
Assigned	14,913,059	-	30,472	2,673,305	17,616,836
Unassigned	26,356,540	-	-	-	26,356,540
Total fund balances	<u>53,483,792</u>	<u>18,950,881</u>	<u>3,525,830</u>	<u>2,986,691</u>	<u>78,947,194</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 153,907,865</u>	<u>\$ 28,781,467</u>	<u>\$ 3,525,830</u>	<u>\$ 5,227,329</u>	<u>\$ 191,442,491</u>

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

COUNTY OF DUTCHESS, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
December 31, 2013

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

Fund balances—total governmental funds (page 16)		\$ 78,947,194
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$428,473,026 and the accumulated depreciation is \$253,802,016.		174,671,010
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:		
Deferred inflows of resources - aid and other revenue	8,316,056	
Deferred inflows of resources - property taxes	18,124,448	26,440,504
Intangible assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		8,778,835
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.		3,434,845
To recognize interest accrual on long term debt. Accrued interest for general obligation and DTASC bonds is:		(796,580)
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")	\$ (94,255,150)	
Premiums on GOB bonds	(3,900,903)	
DTASC bonds	(57,841,279)	
Discount on DTASC Bonds	1,250,871	
Accreted interest on DTASC bonds	(18,536,780)	
Judgments and claims	(26,460,820)	
OPEB	(140,031,637)	
Compensated absences	(8,619,412)	
Environmental clean up costs	(2,350,000)	(350,745,110)
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:		1,965,974
Net position of governmental activities		\$ (57,303,328)

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, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>DTASC</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Real property taxes	\$ 106,135,068	\$ -	\$ -	\$ 10,181,535	\$ 116,316,603
Sales and use tax	166,428,125	-	-	-	166,428,125
Other taxes	3,541,416	-	-	-	3,541,416
Departmental income	22,147,828	-	-	1,944,110	24,091,938
Use of money and property	1,854,963	25,000	164,236	5,764	2,049,963
Sale of property and compensation for los	-	-	-	2,925	2,925
Miscellaneous	8,600,133	-	3,506,762	303,165	12,410,060
Grants and aid	<u>103,218,680</u>	<u>11,470,984</u>	<u>-</u>	<u>5,296,142</u>	<u>119,985,806</u>
Total revenues	<u>411,926,213</u>	<u>11,495,984</u>	<u>3,670,998</u>	<u>17,733,641</u>	<u>444,826,836</u>
EXPENDITURES					
Current:					
General government support	58,776,243	-	75,773	-	58,852,016
Education	13,420,767	-	-	-	13,420,767
Public safety	56,794,885	-	-	355,278	57,150,163
Health	49,715,268	-	-	-	49,715,268
Transportation	2,756,061	-	-	8,011,211	10,767,272
Economic assistance and opportunity	140,306,867	-	-	1,785,857	142,092,724
Culture and recreation	1,757,274	-	-	-	1,757,274
Home and community services	7,753,948	-	-	3,373,872	11,127,820
Employee benefits	55,078,360	-	-	4,195,184	59,273,544
Debt service:					
Principal	13,817,058	-	1,675,000	-	15,492,058
Interest and fiscal charges	3,783,468	-	1,927,618	-	5,711,086
Capital outlay	-	<u>23,889,748</u>	<u>-</u>	<u>-</u>	<u>23,889,748</u>
Total expenditures	<u>403,960,199</u>	<u>23,889,748</u>	<u>3,678,391</u>	<u>17,721,402</u>	<u>449,249,740</u>
Excess (deficiency) of revenues over expenditures	<u>7,966,014</u>	<u>(12,393,764)</u>	<u>(7,393)</u>	<u>12,239</u>	<u>(4,422,904)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	2,239,577	4,944	-	-	2,244,521
Transfers out	(4,205,633)	(959,186)	-	-	(5,164,819)
Proceeds of issuance of serial bonds	<u>-</u>	<u>5,716,871</u>	<u>-</u>	<u>-</u>	<u>5,716,871</u>
Total other financing sources (uses)	<u>(1,966,056)</u>	<u>4,762,629</u>	<u>-</u>	<u>-</u>	<u>2,796,573</u>
Net change in fund balances	5,999,958	(7,631,135)	(7,393)	12,239	(1,626,331)
Fund balances—beginning	<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>
Fund balances—ending	<u>\$ 53,483,792</u>	<u>\$ 18,950,881</u>	<u>\$ 3,525,830</u>	<u>\$ 2,986,691</u>	<u>\$ 78,947,194</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—Governmental Funds to the
Government-wide Statement of Activities
Year Ended December 31, 2013

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

Net change in fund balances—total governmental funds (page 18) \$ (1,626,331)

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	\$ 23,924,302	
Depreciation expense	<u>(18,288,348)</u>	5,635,954

Net disposition of capital assets is recorded in the statement of activities but not in the statement for governmental funds. (1,020,448)

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	\$ (598,621)	
Change in deferred inflows of resources—grants and aid	(2,740,622)	
Change in long-term receivable	<u>(67,163)</u>	(3,406,406)

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)

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	\$ 15,492,058	
Issuance of serial bonds	(5,716,871)	
Accreted interest on DTASC bonds	(2,872,412)	
Adjustment to premium and accrued interest	(849,664)	
Amortization of bond premium	296,431	
Amortization of bond discount	(75,742)	
Change in accrued interest	<u>11,177</u>	6,284,977

Premiums that are recorded as revenues on the governmental funds in the year of issuance are amortized on the government-wide statements. (252,161)

In the statement of activities, certain operating expenses—judgments and claims, other post employment benefits ("OPEB"), compensated absences (vacation & compensatory time) and environmental clean-up costs—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	\$ 4,250,079	
OPEB	(20,359,025)	
Compensated absences	(147,898)	
Environmental clean up costs	<u>(2,030,000)</u>	(18,286,844)

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)

Change in net position of governmental activities \$ (13,169,229)

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, 2013

	Business-type Activities—		Total
	Enterprise Funds		
	Airport	Transportation	
ASSETS			
Current assets:			
Cash	\$ 709,633	\$ 3,872,093	\$ 4,581,726
Accounts receivable, net of allowances for estimated uncollectible amounts	72,381	82,604	154,985
Inventories	99,278	-	99,278
Due from other funds	58	-	58
Intergovernmental receivables	31,612	857,236	888,848
Prepaid items	28,799	4,184	32,983
Total current assets	<u>941,761</u>	<u>4,816,117</u>	<u>5,757,878</u>
Noncurrent assets:			
Capital assets not being depreciated:			
Land	3,136,399	248,965	3,385,364
Construction in progress	164,697	58	164,755
Capital assets net of accumulated depreciation:			
Infrastructure	11,783,585	-	11,783,585
Buildings and building improvements	440,713	3,036,653	3,477,366
Machinery and equipment	1,412,402	2,375,292	3,787,694
Total noncurrent assets	<u>16,937,796</u>	<u>5,660,968</u>	<u>22,598,764</u>
Total assets	<u>17,879,557</u>	<u>10,477,085</u>	<u>28,356,642</u>
LIABILITIES			
Current liabilities:			
Accounts payable	238,645	410,884	649,529
Accrued liabilities	63,569	7,816	71,385
Unearned revenues	4,693	-	4,693
Due to other funds	22,515	-	22,515
Total current liabilities	<u>329,422</u>	<u>418,700</u>	<u>748,122</u>
Noncurrent liabilities:			
Compensated absences	37,897	-	37,897
Other postemployment benefits	1,020,004	19,056	1,039,060
Due within one year	343,382	169,880	513,262
Due in more than one year	3,429,862	1,306,596	4,736,458
Total noncurrent liabilities	<u>4,831,145</u>	<u>1,495,532</u>	<u>6,326,677</u>
Total liabilities	<u>5,160,567</u>	<u>1,914,232</u>	<u>7,074,799</u>
NET POSITION			
Net investment in capital assets	13,164,552	4,184,492	17,349,044
Unrestricted	(445,562)	4,378,361	3,932,799
Total net position	<u>\$ 12,718,990</u>	<u>\$ 8,562,853</u>	<u>\$ 21,281,843</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, 2013

	Business-type Activities—		Total
	Enterprise Funds		
	Airport	Transportation	
Operating revenues:			
Charges for services	\$ 1,997,825	\$ 973,191	\$ 2,971,016
Operating grants and revenues	-	4,169,632	4,169,632
Other	25,283	107,916	133,199
Total operating revenues	<u>2,023,108</u>	<u>5,250,739</u>	<u>7,273,847</u>
Operating expenses:			
Personal services	566,861	81,536	648,397
Employee benefits	484,562	49,150	533,712
Depreciation	1,644,212	1,570,967	3,215,179
Contracted services	1,402,305	6,616,934	8,019,239
Total operating expenses	<u>4,097,940</u>	<u>8,318,587</u>	<u>12,416,527</u>
Operating loss	<u>(2,074,832)</u>	<u>(3,067,848)</u>	<u>(5,142,680)</u>
Nonoperating revenues (expenses):			
Interest income	127,194	1,719	128,913
Interest expenses	(68,782)	(52,353)	(121,135)
Total nonoperating revenues (expenses)	<u>58,412</u>	<u>(50,634)</u>	<u>7,778</u>
Income (loss) before contributions and transfers	(2,016,420)	(3,118,482)	(5,134,902)
Capital contributions	112,577	624,201	736,778
Transfers in	600,830	2,437,078	3,037,908
Transfers out	-	(117,610)	(117,610)
Change in net position	(1,303,013)	(174,813)	(1,477,826)
Total net position—beginning	<u>14,022,003</u>	<u>8,737,666</u>	<u>22,759,669</u>
Total net position—ending	<u>\$ 12,718,990</u>	<u>\$ 8,562,853</u>	<u>\$ 21,281,843</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, 2013

	Business-type Activities— Enterprise Funds		Total
	Airport	Transportation	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from services provided	\$ 2,533,997	\$ 1,067,485	\$ 3,601,482
Receipts from operating grants and revenue	-	4,096,121	4,096,121
Receipts from other operating revenue	25,283	107,916	133,199
Payments to employees	(974,035)	(120,097)	(1,094,132)
Payments to suppliers of contracted services	(1,815,596)	(7,029,047)	(8,844,643)
Net cash used for operating activities	(230,351)	(1,877,622)	(2,107,973)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating transfers in	600,830	2,437,078	3,037,908
Operating transfers out	-	(117,610)	(117,610)
Net cash provided by noncapital financing activities	600,830	2,319,468	2,920,298
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital contributions to non-current assets	112,577	624,201	736,778
Capital purchases	(168,614)	(673,296)	(841,910)
Proceeds received from debt issuance	493,000	-	493,000
Principal paid on long-term debt	(422,679)	(166,705)	(589,384)
Interest paid on long-term debt	(68,782)	(52,353)	(121,135)
Net cash used for capital and related financing activities	(54,498)	(268,153)	(322,651)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	127,194	1,719	128,913
Net cash provided by investing activities	127,194	1,719	128,913
Net increase in cash and cash equivalents	443,175	175,412	618,587
Cash and cash equivalents—beginning	266,458	3,696,681	3,963,139
Cash and cash equivalents—ending	\$ 709,633	\$ 3,872,093	\$ 4,581,726

(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, 2013

	Business-type Activities— Enterprise Funds		Total
	Airport	Transportation	
Reconciliation of operating loss to net cash used for operating activities:			
Operating loss	\$ (2,074,832)	\$ (3,067,848)	\$ (5,142,680)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation expense	1,644,212	1,570,967	3,215,179
Decrease in receivables	564,751	64,913	629,664
(Increase) in inventories	(44,825)	-	(44,825)
Decrease/Increase in other assets	553	(479)	74
(Decrease) in accounts payable	(368,466)	(412,113)	(780,579)
(Decrease)/Increase in accrued liabilities	(65,363)	4,886	(60,477)
Increase in compensated absences	3,027	-	3,027
(Decrease) in due to/from other funds	(26,450)	(44,130)	(70,580)
(Decrease) in unearned revenues	(2,129)	-	(2,129)
Increase in other postemployment benefits	139,171	6,182	145,353
Total adjustments	<u>1,844,481</u>	<u>1,190,226</u>	<u>3,034,707</u>
Net cash used for operating activities	<u>\$ (230,351)</u>	<u>\$ (1,877,622)</u>	<u>\$ (2,107,973)</u>

(concluded)

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, 2013

	<u>Private Purpose</u>	<u>Agency</u>
ASSETS		
Cash	\$ 4,352	\$ 5,457,843
Intergovernmental receivables	-	525,581
Investments, at fair value	1,500	-
Total assets	<u>5,852</u>	<u>\$ 5,983,424</u>
LIABILITIES		
Agency liabilities	\$ -	<u>5,983,424</u>
Total liabilities	<u>-</u>	<u>\$ 5,983,424</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
Year Ended December 31, 2013

	<u>Private Purpose</u>
ADDITIONS	
Total additions	\$ -
DEDUCTIONS	
Economic assistance and opportunity	<u>-</u>
Change in net position	-
Net position, beginning	<u>5,852</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, 2013

	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	\$ 23,407,887	\$ 2,402,264	\$ 2,992,620	\$ 2,775,915	\$ 31,578,686
Restricted cash and investments	8,463,049	7,658,051	1,572,967	4,305	17,698,372
Receivables (net of allowances for estimated uncollectible amounts):	6,224,018	1,599,926	1,640,975	2,537	9,467,456
Intergovernmental receivables	-	-	-	143,693	143,693
Prepaid items	1,046,025	44,204	87,856	8,625	1,186,710
Inventories	674,568	-	-	-	674,568
Total current assets:	<u>39,815,547</u>	<u>11,704,445</u>	<u>6,294,418</u>	<u>2,935,075</u>	<u>60,749,485</u>
Noncurrent assets:					
Other assets	1,907,149	816,902	2,631,539	-	5,355,590
Capital assets:					
Capital assets not being depreciated	1,264,745	517,591	2,556,158	-	4,338,494
Capital assets, being depreciated (net of accumulated depreciation)	<u>83,249,636</u>	<u>25,602,420</u>	<u>51,557,344</u>	<u>2,123</u>	<u>160,411,523</u>
Total noncurrent assets	<u>86,421,530</u>	<u>26,936,913</u>	<u>56,745,041</u>	<u>2,123</u>	<u>170,105,607</u>
Total assets	<u>126,237,077</u>	<u>38,641,358</u>	<u>63,039,459</u>	<u>2,937,198</u>	<u>230,855,092</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charges	-	-	72,788	-	72,788
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>72,788</u>	<u>-</u>	<u>72,788</u>
LIABILITIES					
Current liabilities:					
Accounts payable	7,761,223	266,040	646,024	19,369	8,692,656
Accrued liabilities	3,111,428	4,494,258	425,421	105,812	8,136,919
Intergovernmental payables	293,613	1,504,428	-	-	1,798,041
Unearned revenues	5,780,771	-	-	-	5,780,771
Total current liabilities	<u>16,947,035</u>	<u>6,264,726</u>	<u>1,071,445</u>	<u>125,181</u>	<u>24,408,387</u>
Noncurrent liabilities:					
Due within one year	1,350,271	3,595,000	1,990,000	3,468	6,938,739
Due within more than one year	79,267,199	16,627,100	33,777,728	13,248	129,685,275
Total noncurrent liabilities	<u>80,617,470</u>	<u>20,222,100</u>	<u>35,767,728</u>	<u>16,716</u>	<u>136,624,014</u>
Total liabilities	<u>97,564,505</u>	<u>26,486,826</u>	<u>36,839,173</u>	<u>141,897</u>	<u>161,032,401</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred charges	-	116,597	26,371,798	-	26,488,395
Total deferred inflows of resources	<u>-</u>	<u>116,597</u>	<u>26,371,798</u>	<u>-</u>	<u>26,488,395</u>
NET POSITION					
Net investment in capital assets	51,096,791	6,268,414	717,054	2,123	58,084,382
Restricted	8,904,688	8,474,953	2,569,001	4,305	19,952,947
Unrestricted	<u>(31,328,907)</u>	<u>(2,705,432)</u>	<u>(3,384,779)</u>	<u>2,788,873</u>	<u>(34,630,245)</u>
Total net position	<u>\$ 28,672,572</u>	<u>\$ 12,037,935</u>	<u>\$ (98,724)</u>	<u>\$ 2,795,301</u>	<u>\$ 43,407,084</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, 2013

	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
Operating Expenses:					
Disposal fees	\$ -	\$ 2,022,181	\$ -	\$ -	\$ 2,022,181
Service fees	-	11,049,980	-	-	11,049,980
Administrative expenses	12,673,272	1,693,794	1,532,554	37,385	15,937,005
Interest expenses	115,011	938,566	1,506,292	-	2,559,869
Depreciaton	2,458,767	1,962,350	1,265,184	1,082	5,687,383
Instruction	31,054,994	-	-	-	31,054,994
Public service	39,593	-	-	-	39,593
Academic support	4,427,243	-	-	-	4,427,243
Libraries	1,312,142	-	-	-	1,312,142
Student services	6,644,208	-	-	-	6,644,208
General institution	7,811,134	-	-	-	7,811,134
Operation and maintenance of plant	9,309,622	-	3,482,068	112,770	12,904,460
Student aid	8,974,986	-	-	-	8,974,986
Personal services	-	-	-	413,006	413,006
Employee benefits	-	-	-	216,634	216,634
Purchases and contracted services	-	-	41,612	700,119	741,731
Other	4,831,941	-	-	-	4,831,941
Total operating expenses	<u>89,652,913</u>	<u>17,666,871</u>	<u>7,827,710</u>	<u>1,480,996</u>	<u>116,628,490</u>
Program revenues:					
Tipping fees	-	12,270,802	-	-	12,270,802
Energy sales	-	2,062,248	-	-	2,062,248
Other charges for services	3,158,887	-	5,076,262	136,252	8,371,401
Student tuition and fees	22,464,102	-	-	-	22,464,102
Grants and contracts	15,052,981	-	-	-	15,052,981
Other	12,056,420	142,407	13,329	653	12,212,809
Operating grants and contributions	17,110,318	-	15,795	1,017,654	18,143,767
Capital grants and contributions	417,802	-	-	-	417,802
Total program revenues	<u>70,260,510</u>	<u>14,475,457</u>	<u>5,105,386</u>	<u>1,154,559</u>	<u>90,995,912</u>
Net program expense	(19,392,403)	(3,191,414)	(2,722,324)	(326,437)	(25,632,578)
General revenues:					
Unrestricted interest and other	797,527	227,415	141,254	5,826	1,172,022
Payments from primary government	10,837,898	712,100	2,762,238	235,000	14,547,236
Total general revenues	<u>11,635,425</u>	<u>939,515</u>	<u>2,903,492</u>	<u>240,826</u>	<u>15,719,258</u>
Change in net position	(7,756,978)	(2,251,899)	181,168	(85,611)	(9,913,320)
Net position—beginning, as restated	36,429,550	14,289,834	(279,892)	2,880,912	53,320,404
Net position—ending	<u>\$ 28,672,572</u>	<u>\$ 12,037,935</u>	<u>\$ (98,724)</u>	<u>\$ 2,795,301</u>	<u>\$ 43,407,084</u>

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

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

COUNTY OF DUTCHESS, NEW YORK
Notes to the Financial Statements
Year Ended December 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Dutchess, New York (the “County”) have been prepared in conformity with accounting principles generally accepted in the United States of America applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County’s accounting principles are described below.

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 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.

Financial Reporting Entity

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 statements after the fund financial statements to emphasize that each unit is legally separate from the government.

Blended Component Unit—The following blended component unit is a legally separate entity from the County, but is, in substance, part of the County’s operations and therefore data from this unit is combined with data of the primary government.

Dutchess Tobacco Asset Securitization Corporation—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 and 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 (“LDC”) 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 LDC was established to address the capital needs of these organizations. The LDC’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.

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 discussed earlier, the government has six discretely presented component units. Three of the component units, Dutchess Community College, the Dutchess County Resource Recovery Agency and the Dutchess County Water and Wastewater Authority are considered to be major component units and are presented in separate columns in the government-wide financial statements. The remaining three are considered nonmajor units and are combined and presented in a single column in the combining Statements of Net Position—Discretely Presented Component Units and the combining Statement of Activities—Discretely Presented Component Units.

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.

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:

- The *Dutchess County Airport Fund* (Airport) accounts for the activities of the Dutchess County airport. The intent of the County is that the costs of operations of the airport will be financed through charges to users.
- The *Dutchess County Bus Transportation System* (Transportation) accounts for the activities of the County’s public transportation system. The transportation system operates for the residents of the County.

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 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*—An Agency Fund is 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 Fund*—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 so that only the net amount is included as transfers 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.

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.

Budgetary Information

Budgets and Budgetary Accounting—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, 2013, expenditures exceeded appropriations in the home and community services function by \$151,083. This negative variance occurred due to unanticipated costs within this function.

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.

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.

Encumbrances—Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriation, is employed as an extension of budgetary control in the governmental funds. The County considers encumbrances to be significant for amounts that are encumbered in excess of \$1,000,000. As of December 31, 2013, the County had one significant encumbrance for \$1,980,000 related to general municipal contracts.

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

Cash, Cash Equivalents and Investments—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. The County's short-term investments consist of certificates of deposit, obligations

of New York State, the United States Government and its agents. Investments are recorded at fair values based on quoted market prices.

Receivables—Receivables are stated net of allowances for estimated uncollectible amounts. Most 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 and Federal aid, and various grant program revenues.

Inventories and Prepaid Items—Inventories are valued at cost using the first in, first out method. The cost of inventories largely consists of fuel on-hand for the Airport fund. 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.

Other Assets—Represents the County’s share of municipal wastewater systems and waterlines, which is recorded at historical cost and depreciated over 40 years. At December 31, 2013, the County reported \$8,778,835 related to other assets.

Capital Assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads and bridges), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the County as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. For infrastructure assets, the same estimated minimum useful life is used (in excess of two years), but only those infrastructure projects that cost more than \$100,000 are reported as capital assets.

Capital assets are reported at historical cost or estimated historical cost based on appraisals if purchased or constructed. Contributed assets are reported at estimated fair value at the date of the contribution. Major outlay for capital assets and improvements are capitalized as projects are constructed. The cost of normal maintenance and repairs that do not add value to the asset or materially extend the asset’s life are not capitalized. Land and construction in progress are not depreciated. 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	\$ 5,000	Straight-line	5-40 years
Infrastructure	100,000	Straight-line	10-50 years
Machinery and equipment	5,000	Straight-line	3-15 years

When assets are retired, or otherwise disposed of, the cost and related depreciation are removed from the accounts, any resulting gain or loss is reflected in income for the period in the government-wide financial statements. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category (for example, the purchase of a new school bus included as part of *expenditures—pupil transportation*). The amount reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

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 these 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.

Revenues and Expenditures

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 2013 is \$30,660,118,245. The effective tax rate on this value is \$3.45 per thousand. The constitutional tax limit is 1.5% of the 5-year average of the equalized assessment. The 2013 levy represents approximately 17.7% of the constitutional tax limit.

Compensated Absences—Vacation leave and other compensated absences with similar characteristics of \$8,619,412 and \$37,897 in the governmental activities and business type activities, respectively at December 31, 2013, 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.

Other

Workers' Compensation and General Claims—Estimated costs associated with workers' compensation and general claims and judgments for both reported and unreported events totaled \$26,460,820 at December 31, 2013. 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 net OPEB obligation at December 31, 2013 was \$140,031,637 for the County, \$1,020,004 relating to the airport operations and \$19,056 relating to transportation operations.

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

Adoption of New Accounting Pronouncement—During the year ended December 31, 2013, the County implemented GASB Statements No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. GASB Statement No. 61 clarifies the manner in determining whether or not an organization should be included as a component unit, and GASB Statement No. 66 improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statements No. 61 and 66 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 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* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—and amendment of GASB Statement No. 68* effective for the year ended December 31, 2015. The County is, therefore, unable to disclose the impact that adopting GASB Statements No. 67, 68, 69, 70 and 71 will have on its financial position and results of operations when such statements are adopted.

2. RESTATEMENTS

A. Discretely presented component units

i) Dutchess Community College

During the year ended August 31, 2013, the College became aware that the New York State Employee Retirement System (“ERS”) accrual at August 31, 2012 was based on the ERS period of April 1, 2012 through March 31, 2013, resulting in an overaccrual of \$1,027,049 for the period August 31, 2012 through March 31, 2013. As a result, the net position, beginning of the year has been restated by this amount. The effect of these changes are summarized below:

Account Description	As Originally Stated December 31, 2012	Adjustment for Implementation of GASB 65	Restated December 31, 2012
Net position	\$ 19,470,703	\$ 1,027,049	\$ 20,497,752

ii) Dutchess Resource Recovery Agency

In March 2012, GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. This statement required the reconsideration of reporting of assets and liabilities. The Agency implemented this standard for the year ended December 31, 2013.

In accordance with this implementation, the Agency’s 2012 financial statements were restated. The substantive changes are summarized in the table below:

Account Description	As Originally Stated December 31, 2012	Adjustment for Implementation of GASB 65	Restated December 31, 2012
Amortization expense	\$ 94,552	\$ (94,552)	\$ -
Change in net position	1,242,190	94,552	1,336,742
Deferred bond financing costs, net of accumulated amortization	491,569	(491,569)	-
Deferred revenue	257,935	(72,037)	185,898
Net position			
Net investment in capital assets	5,343,897	(419,532)	4,924,365

iii) Dutchess County Water and Wastewater Authority

In March 2012, GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. This Statement required the re-consideration of reporting of assets and liabilities. The Authority implemented this standard for the year ended December 31, 2013. In accordance with this implementation, the Authority’s 2012 financial statements were restated. The substantive changes are summarized in the table on the following page.

Account Description	As Originally Stated	Adjusted From	Restated
	December 31, 2012	Implementation of GASB 65	December 31, 2012
Interest expense	\$ 1,491,666	\$ 2,967	\$ 1,494,633
Bond financing costs	37,516	7,157	44,673
Amortization expense	79,260	(79,260)	-
Change in net position	291,101	69,136	360,237
Deferred bond financing costs, net of accumulated amortization	1,001,187	(925,432)	75,755
Net position			
Net investment in capital assets	(155,056)	(925,432)	(1,080,488)

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Available cash of the County is deposited and invested in accordance with the provisions of applicable State statutes. 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:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Balance
Petty cash (uncollateralized)	\$ 23,815	\$ 900	\$ -	\$ 24,715
Money market funds	54,471	-	-	54,471
Discount note	3,440,887	-	-	3,440,887
Deposits	<u>63,776,214</u>	<u>4,580,826</u>	<u>5,462,195</u>	<u>73,819,235</u>
Total	<u>\$ 67,295,387</u>	<u>\$ 4,581,726</u>	<u>\$ 5,462,195</u>	<u>\$ 77,339,308</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)	\$ 3,018,478	\$ 3,018,478
Uninsured:		
Collateral held by bank's agent in the County's name	<u>84,419,633</u>	<u>70,800,757</u>
Total	<u>\$ 87,438,111</u>	<u>\$ 73,819,235</u>

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, 2013, 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 \$19,700,851 and cash restricted for future debt service within both the General Fund and DTASC of \$1,387,260 and \$3,495,358, respectively. Also included in restricted cash is General Fund (including self-insurance) balances subject to externally enforceable legal purpose restrictions, totaling \$5,431,023.

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 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, 2013.

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.

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

Cash and Cash Equivalents

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, 2013, the Agency had cash deposited in various banks aggregating approximately \$350,000, which is classified as Risk Category A, the lowest risk, as defined by GASB, as insured by the FDIC or collateralized with securities held by the entity's agent in the entity's name. As of December 31, 2013, the Agency had cash and cash equivalents and investments of \$10,527,110 (includes non-current investments of \$4,173,733 reported as part of other assets) in various accounts, which outside of the \$350,000 mentioned above 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, 2013:

Bank Balance	\$ 3,979,690
U.S. Treasury Bills	2,373,687
Insured Investment	<u>4,173,733</u>
Total	<u>\$ 10,527,110</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, 2013, the trustee reported the following restricted cash and cash equivalents and investments:

1999 Series A	
Project Funds	\$ 48,063
Reserve and Contingency Fund	458,312
Debt Service Reserve Fund	<u>3,897,686</u>
Total 1999 Series A	<u>\$ 4,404,061</u>
2007 Series	
Project Fund	\$ 512,144
Debt Service Reserve Fund	<u>928,023</u>
Current Restricted Funds	<u>1,440,167</u>
Reserve and Contingency Fund	74,264
Debt Service Reserve Fund	<u>742,638</u>
Non-Current Restricted Funds	<u>816,902</u>
Total 2007 Series	<u>\$ 2,257,069</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 \$1,813,823 at December 31, 2013, and are included in restricted cash and cash equivalents.

Restricted assets as of December 31, 2013 are summarized as follows:

Current Restricted Assets	
Series 1999 A	\$ 4,404,061
Series 2007	1,440,167
Energy Revenues and Debt Service Funds	<u>1,813,823</u>
Total Current-Restricted Assets	<u>7,658,051</u>
Non-Current Restricted Assets	
Series 2007	<u>816,902</u>
Total Non-Current Restricted Cash and Investments	<u>816,902</u>
Total Restricted Cash and Investments	<u>\$ 8,474,953</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;
3. Uncollateralized.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Authority or its agent in the Authority’s name; included in Category 1 are funds invested in the securities of the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations; or,
2. Uninsured and unregistered, with securities held by the counter-party’s trust department or agent in the Authority’s name; or,
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent, but not in the Authority’s name.

Cash and cash equivalents and investments by category are as follows as of December 31, 2013:

	Total
Cash in Banks	<u>\$ 2,992,620</u>
Investments:	
Money Market Funds	2,663,943
U.S. Treasury Bills & Notes	<u>1,540,563</u>
Investment Total	<u>\$ 4,204,506</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, 2013:

Construction Reserve Funds	\$ 1,446,996
Debt Service Sinking Funds	937
Debt Service Reserve Funds	<u>125,034</u>
Current Restricted Funds	<u>1,572,967</u>
Debt Service Reserve Funds Non Current	<u>2,631,539</u>
	<u>\$ 4,204,506</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 been 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, 2013, are as follows:

Governmental Activities:	
Various fees and charges:	
General Fund	\$ 6,756,239
Other governmental funds	6,523
Less allowance for doubtful accounts	<u>(2,944,476)</u>
Total	<u>\$ 3,818,286</u>
Business-type Activities:	
Various fees and charges:	
Airport	\$ 72,381
Transportation	<u>82,604</u>
Total	<u>\$ 154,985</u>

Intergovernmental receivables as of December 31, 2013, are as follows:

Governmental Activities:		
General Fund		
Due from state and federal	\$ 50,049,578	
Other	<u>1,961,198</u>	\$ 52,010,776
Capital Projects Fund		
Due from state and federal	9,055,900	
Other	<u>24,716</u>	9,080,616
DTASC Fund		
Due from state and federal		3,434,845
Other governmental funds		
Due from state and federal		<u>1,547,099</u>
Total		<u>\$ 66,073,336</u>
Business-type Activities:		
Airport		
Due from state and federal		\$ 31,612
Transportation		
Due from state and federal		<u>857,236</u>
Total		<u>\$ 888,848</u>

Due to the length of time it often takes to receive reimbursement from other governments for certain requested reimbursements, the County currently has \$8,316,056 in receivables that are not anticipated to be received within 90 days of year end.

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, 2013, the College reported total accounts receivable of \$6,224,018.

5. CAPITAL ASSETS

A. Governmental activities—Capital asset activity for the primary government's governmental activities, for fiscal year ended December 31, 2013, was as follows:

	Beginning Balance	Additions / Reclassifications	Deletions / Reclassifications	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 8,840,052	1,115,695	\$ (225,000)	\$ 9,730,747
Right of way and easements	11,281,682	1,867,457	-	13,149,139
Construction in progress	14,136,888	23,331,402	(33,375,165)	4,093,125
Total capital assets not being depreciated	<u>34,258,622</u>	<u>26,314,554</u>	<u>(33,600,165)</u>	<u>26,973,011</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	168,439,607	19,752,106	-	188,191,713
Buildings & building improvements	140,441,879	8,034,213	(1,551,291)	146,924,801
Improvements other than buildings	-	70,593	-	70,593
Machinery and equipment	64,754,312	3,128,001	(1,569,405)	66,312,908
Total capital assets, being depreciated	<u>373,635,798</u>	<u>30,984,913</u>	<u>(3,120,696)</u>	<u>401,500,015</u>
Less accumulated depreciation for:				
Infrastructure	(107,331,455)	(9,500,568)	-	(116,832,023)
Buildings & building improvements	(85,599,180)	(5,154,468)	775,645	(89,978,003)
Improvements other than buildings	-	(1,471)	-	(1,471)
Machinery and equipment	(44,908,281)	(3,631,841)	1,549,603	(46,990,519)
Total accumulated depreciation	<u>(237,838,916)</u>	<u>(18,288,348)</u>	<u>2,325,248</u>	<u>(253,802,016)</u>
Total capital assets being depreciated, net	<u>135,796,882</u>	<u>12,696,565</u>	<u>(795,448)</u>	<u>147,697,999</u>
Governmental activities capital assets, net	<u>\$ 170,055,504</u>	<u>\$ 39,011,119</u>	<u>\$ (34,395,613)</u>	<u>\$ 174,671,010</u>

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

General government	\$ 4,281,679
Public safety	3,107,040
Health	39,094
Transportation	8,828,357
Economic assistance and opportunity	350,833
Culture and recreation	1,602,398
Home and community services	78,947
Total governmental activities	<u>\$ 18,288,348</u>

B. Business-type activities—Capital asset activity for the primary government’s business-type activities (Enterprise Funds) for fiscal year ended December 31, 2013 is presented below:

	Beginning Balance	Additions / Reclassifications	Deletions / Reclassifications	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,385,364	\$ -	\$ -	\$ 3,385,364
Construction in progress	<u>292,672</u>	<u>783,657</u>	<u>(911,574)</u>	<u>164,755</u>
Total capital assets not being depreciated	<u>3,678,036</u>	<u>783,657</u>	<u>(911,574)</u>	<u>3,550,119</u>
<i>Capital assets being depreciated:</i>				
Infrastructure	28,345,754	3,917	-	28,349,671
Buildings & building improvements	11,933,637	919	-	11,934,556
Machinery and equipment	<u>12,933,877</u>	<u>964,991</u>	<u>(449,239)</u>	<u>13,449,629</u>
Total capital assets being depreciated	<u>53,213,268</u>	<u>969,827</u>	<u>(449,239)</u>	<u>53,733,856</u>
Less accumulated depreciation for:				
Infrastructure	(15,320,516)	(1,245,570)	-	(16,566,086)
Buildings & building improvements	(8,021,452)	(435,738)	-	(8,457,190)
Machinery & equipment	<u>(8,577,303)</u>	<u>(1,533,871)</u>	<u>449,239</u>	<u>(9,661,935)</u>
Total accumulated depreciation	<u>(31,919,271)</u>	<u>(3,215,179)</u>	<u>449,239</u>	<u>(34,685,211)</u>
Total capital assets being depreciated, net	<u>21,293,997</u>	<u>(2,245,352)</u>	<u>-</u>	<u>19,048,645</u>
Business activities capital assets, net	<u>\$ 24,972,033</u>	<u>\$ (1,461,695)</u>	<u>\$ (911,574)</u>	<u>\$ 22,598,764</u>

Depreciation expense for business activities was charged to functions and programs of the business-type activities as follows:

Airport	1,644,212
Transportation	<u>1,570,967</u>
Total business-type activities	<u><u>3,215,179</u></u>

C. Discretely presented component units

i) Dutchess Community College—Capital assets activity for the Dutchess Community College for the year ended August 31, 2013 is presented below:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,148,465	\$ -	\$ -	\$ 1,148,465
Construction-in-progress	32,416	83,864	-	116,280
Total capital assets not being depreciated	<u>1,180,881</u>	<u>83,864</u>	<u>-</u>	<u>1,264,745</u>
Capital assets, being depreciated				
Building and improvements	84,544,782	386,210	-	84,930,992
Furniture and equipment	8,204,907	687,818	(220,957)	8,671,768
Total capital assets, being depreciated	<u>92,749,689</u>	<u>1,074,028</u>	<u>(220,957)</u>	<u>93,602,760</u>
Less: Accumulated depreciation	<u>39,125,638</u>	<u>2,419,443</u>	<u>(220,957)</u>	<u>41,324,124</u>
Total capital assets, being depreciated, net	<u>53,624,051</u>	<u>(1,345,415)</u>	<u>-</u>	<u>52,278,636</u>
Capital assets, net	<u>\$ 54,804,932</u>	<u>\$ (1,261,551)</u>	<u>\$ -</u>	<u>\$ 53,543,381</u>

In addition to the College's capital assets, its component units, the Association and Foundation reported net capital assets of \$30,949,019 and \$21,981, respectively.

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

	2013	2012
Cost basis	\$ 5,227,174	\$ 5,227,174
Accumulated depreciation	(2,853,130)	(2,524,759)
	<u>\$ 2,374,044</u>	<u>\$ 2,702,415</u>

Depreciation expense for the year ended August 31, 2013 was approximately \$2,419,443 and amortization expense of \$39,324 for intangible assets for the year ended August 31, 2013 total \$2,458,767.

ii) Dutchess County Resource Recovery Agency—Capital asset activity for the Dutchess County Resource Recovery Agency for the year ended December 31, 2013 is presented below:

	Beginning Balance	Additions	Deletions	Ending Balance
Property	\$ 517,591	\$ -	\$ -	\$ 517,591
Plant	66,181,536	-	(113,567)	66,067,969
Equipment	1,164,191	-	(307,926)	856,265
	67,863,318	-	(421,493)	67,441,825
Less: Accumulated depreciation	<u>(39,608,051)</u>	<u>-</u>	<u>(1,713,763)</u>	<u>(41,321,814)</u>
Capital assets, net	<u>\$ 28,255,267</u>	<u>\$ -</u>	<u>\$ (2,135,256)</u>	<u>\$ 26,120,011</u>

Accumulated depreciation increased by \$1,713,763. After deducting amortization of deferred revenues associated with the funding of capital improvements of \$69,300 depreciation expense for the year ended December 31, 2013 is \$1,962,350.

iii) **Dutchess County Water and Wastewater Authority**—Capital asset activity for the Dutchess County Water and Wastewater Authority for the year ended December 31, 2013 is presented below:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 834,808	\$ -	\$ -	\$ 834,808
Improvements	175,907	-	-	175,907
Buildings	13,213,912	-	(14,980)	13,198,932
Water system	50,187,228	528,783	-	50,716,011
Machinery and equipment	6,930,113	257,894	-	7,188,007
Sewage collection system	1,364,871	-	-	1,364,871
Construction-in-progress	699,371	1,604,306	(582,327)	1,721,350
	73,406,210	2,390,983	(597,307)	75,199,886
Less: Accumulated depreciation	(19,225,347)	(1,861,037)	-	(21,086,384)
Net capital assets	<u>\$ 54,180,863</u>	<u>\$ 529,946</u>	<u>\$ (597,307)</u>	<u>\$ 54,113,502</u>

Accumulated depreciation was increased by \$1,861,037, after deducting amortization of deferred revenues associated with the Central Dutchess Water Transmission Line of \$595,853, which was put into service in 2007 for the year ended December 31, 2013. Depreciation expense for the year ended December 31, 2013 as \$1,265,184.

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental and business-type activities at December 31, 2013, were as follows:

	Governmental Activities			Total
	General Fund	Capital Projects Fund	Other Governmental Funds	
Salary and employee benefits	\$ 5,808,416	\$ 5,157	\$ 397,811	\$ 6,211,384
Other	10,348	-	-	10,348
Total accrued liabilities	<u>\$ 5,818,764</u>	<u>\$ 5,157</u>	<u>\$ 397,811</u>	<u>\$ 6,221,732</u>

	Business-type Activities		
	Airport	Transportation	Total
Salary and employee benefits	\$ 38,043	\$ 4,886	\$ 42,929
Other	25,526	2,930	28,456
Total accrued liabilities	<u>\$ 63,569</u>	<u>\$ 7,816</u>	<u>\$ 71,385</u>

7. 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 percent (3%) 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	
Year	Contribution	
2013	\$	21,284,827
2012		20,111,400
2011		16,437,430

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

	ERS		TRS	
Year	Contribution		Contribution	
2013	\$	1,894,452	\$	523,474
2012		1,768,650		459,693
2011		1,526,362		347,169

8. 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 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 an 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. GASB 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 are not recorded on a “pay-as-you-go” approach. Instead of expensing the current year premiums paid, a per capita claims cost is determined, which is 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, 2013, the County’s, Airport’s and Transportation’s annual OPEB costs of \$24,785,055, \$139,803 and \$6,182, respectively, were recognized within 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 either 5%, 15%, or 20% based on if their adjusted benefit dates are prior to July 1, 1979, prior to January 1, 2007 or after January 1, 2007, respectively. DCSEA employees have no contribution, a 15% contribution or a 20% contribution if their adjusted benefit dates are prior to November 1, 1979, between November 1, 1979 and January 1, 2004 or after January 1, 2004, respectively. For PBA employees there is no contribution or a 20% contribution if their adjusted benefit date is prior to November 1, 1979 or after November 1, 1979, respectively.

The following tables show the calculation of the projected net OPEB obligation at December 31, 2013 and 2012:

	Year Ended December 31, 2013			
	Governmental Activities	Business-type Activities		Total
		Airport	Transportation	
Annual required contribution	\$ 24,571,134	\$ 138,229	\$ 6,158	\$ 24,715,521
Interest on net OPEB obligation	4,786,904	35,233	516	4,822,653
Adjustment to annual required contribution	(4,572,983)	(33,659)	(492)	(4,607,134)
Annual OPEB cost (expense)	24,785,055	139,803	6,182	24,931,040
Contributions made (expected)	(4,426,030)	(632)	-	(4,426,662)
Increase in net OPEB obligation	20,359,025	139,171	6,182	20,504,378
Net OPEB obligation - beginning of year	119,672,612	880,833	12,874	120,566,319
Net OPEB obligation - end of year	<u>\$ 140,031,637</u>	<u>\$ 1,020,004</u>	<u>\$ 19,056</u>	<u>\$ 141,070,697</u>

Year Ended December 31, 2012

	Governmental		Business-type Activities		Total
	Activities	Airport	Transportation		
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	<u>(3,700,035)</u>	<u>(26,087)</u>	<u>(237)</u>	<u>(3,726,359)</u>	
Annual OPEB cost (expense)	27,340,340	200,755	6,680	27,547,775	
Contributions made (expected)	<u>(4,497,633)</u>	<u>(2,608)</u>	<u>-</u>	<u>(4,500,241)</u>	
Increase in net OPEB obligation	22,842,707	198,147	6,680	23,047,534	
Net OPEB obligation - beginning of year	<u>96,829,905</u>	<u>682,686</u>	<u>6,194</u>	<u>97,518,785</u>	
Net OPEB obligation - end of year	<u>\$ 119,672,612</u>	<u>\$ 880,833</u>	<u>\$ 12,874</u>	<u>\$ 120,566,319</u>	

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 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
12/31/2013	\$ 24,931,041	17.80%	\$ 141,070,699
12/31/2012	27,547,776	16.30%	120,566,319
12/31/2011	26,065,562	15.20%	97,518,785

Year Ended December 31,	Governmental Activities		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 24,785,055	17.90%	\$ 140,031,637
12/31/2012	27,340,340	16.50%	119,672,612
12/31/2011	25,871,029	15.30%	96,829,905

Year Ended December 31,	Airport		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 139,803	0.50%	\$ 1,020,004
12/31/2012	200,755	1.30%	880,833
12/31/2011	188,339	0.20%	682,686

Year Ended December 31,	Transportation		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ 6,181	0.00%	\$ 19,056
12/31/2012	6,681	0.00%	12,874
12/31/2011	6,194	0.00%	6,194

Funding Status and Funding Progress—As of December 31, 2013, the actuarial accrued liability for benefits was \$289,950,861 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.

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 – 2013 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: 6.00% from 2014 to 2015; 6.10% in 2016; then decreasing to an ultimate rate of 4.29% by 2083.

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 payroll 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, 2013 was 25 years.

A. Discretely presented component units

i) 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 which 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>2013</u>	<u>2012</u>
Annual required contribution	\$ 7,634,061	\$ 8,532,734
Interest on net OPEB obligation	1,670,386	1,422,923
Adjustment to annual required contribution	<u>(2,322,081)</u>	<u>(1,978,071)</u>
Annual OPEB cost (expense)	6,982,366	7,977,586
Contributions made	<u>(1,464,875)</u>	<u>(1,791,004)</u>
Increase in net OPEB obligation	5,517,491	6,186,582
Net OPEB obligation—beginning of year	<u>41,759,646</u>	<u>35,573,064</u>
Net OPEB obligation—end of year	<u>\$ 47,277,137</u>	<u>\$ 41,759,646</u>

The College’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013 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>
2013	\$ 6,984,366	20.98%	\$ 47,277,137
2012	7,977,586	22.45%	41,759,646
2011	7,616,360	19.75%	35,573,064

The schedule of funding progress presented as Required Supplementary Information 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.

ii) Dutchess County Resource Recovery Agency

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future when it will be paid. In adopting the requirements of GASB No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Agency recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from the prior year and provides information useful in assessing potential demands on the Agency's cash flows.

Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2007 liability. The Post Employment Benefits liability as of December 31, 2013 is \$487,100.

9. 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 GASB 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, 2013, the market value, as reported by the New York State Deferred Compensation Plan, of the plan assets totaled \$115,025,823.

10. 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 \$1,000,000.

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 and Adjustments	Liability End of Year
2013	\$ 29,710,899	978,443	7,093,519	\$ 23,595,823
2012	28,763,980	2,765,556	1,818,637	29,710,899

The financial information for the self-insurance fund is reported on the modified accrual basis within the General Fund.

11. LEASE OBLIGATIONS

Primary Government:

The County leases, buildings and equipment under non-cancelable operating leases. Total costs for such leases were \$2,648,528 for governmental activities for the year ended December 31, 2013. Future minimum lease payments at December 31, 2013 is presented below:

Year Ending December 31,	Governmental Activities
2014	\$ 2,832,780
2015	2,279,299
2016	2,044,708
2017	1,131,313
2018	761,140
	<u>\$ 9,049,240</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, 2013 are presented below:

Year Ending August 31,	Principal	Interest
2014	\$ 277,942	\$ 106,411
2015	207,623	90,917
2016	216,988	81,517
2017	226,776	71,693
2018	237,005	61,427
Thereafter	<u>1,280,256</u>	<u>136,728</u>
	<u>\$ 2,446,590</u>	<u>\$ 548,693</u>

Interest expense related to capital lease obligations was approximately \$115,011 in 2013.

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, 2013:

Year Ending August 31,	
2014	\$ 573,570
2015	573,570
2016	573,570
2017	<u>573,570</u>
	<u>\$ 2,294,280</u>

Rental expense for 2013 was approximately \$574,000.

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.

In addition to the College, its component unit the Association entered into a capital lease agreement to finance the purchase of geothermal pumps used to heat the student resident halls. Interest on the capital lease is 3.48% and the outstanding balance on the lease is \$950,883.

12. LONG-TERM DEBT

A summary of changes in the County's long-term liabilities for the year ended December 31, 2013 is presented below:

	Beginning Balance	Additions	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds ("GOB")	\$ 102,355,337	\$ 5,716,871	\$ 13,817,058	\$ 94,255,150	\$ 14,028,504
Premium on GOB	3,945,173	252,161	296,431	3,900,903	309,039
Tobacco Settlement Bonds (DTASC)	33,280,000	-	1,675,000	31,605,000	-
Discount	(1,326,613)	-	(75,742)	(1,250,871)	-
Subordinate turbo CABs (DTASC)	26,236,279	-	-	26,236,279	-
Total bonds payable	164,490,176	5,969,032	15,712,747	154,746,461	14,337,543
Accreted interest on CABs (DTASC)	15,664,368	2,872,412	-	18,536,780	-
Workers' compensation and general claims	30,710,899	2,843,440	7,093,519	26,460,820	-
Other post-employment benefits	119,672,612	29,358,038	8,999,013	140,031,637	-
Compensated absences	8,471,514	168,000	20,102	8,619,412	430,971
Environmental clean up	320,000	2,030,000	-	2,350,000	-
Total governmental activities	<u>\$ 339,329,569</u>	<u>\$ 43,240,922</u>	<u>\$ 31,825,381</u>	<u>\$ 350,745,110</u>	<u>\$ 14,768,514</u>
Business type activities:					
Bonds payable:					
Airport bonds	\$ 3,702,923	\$ 493,000	\$ 422,679	\$ 3,773,244	\$ 343,382
Transportation bonds	1,643,181	-	166,705	1,476,476	167,985
Total bonds payable	5,346,104	493,000	589,384	5,249,720	511,367
Compensated absences	34,870	3,027	-	37,897	1,895
Other post-employment benefits	893,707	180,136	34,783	1,039,060	-
Total business-type activities	<u>\$ 6,274,681</u>	<u>\$ 676,163</u>	<u>\$ 624,167</u>	<u>\$ 6,326,677</u>	<u>\$ 513,262</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 2033. 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 4.23% of its constitutional debt limit as of December 31, 2013.

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 final \$150,000 principal payment of this defeased debt was paid off during the fiscal year ended December 31, 2013.

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 \$1,685,000 at December 31, 2013. 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 \$3,870,000 at December 31, 2013.

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 \$7,260,000 at December 31, 2013.

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 \$4,180,000 at December 31, 2013.

In November 2013, the County issued \$6,209,871 in public improvements serial bonds of which \$5,432,521, \$493,000 and \$284,350 relates to governmental activities, business-type activities and Dutchess Community College, respectively. These bonds mature in 2033 and carry an annual interest rate that range from 2.0 – 5.0 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 2013, DTASC made a Turbo Redemption payment of \$1,675,000.

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, 2013 is presented below:

Description	Year of Maturity	Yield	Beginning Balance 1/1/2013	Additions	Deletions	Ending Balance 12/31/2013
Tobacco Settlement Bonds:						
Series 2003	2043	various	\$ 33,280,000	\$ -	\$ 1,675,000	\$ 31,605,000
Bond Discount			(1,326,613)	-	75,742	(1,250,871)
Net Tobacco Settlement Bonds			\$ 31,953,387	\$ -	\$ 1,750,742	\$ 30,354,129

DTASC debt service requirements based upon planned principal payments for Tobacco Settlement Bonds, Series 2003 is presented on the following page.

Year ended December 31,	Principal	Interest	Total
2014	\$ -	\$ 1,879,463	\$ 1,879,463
2015	-	1,879,463	1,879,463
2016	-	1,879,463	1,879,463
2017	-	1,879,463	1,879,463
2018	-	1,879,463	1,879,463
2019-2023	-	9,397,313	9,397,313
2024-2028	-	9,397,313	9,397,313
2029-2033	6,735,000	8,573,481	15,308,481
2034-2038	10,495,000	5,968,950	16,463,950
2039-2043	14,375,000	2,267,250	16,642,250
Total	<u>\$ 31,605,000</u>	<u>\$ 45,001,622</u>	<u>\$ 76,606,622</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, 2013 follows:

	Interest Rate	Original Principal	Beginning Balance 1/1/2013	Annual Net Interest Accretion	Turbo Redemption Payments	Ending Balance 12/31/2013
Subordinate Turbo CABs	6.00% - 7.85%	<u>\$ 26,236,279</u>	<u>\$ 41,900,647</u>	<u>\$ 2,872,412</u>	<u>\$ -</u>	<u>\$ 44,773,059</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

Workers' Compensation and General Claims—The County is self-insured. Liabilities are established for workers' compensation and general claims in accordance with GASB requirements. At December 31, 2013, the County reported \$23,595,823 of workers' compensation liability and \$1,000,000 as general claims, and \$1,864,997 estimated retroactive adjustments for the County's share of expenses from state run facilities. 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 invoiced from the County.

Environmental Clean Up—The results of the County's evaluation of its underground storage tank removal concluded with an estimate of \$2,350,000 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, 2013, the County debt service requirements relating to bonds payable are as follows:

Year Ending December 31,	Governmental Activities		Total	Business-type Activities		Total
	Principal	Interest		Principal	Interest	
2014	\$ 13,928,504	\$ 3,498,256	\$ 17,426,760	\$ 611,367	\$ 185,685	\$ 797,052
2015	12,854,266	2,990,420	15,844,686	575,734	169,051	744,785
2016	10,298,269	2,527,141	12,825,410	576,731	148,403	725,134
2017	8,991,492	2,127,415	11,118,907	553,508	121,873	675,381
2018	7,582,374	1,752,801	9,335,175	507,626	100,811	608,437
2019-2023	27,509,983	4,970,776	32,480,759	1,769,455	281,849	2,051,304
2024-2028	11,857,262	1,238,133	13,095,395	653,299	47,670	700,969
2029-2033	1,233,000	92,176	1,325,176	2,000	108	2,108
Total	\$ 94,255,150	\$ 19,197,118	\$ 113,452,268	\$ 5,249,720	\$ 1,055,450	\$ 6,305,170

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, 2013:

	Balance September 1, 2012	New Issues/ Additions	Maturities and/or Payments	Balance August 31, 2013	Due within one-year
Capital Lease Obligations	\$ 2,738,024	\$ -	\$ 291,434	\$ 2,446,590	\$ 277,942
Other non-current liabilities					
Compensated absences	2,599,093	329,163	260,000	2,668,256	267,000
Other post-employment benefit obligations payable	41,759,646	6,982,366	1,464,875	47,277,137	-
Total Long-Term Liabilities	\$ 47,096,763	\$ 7,311,529	\$ 2,016,309	\$ 52,391,983	\$ 544,942

In addition to the College, its component unit, the Association reported a long-term mortgage payable and capital lease obligations in the amount of \$27,346,945 and \$878,542, respectively as of August 31, 2013.

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, 2013:

Interest Rate	Issue Date	Maturity Date	Outstanding December 31, 2013
Serial Bonds			
5.40%	1999	2013	\$ -
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>19,735,000</u>
			Less: Current Portion <u>(3,595,000)</u>
			<u>\$ 16,140,000</u>

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

Year ended December 31,	Principal	Interest	Total
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	1,070,000	569,888	1,639,888
2019-2023	6,160,000	2,044,282	8,204,282
2024-2027	5,990,000	553,727	6,543,727
	<u>\$ 19,735,000</u>	<u>\$ 6,022,163</u>	<u>\$ 25,757,163</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, 2013 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.

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 County Sewer Districts #1 and 2. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below for Part County Sewer District #2.

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, 2013 are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,170,000	607,644	2,777,644
2019-2023	7,995,761	6,762,267	14,758,028
2024-2028	5,557,805	7,906,715	13,464,520
2029-2033	2,549,540	4,322,940	6,872,480
2034-2038	1,695,070	3,555,049	5,250,119
2039-2043	535,576	1,168,961	1,704,537
	<u>\$ 28,723,752</u>	<u>\$ 27,415,800</u>	<u>\$ 56,139,552</u>

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, 2013 is presented below:

	<u>2013</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%	\$ 130,000
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%	395,000
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.	1,183,410
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,345,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00%-4.25%	1,430,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2037, interest 4.00%-5.00%	1,685,000
2007 Sewer Service Agreement Revenue Bond Series 2007, due in various installments through 2027, interest 4.00%-4.625%	315,000
2009 Water Service Agreement Revenue Bond Series 2009, due in various installments through 2029, interest 3.00%-5.00%	6,375,000
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 Revolving Fund Revenue (Refunding) Bond Series 2010C, due in various installments through 2019, interest .8450%-3.355%	7,040,000
New York State Environmental Facilities Corporation State Drinking Water Revolving Fund Revenue (Refunding) Bond Series 2011C, due in various installments through 2023, interest .540%-3.165%	1,785,000
2011 Service Agreement Revenue Bond Series 2011, due in various installments starting in 2012 through 2041, interest 3.50%-4.25%	<u>1,875,000</u>
Total Bonds payable	28,723,752
Accreted interest recorded on zero coupon bonds	<u>5,943,310</u>
Total Bonded debt payable	34,667,062
Portion due within one year	<u>(1,990,000)</u>
Net long term debt payable	<u>\$ 32,677,062</u>

	Balance January 1, 2013	New Issues/ Additions**	Maturities and/or Payments	Balance December 31, 2013	Due Within One Year
Bonds Payable	\$ 36,011,806	\$ 610,256	\$ (1,955,000)	\$ 34,667,062	\$ 1,990,000
OPEB Liability	943,875	156,791	-	1,100,666	-
	<u>\$ 36,955,681</u>	<u>\$ 767,047</u>	<u>\$ (1,955,000)</u>	<u>\$ 35,767,728</u>	<u>\$ 1,990,000</u>

**Bonds payable increased by \$610,255 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 17 – Commitments and Contingencies.

13. NET POSITION AND FUND BALANCE

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	\$ 174,671,010
Intangible asset, net of amortization	8,778,835
Related debt:	
Serial bonds issued	(150,845,558)
Premium on general obligation bonds	(3,900,903)
Serial bonds issued on behalf of Dutchess Community College	7,929,850
Unspent proceeds reported within the Capital Projects Fund	<u>10,362,112</u>
Debt issued for capital assets	<u>(136,454,499)</u>
Net investment in capital assets	<u>\$ 46,995,346</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 investment in assets of the County not restricted for any project or other purpose.

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, 2013, the County had \$5,485,424 of prepaid expenses and \$86,089 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, 2013, the County had the restricted funds listed below.

	General Fund	Capital Projects Fund	DTASC Fund	Total
Restricted for:				
Workers' compensation	\$ 2,650,629	\$ -	\$ -	\$ 2,650,629
Self insurance	962,055	-	-	962,055
Capital projects	4,578	18,950,881	-	18,955,459
Debt service	3,210,477	-	3,495,358	6,705,835
Other	<u>128,327</u>	-	-	<u>128,327</u>
Total restricted fund balance	<u>\$ 6,956,066</u>	<u>\$ 18,950,881</u>	<u>\$ 3,495,358</u>	<u>\$ 29,402,305</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. As of December 31, 2013, the County had no commitments of 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 Legislatures, 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

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 \$712,100 and \$4,138,682 during 2013 and 2012, respectively. At December 31, 2013 \$83,876 was due from Dutchess County and included in due from related party.

During 2013 and 2012, the Agency participated in the health and dental insurance plan administered by Dutchess County and was charged \$139,205 and \$140,578 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 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 2013 and 2012, the Authority recorded net revenues of \$2,762,238 and \$2,797,085, having recorded a return of \$116,341 and \$37,672 to the County during those years. Nothing 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, PAYABLES AND TRANSFERS

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, 2013 are presented on the following page.

Fund	Interfund			
	Receivables	Payables	Transfers In	Transfers Out
Governmental activities:				
General Fund	\$ 4,990,428	\$ -	\$ 2,239,577	\$ 4,205,633
Capital Projects Fund	-	4,931,313	4,944	959,186
Other governmental funds	-	35,722	-	-
Fiduciary funds	-	936	-	-
Total	<u>4,990,428</u>	<u>4,967,971</u>	<u>2,244,521</u>	<u>5,164,819</u>
Business-type activities:				
Airport Fund	58	22,515	600,830	-
Transportation Fund	-	-	2,437,078	117,610
Total	<u>58</u>	<u>22,515</u>	<u>3,037,908</u>	<u>117,610</u>
Total primary government	<u>\$ 4,990,486</u>	<u>\$ 4,990,486</u>	<u>\$ 5,282,429</u>	<u>\$ 5,282,429</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 within the government-wide financial statements. This estimate is based upon assessments of individual cases reported at December 31, 2013 for which the estimate of probable 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, 2013, as evidenced by contractual commitments.

Project	Commitment Outstanding
Transportation	\$ 164,755
County roads and bridges	2,943,151
Parks and recreation	116,959
Building and building improvements	10,070
Stadium improvements	1,008,658
Jail project - land acquisition	14,287
	<u>\$ 4,257,880</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, 2013, the County has provided \$8,778,835 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 2013.

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. During the year ended December 31, 2013 the County's portion of these costs was \$3,474,338.

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 OMB 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. The Agency has contracted to pay utilities, insurance and certain other expenses pertaining to plant operations subject to certain maximum levels.

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. During 2013 and 2012, the Agency caused to have delivered 146,513 and 142,584 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 expired 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. During 2013, the Agency renewed the contract for an additional year, through June 30, 2015.

Materials Recovery Facility Project Agreement

The Agency has previously operated a materials recovery facility. As of December 31, 2012, the plant had discontinued operations. During 2013, the Agency sold salvageable equipment and relinquished its use of the property and returned it to the County.

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 2013 and 2012, the Agency recorded net service revenue from the County of \$712,100 and \$4,138,682. The decreased net service revenue for 2013 reflects the pending use of debt service reserve funds, amounting to \$3,692,694, towards the 1999 A Series Bond principal and interest due January 1, 2014.

Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility. The Title V Air Control permit and runs through September 2016. The 360 Operating permit expired in July 2011. Applications to renew the permit were submitted to the New York State Department of Environmental Conservation (NYSDEC) prior to expiration. 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 employs an independent engineer to prepare an annual report summarizing waste processed, utility usage, supplemental compensation, and other items relating to revenues and expenses of the Operator. The Agency and the Operator have yet to agree to and accept the

annual reconciliations for the years 2008 through 2013. Any amounts due to or from the Operator are expected to be settled concurrently with the expiration of the current contract in June 30, 2014.

iii) Dutchess County Water and Wastewater Authority

Litigation

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 \$38,283,997 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. No debt has been issued under this authorization, and current plans provide for the use of Corridor funds instead.

In September 2013, the Authority authorized the financing of \$2,757,441 with New York State Environmental Facilities Corporation. The purpose of the notes is to provide the Authority with funds to pay for improvements to the Shore Haven water system. As of December 31, 2013, there have been no drawdowns on this debt.

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 2013 and 2012, the Authority recorded net revenues of \$2,762,238 and \$2,797,085, having recorded a return of \$116,341 and \$37,672 to the County during those years. Of those amounts, \$0 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 5, 2014, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

REQUIRED SUPPLEMENTARY
INFORMATION

COUNTY OF DUTCHESS, NEW YORK
Required Supplementary Information
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES				
Real property taxes	102,615,756	105,595,862	106,135,068	539,206
Sales and use taxes	148,376,676	173,376,677	169,969,541	(3,407,136)
Departmental income	27,747,845	28,056,763	22,147,828	(5,908,935)
Use of money and property	851,205	851,205	1,854,963	1,003,758
Miscellaneous	5,250,618	3,986,044	8,600,133	4,614,089
Grants and aid	94,760,948	99,061,810	103,218,680	4,156,870
Total revenues	<u>379,603,048</u>	<u>410,928,361</u>	<u>411,926,213</u>	<u>997,852</u>
EXPENDITURES				
Current:				
General government support	40,787,901	67,054,245	58,776,243	8,278,002
Education	13,367,990	13,434,490	13,420,767	13,723
Public safety	56,132,342	60,316,516	56,794,885	3,521,631
Health	55,161,683	55,189,753	49,715,268	5,474,485
Transportation	2,738,840	2,775,207	2,756,061	19,146
Economic assistance and opportunity	148,725,434	148,206,318	140,306,867	7,899,451
Culture and recreation	1,883,394	1,901,371	1,757,274	144,097
Home and community services	7,597,711	7,602,865	7,753,948	(151,083)
Employee benefits	56,103,606	55,958,610	55,078,360	880,250
Debt service:				
Principal	13,889,254	13,827,943	13,817,058	10,885
Interest	3,722,158	3,783,469	3,783,468	1
Total expenditures	<u>400,110,313</u>	<u>430,050,787</u>	<u>403,960,199</u>	<u>26,090,588</u>
Excess (deficiency) of revenues over expenditures	<u>(20,507,265)</u>	<u>(19,122,426)</u>	<u>7,966,014</u>	<u>27,088,440</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,239,577	2,239,577
Transfers out	<u>(2,868,758)</u>	<u>(2,905,633)</u>	<u>(4,205,633)</u>	<u>(1,300,000)</u>
Total other financing sources (uses)	<u>(2,868,758)</u>	<u>(2,905,633)</u>	<u>(1,966,056)</u>	<u>939,577</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(23,376,023)</u>	<u>(22,028,059)</u>	<u>5,999,958</u>	<u>28,028,017</u>
Net change in fund balance	<u>(23,376,023)</u>	<u>(22,028,059)</u>	<u>5,999,958</u>	
Fund balances—beginning	<u>47,483,834</u>	<u>47,483,834</u>	<u>47,483,834</u>	
Fund balances—ending	<u>\$ 24,107,811</u>	<u>\$ 25,455,775</u>	<u>\$ 53,483,792</u>	

COUNTY OF DUTCHESS, NEW YORK
Schedule of Funding Progress—
Other Post-Employment Benefits Plans
Year Ended December 31, 2013

Governmental Activities:

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, 2013	\$ -	\$ 289,950,861	\$ 289,950,861	0.0%	\$ 108,423,204	267.4%
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%

Discretely presented component unit—Dutchess Community College:

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, 2013	\$ -	\$ 68,890,220	\$ 68,890,220	0.0%	\$ 25,993,680	265.0%
December 31, 2012	-	78,962,149	78,962,149	0.0%	26,304,038	300.2%
December 31, 2011	-	73,704,326	73,704,326	0.0%	24,981,995	295.0%

FEDERAL AWARDS
INFORMATION

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor Program Title (1)	Federal CFDA Number (2)	Pass-Through Grantor (3)	Federal Expenditures
U.S. Department of Agriculture			
Passed through NYS Office of Temporary and Disability Assistance State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	NYS Office of Temporary and Disability Assistance	\$ 1,963,418
Total U.S. Department of Agriculture			\$ 1,963,418
U.S. Department of Housing and Urban Development			
Direct Grant:			
Community Development Block Grant—Entitlement Grant	14.218	U.S. Department of Housing and Urban Development	1,518,251
HUD Shelter Plus Care	14.238	U.S. Department of Housing and Urban Development	104,798
Home Investment Partnerships Program	14.239	U.S. Department of Housing and Urban Development	1,351,837
Continuum of Care	14.267	U.S. Department of Housing and Urban Development	307,477
Total U.S. Department of Housing and Urban Development			3,282,363
U.S. Department of Justice			
Direct Grant:			
Violence Against Women Formula Grant	16.588	U.S. Department of Justice	74,200
State Criminal Alien Assistance Program	16.606	U.S. Department of Justice	109,427
Bulletproof Vest Partnership Program	16.607	U.S. Department of Justice	1,565
Passed through NYS Division of Criminal Justice: Edward Byrne Memorial Justice Assistance Grant Program	16.738	NY State Division of Criminal Justice Services	18,477
Total U.S. Department of Justice			203,669
U.S. Department of Labor			
Passed through NYS Department of Labor:			
Trade Adjustment Assistance	17.245	NY State Department of Labor	142,173
WIA—Adult Program	17.258	NY State Department of Labor	460,414
WIA—Youth Activities	17.259	NY State Department of Labor	557,643
WIA—National Emergency Grant	17.277	NY State Department of Labor	50,279
WIA—Dislocated Workers	17.278	NY State Department of Labor	575,348
Total U.S. Department of Labor			1,785,857

(continued)

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor Program Title (1)	Federal CFDA Number (2)	Pass-Through Grantor (3)	Federal Expenditures
U.S. Department of Transportation			
Direct Grant:			
Airport Improvement Program	20.106	U.S. Department of Transportation	149,672
Federal Transit Capital Investment Grants	20.500	U.S. Department of Transportation	2,654,363
Federal Transit Metropolitan Planning Grants	20.505	U.S. Department of Transportation	128,265
Formula Grants for Other than Urbanized Areas	20.509	U.S. Department of Transportation	78,705
Interagency Hazardous Materials Public Sector Training & Planning Grants	20.703	U.S. Department of Transportation	16,250
Passed through NYS Department of Transportation:			
Highway Planning and Construction	20.205	NY State Department of Transportation	6,548,260
Highway Planning and Construction - ARRA	20.205	NY State Department of Transportation	243,019
New Freedom Program	20.521	NY State Department of Transportation	65,845
Occupant Protection	20.602	NY State Department of Transportation	16,950
Safety Incentive Grants for Use of Seatbelts	20.604	NY State Department of Transportation	8,726
Passed through NYS STOP-DWI Foundation:			
State and Community Highway Safety	20.600	NYS STOP-DWI Foundation	<u>184,871</u>
Total U.S. Department of Transportation			10,094,926
National Science Foundation			
Ecology of Infectious Diseases - Anaplasma Grant	47.047	National Science Foundation	<u>7,492</u>
Total National Science Foundation			7,492
U.S. Department of Education			
Passed through NYS Department of Health:			
Special Education—Grants for Infants and Families	84.181	NY State Department of Health	<u>1,003,452</u>
Total U.S. Department of Education			1,003,452
U.S. Department of Health and Human Services			
Direct Grant:			
Medical Reserve Corps	93.008	U.S. Department of Health and Human Services	9,000
HIV Emergency Relief Formula Grants	93.917	U.S. Department of Health and Human Services	274,547
Passed through NYS Office for the Aging			
Special Programs for Aging ,Title III, Part D	93.043	NY State Office for the Aging	14,670
Special Programs for Aging, Title III, Part B	93.044	NY State Office for the Aging	281,202
Special Programs for Aging, Title III, Part C	93.045	NY State Office for the Aging	378,044

(continued)

COUNTY OF DUTCHESS, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor Program Title (1)	Federal CFDA Number (2)	Pass-Through Grantor (3)	Federal Expenditures
Special Programs for Aging, Title IV & Title II Discretionary Grants	93.048	NY State Office for the Aging	14,701
National Family Caregiver Support Title III, Part E	93.052	NY State Office for the Aging	108,199
Nutrition Services Incentive Program	93.053	NY State Office for the Aging	79,600
Public Health Emergency Preparedness	93.069	NY State Department of Health	164,545
Centers for Medicare and Medical Services (CMS)	93.779	NY State Office for the Aging	36,358
Passed through NYS Department of Health:			
Immunization Grants	93.268	NY State Department of Health	45,382
Medical Assistance Program	93.778	NY State Department of Health	1,396,029
Anaplasma Grant	93.977	NY State Office for the Aging	3,343
Maternal and Child Health Services Block Grant	93.994	NY State Department of Health	66,878
Passed through NYS Office of Temporary and Disability Assistance:			
Temporary Assistance to Needy Families (TANF)	93.558	NY State Office of Temporary and Disability Assistance	7,376,934
Child Support Enforcement, Title IV-D	93.563	NY State Office of Temporary and Disability Assistance	428,470
Low Income Home Energy Assistance (HEAP)	93.568	NY State Office of Temporary and Disability Assistance	5,027,277
Passed through NYS Office of Children and Family Services:			
Foster Care - Title IV-E	93.658	NY State Office of Children and Family Services	4,278,200
Social Services Block Grant	93.667	NY State Office of Children and Family Services	13,770,834
Chafee Foster Care Independent Living	93.674	NY State Office of Children and Family Services	142,235
Passed through NYS Division of Alcoholism and Alcohol Abuse:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	NY State Division of Alcoholism and Alcohol Abuse	<u>65,469</u>
Total U.S. Department of Health and Human Services			33,961,917
U.S. Department of Homeland Security			
Passed through NYS Emergency Management Office:			
Disaster Grants - Public Assistance	97.024	NY State Emergency Management Office	500
Disaster Grants - Public Assistance	97.036	NY State Emergency Management Office	190,063
Emergency Management Performance Grant	97.042	NY State Emergency Management Office	129,482
Passed through NYS Office of Homeland Security:			
Homeland Security Grant Program	97.067	NY State Office of Homeland Security	776,484
Law Enforcement Terrorism Prevention Program (LETPP)	97.073	NY State Office of Homeland Security	<u>34,718</u>
Total U.S. Department of Homeland Security			<u>1,131,247</u>
Total Expenditures of Federal Awards			<u>\$ 53,434,341</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, 2013

Program Title/Subrecipient	Federal CFDA Number	Federal Expenditures
State Administrative Matching Grants for Food Stamps	10.561	\$ 180,950
Community Development Block Grant (Entitlement Grants)	14.218	1,518,252
Shelter Plus Care	14.238	104,798
Home Investment Partnership Program	14.239	1,351,837
Continuum of Care	14.267	307,477
WIA—Adult Program	17.258	401,815
WIA—Youth Activities	17.259	486,670
WIA—National Emergency Grant	17.277	46,783
WIA—Dislocated Workers	17.278	502,122
Highway Planning and Construction	20.205	8,736
FTA Urbanized Area Program	20.500	443,115
New Freedoms Program	20.521	65,845
Temporary Assistance for Needy Families	93.558	1,901,638
Low Income Home Energy Assistance	93.568	353,648
Child Care Block Grant	93.575	255,317
Temporary Assistance for Needy Families	93.667	1,226,642
Community Development Block Grant (Entitlement Grants)	93.778	317,500
Total		<u>\$ 9,473,145</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, 2013

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the County under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a select portion of the operations of the County, it is not intended to and does not present the financial position or changes in net position of the County. The following notes were identified on the schedule of expenditures of federal awards:

- (1) Includes all federal award programs of the County of Dutchess, New York.
- (2) Source: Catalog of Federal Domestic Assistance.
- (3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

3. INDIRECT COSTS

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

4. MATCHING COSTS

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

5. DEPARTMENT OF SOCIAL SERVICES – ADMINISTRATIVE COSTS

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

6. RECONCILIATION

A reconciliation to the basic financial statements is available.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

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, 2013, 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 5, 2014. Our report is qualified on the aggregate discretely presented component units and includes a reference to other auditors who audited the financial statements of the Dutchess Community College, the Dutchess Resource Recovery Agency and the Dutchess County Water and Wastewater Authority, as described in our report on the County's financial statements. 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.

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. *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.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in

internal control, described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 that we consider to be significant deficiencies.

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 finding identified in our audit as described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Drescher & Malecki LLP

September 5, 2014

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 U.S. Office of Management and Budget (*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, 2013. 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 \$22,851,796 in federal awards which are not included in the County's schedule of expenditures of federal awards for the year ended December 31, 2013. 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, 2013.

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.

Drescher & Malecki LLP

September 5, 2014

COUNTY OF DUTCHESS, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Part I. Summary of auditors' results

Financial Statements:

Type of auditors' report issued: Unmodified*

*which report is qualified on the aggregate discretely presented component units and refers to other auditors

Internal control over financial reporting:

- | | | |
|---|---|--|
| 1. Material weakness(es) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 2. Significant deficiency(ies) identified not considered to be material weaknesses? | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> None reported |
| 3. Noncompliance material to the financial statements noted? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

Federal Awards:

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

Internal control over major programs:

- | | | |
|---|------------------------------|---|
| 4. Material weakness(es) identified? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 5. Significant deficiency(ies) identified not considered to be material weaknesses? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None reported |
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> None |

7. The District's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Highway Planning and Construction	20.205
Highway Planning and Construction—ARRA	20.205
Low-Income Home Energy Assistance	93.568
Social Services Block Grant	93.667
Medical Assistance Program	93.778

- | | | |
|---|------------------------------|--|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? | | <u>\$ 1,603,030</u> |
| 9. Auditee qualified as low-risk auditee? | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

COUNTY OF DUTCHESS, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Part II. Financial statement findings section

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

Finding 2013-001—Airport Operations

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

Condition and Context: 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. Lastly, deposits were not deposited in a timely manner as they were only deposited twice a month.

Effect or Potential Effect: Amounts may be being billed inappropriately since they do not match contracts. Since customers are able to make late payments and without being charged penalties, it cannot be assured that payments will be received in a timely manner. Finally, deposits' being made only twice a month increases the risk of a misappropriation of cash.

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

Recommendation: We recommend that the County updates its contracts for the current billing amounts or obtains signed memos from customers indicating their agreement to the current billing amount. We recommend that late fees be enforced and charged for customers that do not pay by the tenth day of the month. Finally, we recommend that deposits be performed at least once a week.

Management Response: Per discussion with management, the Airport will work towards these initiatives as many of them represent work in progress from last year. The Airport intends to send out memos to be signed and returned stating each customer's current rates. Further, updates to QuickBooks software is anticipated to help assess and change late fees when a billing is collected beyond the due date.

Finding 2013-002—Enterprise Funds' Fiscal Stability

Criteria: Enterprise funds are established to account for specific purpose governmental activities in a manner which is similar to that of a private sector business. The County's Airport and Transportation funds are financed through user fees and charges and should generate sufficient revenue to support the operations.

Condition and Context: Currently, the General Fund is subsidizing a portion of the Enterprise fund operations through operating transfers. During fiscal year end 2013, the General Fund transferred \$600,830 and \$2,437,078 to the Airport and Transportation funds, respectively.

Effect or Potential Effect: Consequently, this subsidy to the Enterprise funds has decreased the General Fund fund balance by nearly \$2,920,298 at December 31, 2013.

Cause: The County's enterprise funds are not generated sufficient revenues to support operations.

Recommendation: We recommend the County continue to evaluate the operations of the enterprise funds to implement operating models in which the General Fund is not relied upon to close the gap between revenues and expenses.

Management Response: An operational and financial assessment of the Dutchess County Airport was recently completed to analyze various operational models at other Airports and review potential options available to the county. This study was initiated to meet the county's goal of finding the most effective ways for the Airport to become financially self-sustaining positioning the Airport as both a transportation resource for the region, as well as a source for increased opportunities for economic development. Based on findings of the study funding was recently approved to develop an RFP to hire an FBO (fixed-base operator) to be responsible for the activities of the airport. The Administration is also working with the Dutchess County Water & Wastewater Authority and the Dutchess County Planning & Development Department to develop plans to provide municipal water service to the Airport in order to promote future development and associated revenues. The County has secured a \$750,000 NYS economic development grant for a water infrastructure project at the Dutchess County Airport and continues to look for additional funding opportunities. The Airport is managing tenant leases to retain and promote maximum occupancy of lease spaces in the terminal building, outbuildings, hangars and tie-downs. An Open House will be held again this year to promote Airport awareness and foster a positive public image of the Airport. The Airport continues to focus on grant opportunities, setting competitive aviation fuel pricing and periodically adjusting user fees to maximize revenues while remaining competitive with other similar size airports in the region. Debt service previously budgeted in the EA fund for the county balefill project has been transferred to the general fund, resulting in annual decrease in the airport subsidy of \$154,800.

Although the bale fill is located on Airport property, this project was not related to the operations of the Airport. Therefore, it's more appropriately budgeted in the general fund. Over the last three years, the adopted general fund contribution to the Airport has decreased by \$314,949, going from \$793,403 in 2011 down to \$478,454 for 2014.

The largest growing expenditure for the Public Transportation Division is the payment to our transportation management contractor for their employee salaries and fringe benefits. Units installed in the fare boxes in 2013 will be activated in 2014, facilitating change in the form of a debit card for passengers who do not have exact change. This will also reduce the opportunity for potential fraud and cash handling errors insuring that all revenues collected are accounted for. The Public Transportation Division will continue to pursue all grant opportunities. Bus fares, routes and schedules will continue to be evaluated and adjusted periodically as needed to maximize ridership and revenue. A contractor has been selected to manage the transit system advertising programs. External advertising frames will be installed on all existing and new buses in 2014 with the goal to generate advertising revenue and reduce the general fund contribution. Our goal is to deliver quality transportation services at a reasonable cost to the public who rely on these services, while minimizing the impact to our taxpayers and fund balance.

COUNTY OF DUTCHESS, NEW YORK
Schedule of Prior Year Audit Findings
Year Ended December 31, 2013
(Follow Up on December 31, 2012 Findings)

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 and Context: 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 or Potential 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.

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.

Current Status: The County has implemented corrective actions for the fiscal year ended 2013.

Finding 2012-2—Airport Operations

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

Condition and Context: 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 or Potential 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.

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.

Current Status: This item has not been corrected and is carried forward to current year finding 2013-001.

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 and Context: 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 or Potential 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.

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

<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	38,493
Total		<u>\$ 167,447</u>

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

Current Status: The County has corrected this error for the fiscal year ended 2013.

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 and Context: 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 or Potential Effect: Non-compliance with HUD reporting standard.

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

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

Current Status: The County is working on completing and submitting the required reports. In the future, management intends to submit all Home Investment Partnership Program reporting requirements on a timely basis.