

Dutchess County, New York

**Annual Financial Report
(and Report of Independent Auditors)
December 31, 2006**



Dutchess County, New York
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December 31, 2006

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Report of Independent Auditors

The Honorable Members of the County Legislature and
The County Executive
Dutchess County, New York

In our opinion, based on our audit and the reports of other auditors, 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 Dutchess County, New York (the "County") which collectively comprise the County's basic financial statements as listed in the table of contents, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County, at December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Dutchess Community College, the Dutchess Resource Recovery Agency, the Dutchess County Water and Wastewater Authority, and the Dutchess County Industrial Development Agency which represents 99 percent of the total assets, net assets and net expense of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us. As described in Note 2, the financial statements of the Dutchess Community College have been adjusted for the presentation of long-term liabilities and net assets included in these financial statements; and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The management's discussion and analysis on pages 3 through 16 and budgetary comparison information on pages 82 and 83 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2007, which references the reports of other auditors, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

PricewaterhouseCoopers LLP
September 5, 2007

Dutchess County, New York

Management's Discussion and Analysis

December 31, 2006

The following discussion and analysis of the financial statements of the County of Dutchess (the "County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2006. It should be read in conjunction with the basic financial statements and notes to the financial statements contained herein.

Financial Highlights

- Dutchess County issued \$10.2 million Public Improvement Refunding (Serial) Bonds, 2006 Series dated May 18, 2006. The series consisted of \$8.7 Million Public Improvement (Serial) Bonds 2006, Series A, maturity date February 15, 2018; and \$1.5 Million Public Improvement (Serial) Bonds, Series B, maturity date August 15, 2014. Their interest rates range from 4% to 5%.

The 2006 bonds were issued to advance refund \$10.2 million in Public Improvement (Serial) Bonds originally issued by the County as follows: \$5.8 million remaining from the \$18.3 million Public Improvement (Serial) Bonds, July 15, 1996, maturity date March 15, 2016; \$1.5 million remaining from the \$5.2 Public Improvement (Serial) Bonds, August 1, 1997, maturity date October 15, 2014; and \$2.9 million remaining from the \$11.5 million Public Improvement (Serial) Bonds, July 15, 1998, maturity date June 15, 2018. Their interest rates ranged between 5.50% and 4.6%.

The bond principal increased \$45,000; interest decreased \$567,504. The total overall savings is \$522,505 to the County.

- On December 15, 2006, the County issued \$24 million Public Improvement (Serial) Bonds providing funding for the governmental and business type activities for a variety of capital projects, including improvements to various county facilities, equipment and vehicle purchases.
- At December 31, 2006, undesignated fund balance for the general fund was approximately \$34 million. This represents a decrease of \$8 million from 2005. The decrease is primarily due to a sales tax shortfall and union contract settlements for CSEA and PBA. These were partially offset by one-time unanticipated revenue due to settlement with New York State for medical costs incurred for Mental Health clients and a change in the state's Medicaid funding methodology. The summary of details of the major components of fund balance can be found on page 19.
- The principal sources of County revenue, other than state and federal aid, consist of property taxes and sales tax. Property tax collections for 2006, including adjustments, were \$78.1 million which represents a 3.7% increase over 2005 and 21.1% of total revenues. Sales tax collected was \$121.2 million, a decrease of 4.5% from 2005, and represents 32.8% of total revenues.
- In 2006, the County expended \$37.3 million on Medicaid which represents an 11% decrease from 2005. Medicaid was significantly impacted by New York State's enacted legislation (Chapter 58 of the Laws of 2005) effective January 1, 2006. The law implemented a new controlled growth formula of an annual escalator percentage over the County's 2005 base year Medicaid costs. It also relieved counties of liabilities associated with prior year appropriations set aside to cover Medicaid bills that come in after the end of the year. This legislation resulted in a total savings to the County of \$13.2 million. As part of the 2006 budget process, the County Executive proposed, and the County Legislature endorsed, a *Medicaid Stabilization Plan* which set aside this amount to be applied to the growth projected over the next three to four years.

Dutchess County, New York Management's Discussion and Analysis December 31, 2006

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The basic financial statements consist of three components:

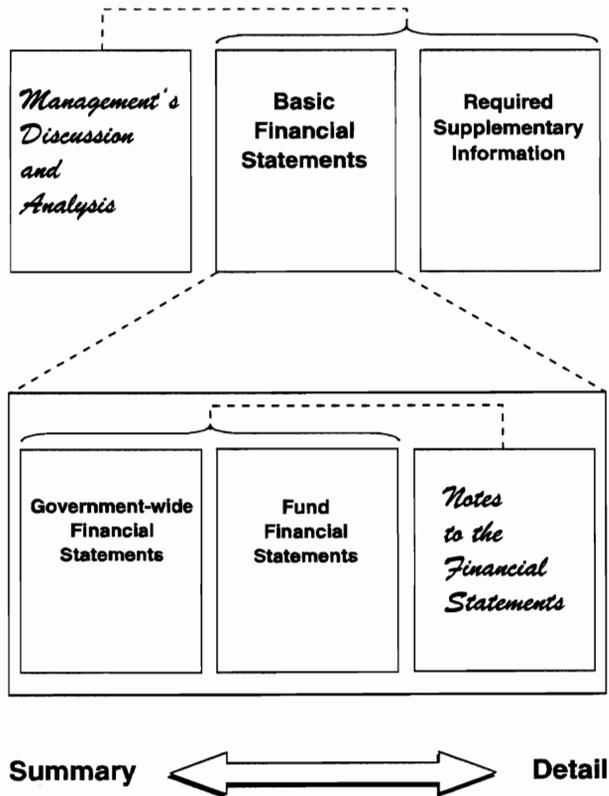


Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2006**

**Figure A-2
Major Features of Dutchess County's Government-wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	<i>Entire County government (except fiduciary funds) and the County's component units.</i>	<i>The activities of the County that are not proprietary or fiduciary, such as public safety, education and health.</i>	<i>Activities the County operates similar to private businesses, such as bus transportation and the airport.</i>	<i>Instances in which the County is the trustee or agent for someone else's resources.</i>
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances • Reconciliation of the Statement of Revenues, Expenditures and changes in fund balances to the Statement of Activities. 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial resources focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the County's funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Dutchess County, New York

Management's Discussion and Analysis

December 31, 2006

Government-Wide Statements

Government-wide financial statements – designed to provide a broad overview of County finances, in a manner similar to a private-sector business. These statements include the Statement of Net Assets and the Statement of Activities. The government-wide financial statements can be found on pages 17 and 18 of this report.

Fund Financial Statements

Fund financial statements – groupings of related accounts that are 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 finance-related legal compliance. These funds can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 funds 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 county's near-term financing requirements.

The governmental fund financial statements can be found on pages 19 through 21 of this report.

Proprietary funds for the County are 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 enterprise funds to account for the Airport and the Loop Bus Transportation System.

The proprietary fund financial statements can be found on pages 22 through 24 of this report.

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

The fiduciary fund financial statements can be found on pages 25 and 26 of this report.

Dutchess County, New York Management's Discussion and Analysis December 31, 2006

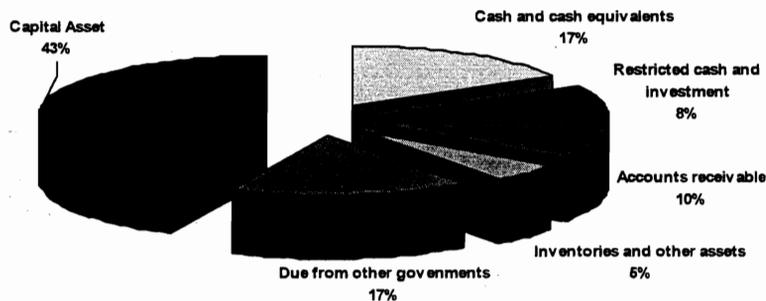
Financial Analysis of the County's Funds

The table below presents condensed financial information derived from the government-wide financial statements for the County as of December 31, 2006 and 2005.

	2006			2005		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Asset						
Current and other assets	\$ 196,658,558	\$ 5,214,515	201,873,073	\$ 161,648,592	\$ 3,820,778	\$ 165,469,370
Capital assets	133,132,250	19,602,880	152,735,130	130,710,657	20,209,129	150,919,786
Total assets	329,790,808	24,817,395	354,608,203	292,359,249	24,029,907	316,389,156
Liabilities						
Other liabilities	83,800,857	1,906,586	85,707,443	69,136,823	2,948,221	72,085,044
Long-term liabilities	185,468,231	4,279,610	189,747,841	161,340,820	2,872,274	164,213,094
Total liabilities	269,269,088	6,186,196	275,455,284	230,477,643	5,820,495	236,298,138
Net Assets						
Invested in capital assets, net of related debt	14,718,997	15,366,568	30,085,565	7,251,116	17,174,603	24,425,719
Restricted	11,293,257	685,804	11,979,061	23,392,138	117,227	23,509,365
Unrestricted	34,510,474	2,578,826	37,089,300	31,238,352	917,582	32,155,934
Total net assets	\$ 60,522,728	\$ 18,631,198	\$ 79,153,926	\$ 61,881,606	\$ 18,209,412	\$ 80,091,018

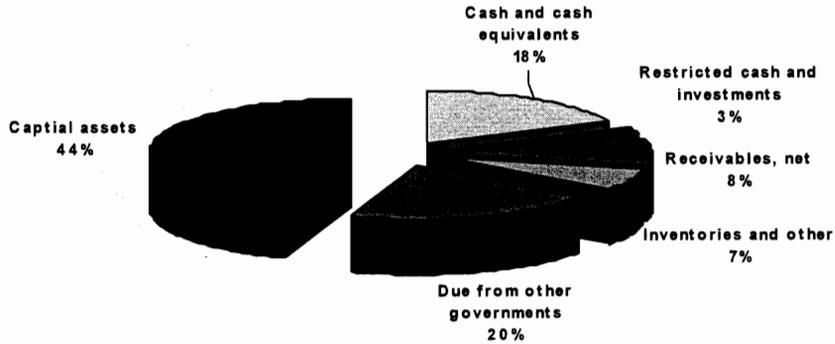
The amount by which the County's assets exceed its liabilities is called net assets. At December 31, 2006, the County's net assets were \$79.2 million. Of that amount, approximately \$30.1 million was invested in capital assets, net of related debt. Another \$12 million was subject to external restriction upon its use and the remaining \$37.1 million was unrestricted and available for future use as directed by the County legislature.

Assets - General Government - 2006 (Government Activities)

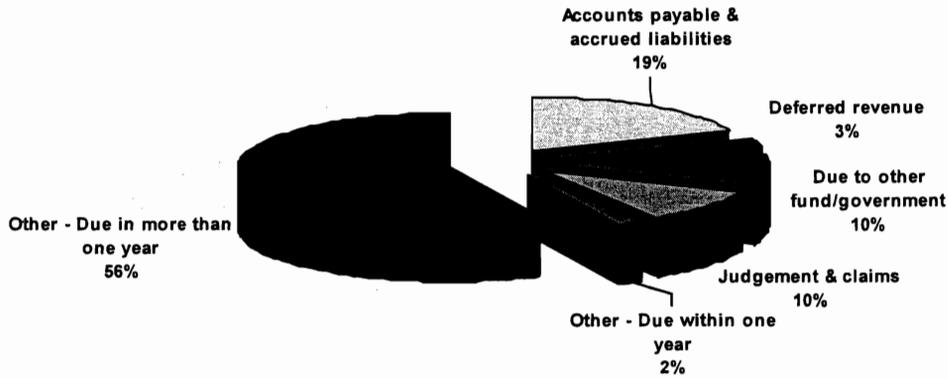


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Management's Discussion and Analysis
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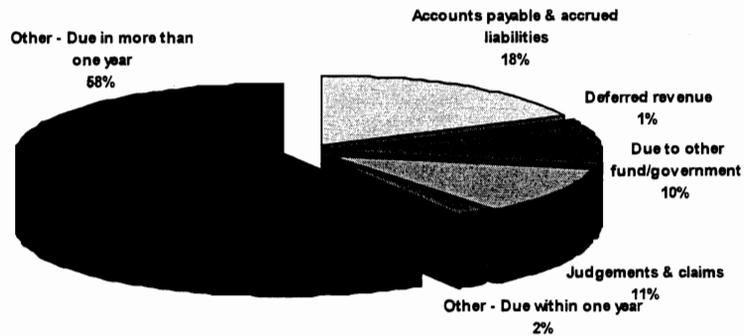
**Assets - General Government -
2005 (Governmental Activities)**



**Liabilities - General Government -
2006 (Governmental Activities)**



**Liabilities - General Government -
2005 (Governmental Activities)**



**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2006**

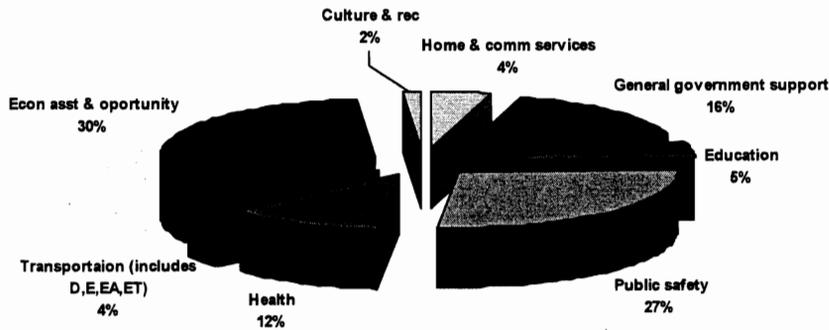
Activities for the Years Ended December 31, 2006 and 2005

The table below presents condensed financial information derived from the government-wide financial statements for the County for the years ended December 31, 2006 and 2005.

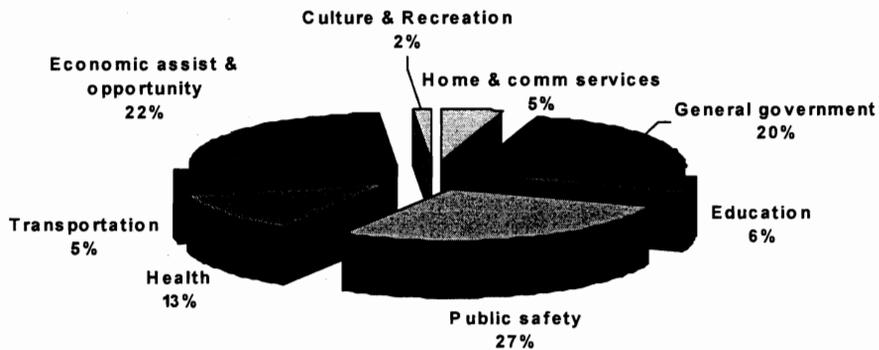
	2006			2005		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Program revenues						
Charge for services	\$ 41,230,549	\$ 7,169,807	48,400,356	\$ 33,580,501	\$ 6,480,403	\$ 40,060,904
Operating grants and contribution	93,763,585	2,877,270	96,640,855	117,751,704	2,444,882	120,196,586
Capital grants and contributions	6,796,034	1,336,825	8,132,859	4,423,873	951,862	5,375,735
General Revenues			-			-
Property tax	83,442,393	-	83,442,393	72,830,652	-	72,830,652
Sales and other taxes	129,545,120	-	129,545,120	135,638,851	-	135,638,851
Interest income and other	3,896,907	174,363	4,071,270	2,717,790	229,807	2,947,597
Total Revenues	<u>\$ 358,674,588</u>	<u>\$ 11,558,265</u>	<u>\$ 370,232,853</u>	<u>\$ 366,943,371</u>	<u>\$ 10,106,954</u>	<u>\$ 377,050,325</u>
Program expenses						
General government	\$ 44,684,412	\$ -	\$ 44,684,412	\$ 50,769,780	\$ -	\$ 50,769,780
Education	11,930,858	-	11,930,858	12,992,797	-	12,992,797
Public Safety	64,079,275	-	64,079,275	62,123,770	-	62,123,770
Health	67,597,356	-	67,597,356	63,915,548	-	63,915,548
Transportation	20,143,546	-	20,143,546	19,444,349	-	19,444,349
Economic assistance and opportunity	125,289,143	-	125,289,143	123,293,072	-	123,293,072
Culture and recreation	4,300,856	-	4,300,856	3,869,760	-	3,869,760
Home and community service	13,764,585	-	13,764,585	12,880,616	-	12,880,616
Debt service	5,835,881	-	5,835,881	5,310,529	-	5,310,529
Airport	-	2,922,884	2,922,884	-	3,097,946	3,097,946
Transportation	-	10,621,149	10,621,149	-	9,682,527	9,682,527
Total program expenses	<u>357,625,912</u>	<u>13,544,033</u>	<u>371,169,945</u>	<u>354,600,221</u>	<u>12,780,473</u>	<u>367,380,694</u>
Increase (decrease) in net assets before transfers	1,048,676	(1,985,768)	(937,092)	12,343,150	(2,673,519)	9,669,631
Transfers	(2,407,554)	2,407,554	-	(2,424,157)	2,424,157	-
Increase (decrease) in net assets	(1,358,878)	421,786	(937,092)	9,918,993	(249,362)	9,669,631
Net assets, beginning of year	61,881,606	18,209,412	80,091,018	51,962,613	18,458,774	70,421,387
Net assets, end of year	<u>\$ 60,522,728</u>	<u>\$ 18,631,198</u>	<u>\$ 79,153,926</u>	<u>\$ 61,881,606</u>	<u>\$ 18,209,412</u>	<u>\$ 80,091,018</u>

**Dutchess County, New York
 Management's Discussion and Analysis
 December 31, 2006**

**Net (Expense) Revenue per Function from the Government-Wide
 Financial Statements
 (excluding debt service) - 2006**

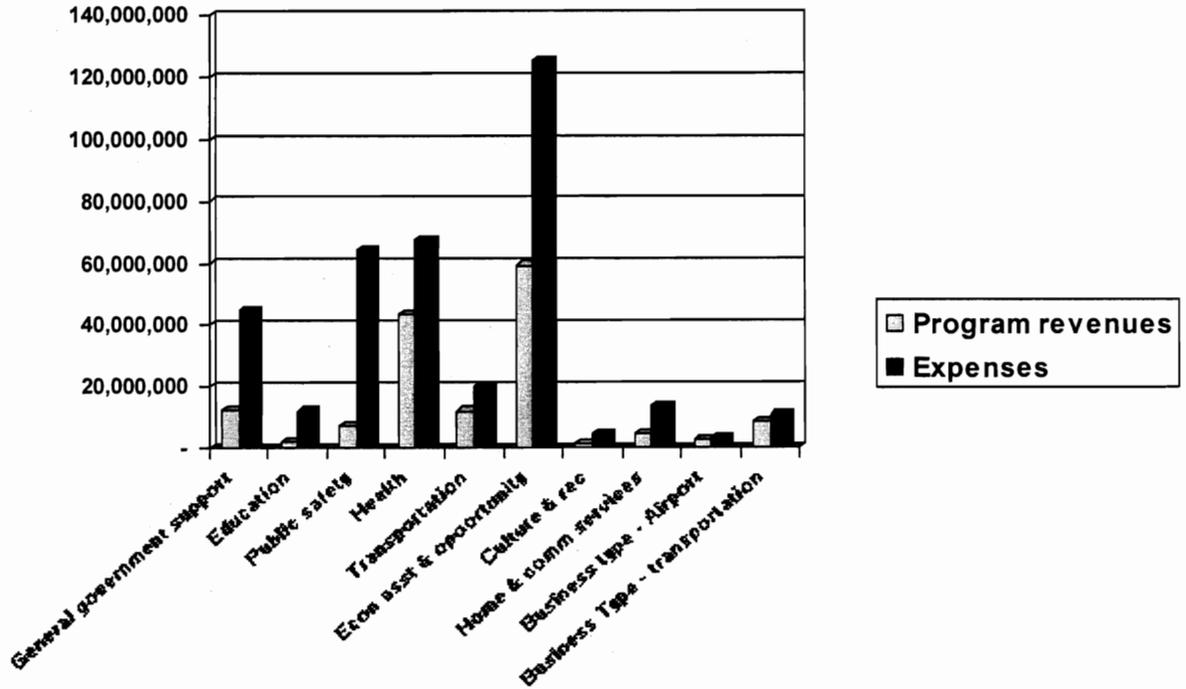


**Net (Expense) Revenue per Function from the Government -
 Wide Financial Statements
 (excluding debt service) - 2005**

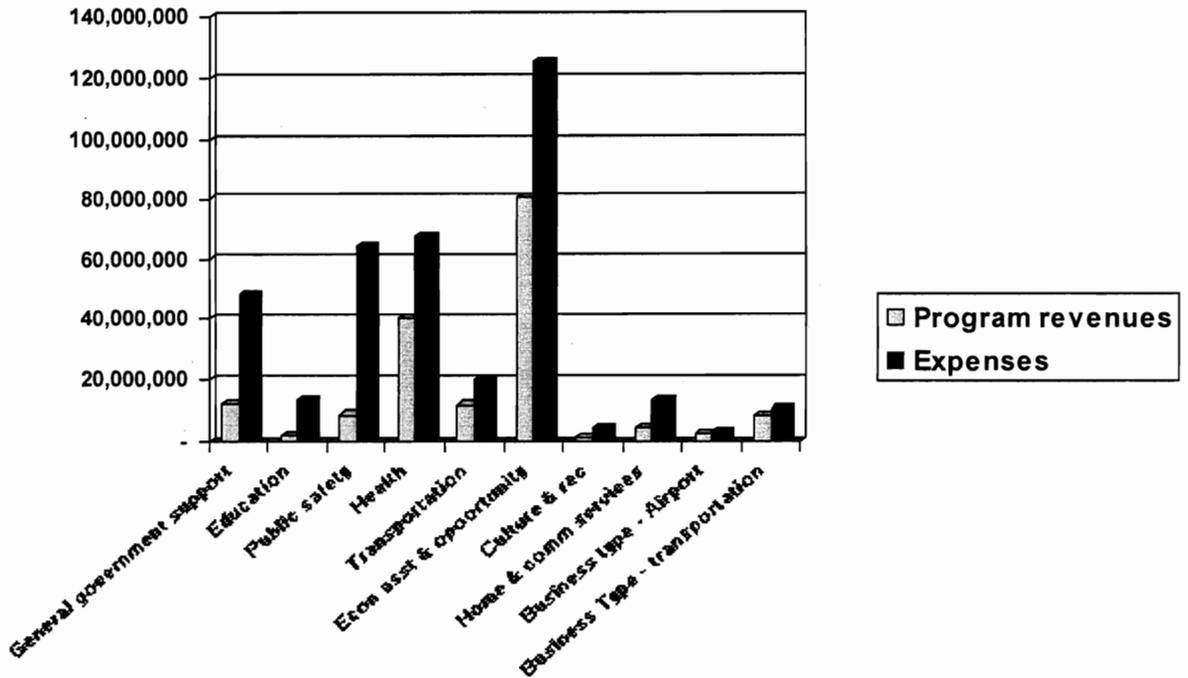


Dutchess County, New York
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Program Revenue and Expenses
 (excluding debt service) - 2006



Program Revenue and Expenses
 (excluding debt service) - 2005



**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2006**

A summary of the County's overall financial position for individual funds (on the modified accrual basis of accounting) is presented below as of December 31.

	Financial Position			
	2006	2005	\$ Change	% Change
General Fund				
Total assets	\$ 143,974,939	\$ 122,677,967	\$ 21,296,972	17.36%
Total liabilities	89,064,354	68,579,940	20,484,414	29.87%
Fund balance	54,910,585	54,098,027	812,558	1.50%
Capital Projects				
Total assets	\$ 31,117,023	\$ 20,165,757	\$ 10,951,266	54.31%
Total liabilities	5,054,969	3,814,353	1,240,616	32.52%
Fund balance	26,062,054	16,351,404	9,710,650	59.39%
Other Governmental Funds				
Total assets	\$ 5,414,961	\$ 4,001,330	\$ 1,413,631	35.33%
Total liabilities	1,115,735	1,046,609	69,126	6.60%
Fund balance	4,299,226	2,954,721	1,344,505	45.50%
Dutchess TASC				
Total assets	\$ 3,552,930	\$ 3,601,338	\$ (48,408)	-1.34%
Total liabilities				
Fund balance	3,552,930	3,601,329	(48,399)	-1.34%

Total General Fund balance including the designated fund balance remains level from 2005 to 2006. With controlled spending and fiscal stewardship, the County was able to maintain the current balance despite a dramatic return of the sales tax exemption on clothing and footwear under \$110 three (3) months into our fiscal year.

The ending fund balance for the Capital Projects fund can be attributed to proceeds from December 24, 2006 borrowing of \$24 million. These funds are intended to provide funding for capital projects during 2007 and beyond.

Dutchess County, New York
Management's Discussion and Analysis
December 31, 2006

A summary of the County's overall financial position for individual funds (on the modified accrual basis of accounting) is presented below for the years ended December 31.

	Results of Operations			
	2006	2005	\$ Change	% Change
General Fund				
Revenues	\$ 340,280,659	\$ 365,442,313	\$ (25,161,654)	-6.89%
Expenditures	326,742,240	318,717,511	8,024,729	2.52%
Excess (deficiency) of revenues over expenditures	13,538,419	46,724,802	(33,186,383)	-71.03%
Other financing sources (uses)	(12,725,861)	(26,452,875)	13,727,014	-51.89%
Fund balance-beginning of year	54,098,027	33,826,100	20,271,927	59.93%
Fund balance-end of year	54,910,585	54,098,027	812,558	1.50%
Capital Projects				
Revenues	\$ 6,796,034	\$ 4,423,873	\$ 2,372,161	53.62%
Expenditures	20,722,406	24,094,363	(3,371,957)	-13.99%
Excess (deficiency) of revenues over expenditures	(13,926,372)	(19,670,490)	5,744,118	-29.20%
Other financing sources (uses)	23,637,022	15,617,466	8,019,556	51.35%
Fund balance-beginning of year	16,351,404	20,404,428	(4,053,024)	-19.86%
Fund balance-end of year	26,062,054	16,351,404	9,710,650	59.39%
Other Governmental Funds				
Revenues	\$ 19,176,744	\$ 17,508,029	\$ 1,668,715	9.53%
Expenditures	18,517,441	17,440,016	1,077,425	6.18%
Excess (deficiency) of revenues over expenditures	659,303	68,013	591,290	869.38%
Other financing sources (uses)	685,202	108,000	577,202	534.45%
Fund balance-beginning of year	2,954,721	2,778,708	176,013	6.33%
Fund balance-end of year	4,299,226	2,954,721	1,344,505	45.50%
Dutchess TASC				
Revenues	\$ 3,935,703	\$ 4,263,721	\$ (328,018)	-7.69%
Expenditures	3,984,102	4,275,580	(291,478)	-6.82%
Excess (deficiency) of revenues over expenditures	(48,399)	(11,859)	(36,540)	308.12%
Other financing sources (uses)				
Fund balance-beginning of year	3,601,329	3,613,188	(11,859)	-0.33%
Fund balance-end of year	3,552,930	3,601,329	(48,399)	-1.34%

**Dutchess County, New York
Management's Discussion and Analysis
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General Fund Budgetary Highlights

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

Governmental Budgetary Highlights

Appropriation	Original	Increase	Modified	Actual
General government support	\$ 32,379,931	\$ 1,712,619	\$ 34,092,550	\$ 33,381,916
Public safety	47,859,322	2,327,954	50,187,276	47,440,523
Health	58,604,922	3,698,561	62,303,483	58,819,687
Employee benefits	39,519,918	4,139,852	43,659,770	38,429,838
Transfer out to other funds	11,175,057	1,916,903	13,091,960	13,175,861
Total	<u>\$ 189,539,150</u>	<u>\$ 13,795,889</u>	<u>\$ 203,335,039</u>	<u>\$ 191,247,825</u>

Increases were required due to increased costs for the County Jail, Workers' Compensation, Union Contract Settlements with CSEA and PBA; and health insurance.

Capital Asset and Debt Administration

Capital Assets – the County's investment in capital assets for its governmental and business-type activities as of December 31, 2006, amounted to \$152.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress. A breakdown of certain current year investments is as follows:

- \$9.2 million various improvements to roads and bridges
- \$1.7 million Improvements at Dutchess Community College
- \$4.0 million various building improvements and purchase of vehicles and equipment
- \$1.5 million Public Safety improvements
- \$3.5 million Water administration
- \$.8 million various health, community service, culture and recreation improvements

The above have been offset by \$12.4 million in depreciation expense in the current year.

The County expended \$1.7 million on various improvements at Dutchess Community College. Financing for these projects was provided through serial bonds and state and federal funds.

Long term debt – 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 2006, the County's outstanding debt totaled \$86.1 million (without the Tobacco Asset Securitization Corporation) and represents approximately 4.64% of the County's debt limit.

Economic Factors and Next Year's Budgets and Rates

Appropriations - Dutchess, like other counties in New York State is challenged on a fiscal level by Medicaid costs. Medicaid is a federally mandated program that provides health benefits to low income individuals and their families. Medicaid was significantly impacted by New York State's enacted legislation (Chapter 58 of the Laws of 2005) effective January 1, 2006. The law implemented a new controlled growth formula of an annual escalator percentage of 3.5% in 2006, 3.25% in 2007, and 3% per year in 2008 and beyond, over the County's 2005 base year Medicaid costs.

Dutchess County, New York

Management's Discussion and Analysis

December 31, 2006

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

2005	\$ 41,978,676
2006	37,266,855
2007 (Budgeted)	37,331,734

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:

2005	\$ 11,302,451
2006	10,074,540

Fund Balance – The County has appropriated \$8.9 million in fund balance to finance the 2007 budget. It is comprised of \$5.2 million for various funds to meet budgetary needs and uses \$3.7 million of the Medicaid Stabilization Plan's \$13.2 million to meet Department of Social Service's New York State mandates. The undesignated fund balance is \$34 million in the general fund as of December 31, 2006.

The total tax levy for the 2007 budget is \$87.3 million resulting in a property tax rate of \$2.57 per thousand of assessed value which is the same as 2006.

Economically, Dutchess County contains a mix of industries, including service related sectors, state and local governments, manufacturing, agriculture and retail trades. IBM is the largest single employer with 11,000 employees. IBM opened a new facility to produce the next generation of semi-conductor chips. The cost of this facility was approximately \$2.5 billion. A second facility for semi-conductor research and manufacturing is under construction at an estimated cost of approximately \$2.0 billion. The project is a joint venture with other hi-tech companies that include AMD, Toshiba Crop and Samsung Corp., among others. A \$33 million water pipeline from the City of Poughkeepsie to IBM East Fishkill is nearing completion. The County participated in the financing of this project.

Agriculture plays a significant role in the economy of the County. There are dairy, produce and horse farms as well as vineyards and wine operations which in recent years have increased in importance. It is approximated that 1500 workers benefit from direct employment through these operations and an additional 2000 from farm related jobs. Annually, it is estimated that the agricultural sector contributes from \$100 to \$200 million to the County's economy.

Wealth levels for Dutchess County residents are above State and National averages. The U.S. Census Bureau estimated the per capita personal income of the County residents in 2004 was \$34,575 which placed the County eighth among all counties in the State for the year. Unemployment for the County was 3.2% as of December 2006.

**Dutchess County, New York
Management's Discussion and Analysis
December 31, 2006**

A summary of the County's budget for 2006 and 2007 is as follows:

	(millions) 2006 Modified	(millions) 2007 Adopted
<u>Appropriations</u>		
Salaries and Wages	\$ 106.0	\$ 108.7
NYS Retirement System	11.4	11.0
Other Employee Benefits	33.0	34.0
Total Personal Services	150.4	153.7
Pre-School Special Education	19.4	20.7
Other Mandates including Medicaid	101.6	100.9
Total State Mandates	121.0	121.6
Other Services	108.7	109.9
	\$ 380.1	\$ 385.2
<u>Revenues</u>		
Property Tax	\$ 75.0	\$ 86.3
Sales Tax	132.5	123.2
State Aid	68.6	68.5
Federal Aid	33.7	33.7
Other Revenues	63.5	64.6
Total Revenues	373.3	376.3
<u>Appropriated Fund Balance</u>		
Various funds to meet Budget	6.8	5.2
Medicaid Stabilization	0.0	3.7
	\$ 380.1	\$ 385.2

Contacting the County's Financial Management

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

Dutchess County, New York
Statement of Net Assets
December 31, 2006

	Primary Government			Aggregate Discretely Presented Component Units
	Governmental Activities	Business- type Activities	Total	
Assets				
Cash and cash equivalents	\$ 56,826,893	\$ 2,895,491	\$ 59,722,384	\$ 19,113,368
Restricted cash and investments	29,719,164	-	29,719,164	18,455,544
Investments	-	-	-	5,757,692
Receivables, net of allowance of \$4,425,265	31,943,248	2,271,198	34,214,446	13,544,656
Inventories	100,824	34,336	135,160	538,620
Due from other funds	485,306	-	485,306	-
Due from other governments	59,868,610	-	59,868,610	71,672
Deferred financing costs	1,119,417	-	1,119,417	-
Net deferred (gain) loss on bond refunding	3,753,572	-	3,753,572	-
Other assets	12,841,524	13,490	12,855,014	4,020,686
Capital assets				
Land	4,754,388	3,385,363	8,139,751	2,485,524
Buildings and improvements	103,223,726	9,544,667	112,768,393	156,760,629
Infrastructure	121,954,895	19,077,602	141,032,497	16,228,574
Machinery and equipment	43,491,265	9,449,520	52,940,785	14,344,901
Construction in progress	19,070,051	1,589,947	20,659,998	31,450,724
Less: Accumulated depreciation	(159,362,075)	(23,444,220)	(182,806,295)	(71,178,410)
Total capital assets	133,132,250	19,602,879	152,735,129	150,091,942
Total assets	<u>\$ 329,790,808</u>	<u>\$ 24,817,394</u>	<u>\$ 354,608,202</u>	<u>\$ 211,594,180</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 51,022,973	\$ 1,421,280	\$ 52,444,253	\$ 10,510,305
Deferred revenue	7,111,781	-	7,111,781	44,720,048
Due to other governments	25,665,095	-	25,665,095	343,355
Due to other funds	-	485,306	485,306	-
Long-term liabilities				
Due within one year	4,949,141	260,859	5,210,000	5,312,712
Due in more than one year	153,340,963	4,018,751	157,359,714	88,061,799
Judgments and claims	27,178,127	-	27,178,127	-
Total liabilities	<u>269,268,080</u>	<u>6,186,196</u>	<u>275,454,276</u>	<u>148,948,219</u>
Net Assets				
Invested in capital assets, net of related debt	14,718,997	15,366,569	30,085,566	29,972,501
Restricted for				
Road and road machinery	3,725,011	-	3,725,011	-
Capital projects	3,134,406	-	3,134,406	-
Debt Service	3,552,930	-	3,552,930	-
Other	880,910	685,804	1,566,714	18,096,665
Unrestricted	34,510,474	2,578,825	37,089,299	14,576,795
Total net assets	<u>\$ 60,522,728</u>	<u>\$ 18,631,198</u>	<u>\$ 79,153,926</u>	<u>\$ 62,645,961</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Activities
Year Ended December 31, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities		Total
Primary government								
Governmental activities								
General government	\$ 44,684,412	\$ 10,148,471	\$ 2,034,639	\$ -	\$ (32,501,302)	\$ (32,501,302)	\$	
Education	11,930,858	5,425	-	2,056,493	(9,868,940)	(9,868,940)		
Public safety	64,079,275	4,465,809	2,816,630	-	(56,796,836)	(56,796,836)		
Health	67,597,356	18,717,028	24,680,369	-	(24,199,959)	(24,199,959)		
Transportation	20,143,546	196,034	7,007,857	4,739,541	(8,200,114)	(8,200,114)		
Economic assistance and opportunity	125,289,143	6,889,511	52,349,640	-	(66,049,992)	(66,049,992)		
Culture and recreation	4,300,856	426,371	640,905	-	(3,233,580)	(3,233,580)		
Home and community services	13,764,585	381,900	4,233,545	-	(9,149,140)	(9,149,140)		
Debt service	5,835,881	-	-	-	(5,835,881)	(5,835,881)		
Total governmental activities	357,625,912	41,230,549	93,763,585	6,796,034	(215,835,744)	(215,835,744)		
Business-type activities								
Enterprise airport	2,922,884	1,639,070	-	1,126,704	(157,110)	(157,110)		
Enterprise transportation	10,621,149	5,530,737	2,877,270	210,121	(2,003,021)	(2,003,021)		
Total business-type activities	13,544,033	7,169,807	2,877,270	1,336,825	(2,160,131)	(2,160,131)		
Total primary government	\$ 371,169,945	\$ 48,400,356	\$ 96,640,855	\$ 8,132,859	(215,835,744)	(217,995,875)		
Component units								
Resource Recovery	\$ 17,739,581	\$ 15,235,057	\$ 38,295	\$ -			(2,466,229)	
Industrial Development Agency	1,046,048	257,146	-	-			(788,902)	
Water and Wastewater Authority	4,837,123	2,546,131	-	-			(2,290,992)	
Soil and Water Conservation	538,404	98,131	203,386	2,678,739			(236,887)	
Dutchess Community College	60,533,208	34,855,586	13,613,280	-			(9,385,603)	
Total component units	\$ 84,694,364	\$ 52,992,051	\$ 13,854,961	\$ 2,678,739			(15,168,613)	
General revenues								
Taxes								
Real property taxes, levied for general purposes					78,587,957	78,587,957		
Real property taxes, levied for debt service					4,854,436	4,854,436		
Sales and use taxes					121,224,439	121,224,439		
Other taxes					4,384,978	4,384,978		
TASC revenues					3,935,703	3,935,703		
Payments from primary government					3,896,907	3,896,907	13,215,057	
Unrestricted interest income and other					(2,407,554)	2,407,554	2,720,758	
Transfers								
Total general revenues and transfers					214,476,866	217,058,783	15,935,815	
Change in net assets								
Net assets, beginning					(1,358,878)	421,786	767,202	
Net assets—ending					61,881,606	18,209,412	61,878,759	
					\$ 60,522,728	\$ 18,631,198	\$ 79,153,926	

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Balance Sheet - Governmental Funds
December 31, 2006

	General (Major)	Capital Projects (Major)	Other Governmental Funds (Non-Major)	Dutchess Tobacco Asset Securitization Corporation (Major)	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 46,103,473	\$ 5,893,456	\$ 4,718,473	\$ 111,491	\$ 56,826,893
Restricted cash and cash equivalents	3,350,577	22,927,648		3,441,439	29,719,664
Delinquent property taxes, including interest, penalties and liens net of allowance of \$4,425,265	31,943,248				31,943,248
Inventories	100,824				100,824
Due from other funds	3,221,645				3,221,645
Due from other governments	56,918,001	2,295,919	555,042		59,768,962
Prepaid and other assets	2,337,171		141,446		2,478,617
Total assets	<u>\$ 143,974,939</u>	<u>\$ 31,117,023</u>	<u>\$ 5,414,961</u>	<u>\$ 3,552,930</u>	<u>\$ 184,059,853</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 43,985,938	\$ 1,795,150	\$ 1,006,784	\$	\$ 46,787,872
Accrued liabilities	956,857	622,655	15,113		1,594,625
Due to other governments	25,665,095				25,665,095
Due to other funds		2,636,691			2,636,691
Other liabilities	258,434	473	93,838		352,745
Deferred revenue	18,198,030				18,198,030
Total liabilities	<u>89,064,354</u>	<u>5,054,969</u>	<u>1,115,735</u>		<u>95,235,058</u>
Fund balances					
Reserved for					
Encumbrances	9,424,232	8,207,253	245,941		17,877,426
Inventories	120,000				120,000
Workers' compensation	(11,999)				(11,999)
Capital reserve	362,567				362,567
Other specified purposes	306,695			3,552,930	3,859,625
Unreserved					
Designated for					
Insurance reserve	2,988,010				2,988,010
Subsequent year's expenditure	7,745,080		1,200,000		8,945,080
Undesignated	33,976,000	17,854,801	2,853,285		54,684,086
Total fund balances	<u>54,910,585</u>	<u>26,062,054</u>	<u>4,299,226</u>	<u>3,552,930</u>	<u>88,824,795</u>
Total liabilities and fund balances	<u>\$ 143,974,939</u>	<u>\$ 31,117,023</u>	<u>\$ 5,414,961</u>	<u>\$ 3,552,930</u>	<u>\$ 184,059,853</u>

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

Fund balance above	\$ 88,824,795
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	133,132,250
Intangible assets used in governmental activities are not financial resources and therefore are not reported in the funds	10,363,415
Deferred property tax revenue represents taxes not expected to be collected currently (within 60 days) and therefore reported as deferred revenue in the fund net assets of government activities	11,086,249
Deferred financing costs used in governmental activities are recorded as an expense in the governmental funds, but, are capitalized for government wide purposes gross	1,119,417
Net deferred (gain) loss on bond refunding is recorded as an asset on the government wide financial statements and is not considered an asset for governmental purposes gross (\$4,124,068)	3,753,572
Liabilities including bonds payable (\$149,727,028), compensated absences (\$7,352,868) judgments and claims (\$27,178,127) guarantee accrual (\$1,210,208) and accrued interest (\$2,288,739) are not due and payable in the current period and therefore are not reported in the governmental fund balance	(187,756,970)
Net assets of governmental activities	<u>\$ 60,522,728</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds
Year Ended December 31, 2006

	General Fund (Major)	Capital Projects (Major)	Other Governmental Funds (Non-Major)	Dutchess Tobacco Asset Securitization Corporation (TASC) (Major)	Total Governmental Funds
Revenues					
Real property taxes	\$ 65,723,497	\$	\$ 12,400,792	\$	\$ 78,124,289
Sales and use tax	121,224,439				121,224,439
Other taxes	4,384,978				4,384,978
Departmental	42,830,303	560,020	15,000		43,400,323
Interest and rentals	4,459,277		25,367	213,857	4,698,501
Grants and aid	92,836,415	6,236,014	6,450,816		105,523,245
Miscellaneous	8,821,750		284,769	3,721,846	12,828,365
Total revenues	<u>340,280,659</u>	<u>6,796,034</u>	<u>19,176,744</u>	<u>3,935,703</u>	<u>370,189,140</u>
Expenditures					
General Government	33,381,523			76,539	33,458,062
Education	1,841,468				1,841,468
Public safety	47,440,523		294,283		47,734,806
Health	58,819,687				58,819,687
Transportation	2,417,098		8,685,725		11,102,823
Economic assistance and opportunity	121,834,083		1,370,386		123,204,469
Culture and recreation	2,914,682				2,914,682
Home and community services	6,756,759		5,047,696		11,804,455
Employee benefits	38,429,838		3,091,351		41,521,189
Debt service					
Principal retirement	3,854,400		28,000	1,390,000	5,272,400
Interest	1,810,709			2,517,563	4,328,272
Self-insurance	7,241,470				7,241,470
Capital outlay		20,722,406			20,722,406
Total expenditures	<u>326,742,240</u>	<u>20,722,406</u>	<u>18,517,441</u>	<u>3,984,102</u>	<u>369,966,189</u>
Excess (deficiency) of revenues over expenditures	<u>13,538,419</u>	<u>(13,926,372)</u>	<u>659,303</u>	<u>(48,399)</u>	<u>222,951</u>
Other financing sources (uses)					
Proceeds of obligations	10,265,000	22,587,595			32,852,595
Payment to refunding agent	(10,265,000)				(10,265,000)
Transfers in	450,000	1,049,427	685,202		2,184,629
Transfers out	(13,175,861)				(13,175,861)
Total other financing sources (uses)	<u>(12,725,861)</u>	<u>23,637,022</u>	<u>685,202</u>		<u>11,596,363</u>
Net change in fund balances	812,558	9,710,650	1,344,505	(48,399)	11,819,314
Fund balances—beginning of year	54,098,027	16,351,404	2,954,721	3,601,329	77,005,481
Fund balances—end of year	<u>\$ 54,910,585</u>	<u>\$ 26,062,054</u>	<u>\$ 4,299,226</u>	<u>\$ 3,552,930</u>	<u>\$ 88,824,795</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2006

Net change in fund balances—total governmental funds		
Amounts reported for <i>governmental activities</i> in the statement of revenues, expenditures and changes in fund balances of governmental funds are different because		\$ 11,819,314
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		5,318,104
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is depreciated over their estimated useful lives.		
Expenditures for capital assets	\$ 18,596,473	
Less: Current year depreciation	<u>(15,786,539)</u>	2,809,934
Governmental funds report the Wastewater Authority other asset capital outlay as expenditures. However, in the statement of activities the cost of this asset is amortized over its useful life.		
Expenditures for other asset	\$ 889,093	
Amortization	<u>(429,334)</u>	459,759
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the statement of activities, these costs represent expenses of the current year.		(962,742)
Judgment and claims not payable from current year resources are not reported as expenditures of the current year. In the statement of activities, these costs represent expenses of the current year.		(1,894,041)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Payment of financing costs requires the use of current financial resources for the governmental funds. However, in the statement of activities the costs of financing are capitalized and amortized over the life of the debt.		
Bond proceeds	\$ (32,852,595)	
Repayment of bonds	15,597,400	
Amortization of deferred loss on bond refunding	(126,870)	
Amortization of deferred financing costs	(69,568)	
Deferred financing costs	<u>45,000</u>	(17,406,633)
Interest expense reported in the statement of activities does not require the use of current financial resources and is therefore not reported as expenditures in the governmental funds.		(1,507,609)
Long-term commitments for guarantees are not reported as a current use of financial resources and is therefore not reported as expenditures in the governmental fund.		5,036
Change in net assets of governmental funds		<u>\$ (1,358,878)</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Net Assets of Proprietary Funds
December 31, 2006

	Enterprise Funds		
	Airport	Transportation	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,917,238	\$ 978,253	\$ 2,895,491
Accounts receivable	753,026	1,518,172	2,271,198
Inventories	34,336	-	34,336
Prepaid expenses	13,490	-	13,490
Total current assets	<u>2,718,090</u>	<u>2,496,425</u>	<u>5,214,515</u>
Noncurrent assets			
Net capital assets			
Land and buildings	5,896,796	7,033,234	12,930,030
Infrastructure	19,077,602	-	19,077,602
Machinery and equipment	1,900,076	7,549,444	9,449,520
Construction-in-progress	1,587,301	2,646	1,589,947
Less: Accumulated depreciation	<u>(13,106,532)</u>	<u>(10,337,688)</u>	<u>(23,444,220)</u>
Total noncurrent assets	<u>15,355,243</u>	<u>4,247,636</u>	<u>19,602,879</u>
Total assets	<u>18,073,333</u>	<u>6,744,061</u>	<u>24,817,394</u>
Liabilities			
Current liabilities			
Accounts payable	590,385	782,354	1,372,739
Accrued liabilities	36,359	12,182	48,541
Current portion of long-term debt	207,373	53,486	260,859
Due to other funds	<u>328,990</u>	<u>156,316</u>	<u>485,306</u>
Total current liabilities	<u>1,163,107</u>	<u>1,004,338</u>	<u>2,167,445</u>
Noncurrent liabilities			
Compensated absences	43,298	-	43,298
Long-term debt	<u>3,456,979</u>	<u>518,474</u>	<u>3,975,453</u>
Total noncurrent liabilities	<u>3,500,277</u>	<u>518,474</u>	<u>4,018,751</u>
Total liabilities	<u>4,663,384</u>	<u>1,522,812</u>	<u>6,186,196</u>
Net Assets			
Restricted	2,500	683,304	685,804
Invested in capital assets, net of related debt	11,690,892	3,675,676	15,366,568
Unrestricted (Note 1D)	<u>1,716,557</u>	<u>862,269</u>	<u>2,578,826</u>
Total net assets	<u>\$ 13,409,949</u>	<u>\$ 5,221,249</u>	<u>\$ 18,631,198</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Revenues, Expenses, and Changes in Fund Net Assets of
Proprietary Funds
Year Ended December 31, 2006

	Enterprise Funds		
	Airport	Transportation	Total
Operating revenues			
Charges for services	\$ 1,639,070	\$ 5,530,737	\$ 7,169,807
Operating grants and revenues	-	2,877,270	2,877,270
Total operating revenues	<u>1,639,070</u>	<u>8,408,007</u>	<u>10,047,077</u>
Operating expenses			
Personal services	604,937	-	604,937
Employee benefits	232,873	-	232,873
Depreciation	824,276	761,068	1,585,344
Contracted services	1,154,464	9,855,491	11,009,955
Total operating expenses	<u>2,816,550</u>	<u>10,616,559</u>	<u>13,433,109</u>
Loss from operations	<u>(1,177,480)</u>	<u>(2,208,552)</u>	<u>(3,386,032)</u>
Nonoperating revenues (expenses)			
Interest and earnings	147,646	10,213	157,859
Other	13,431	3,073	16,504
Interest expense	(106,334)	(4,590)	(110,924)
Total nonoperating revenue	<u>54,743</u>	<u>8,696</u>	<u>63,439</u>
Loss before contributions and transfers	(1,122,737)	(2,199,856)	(3,322,593)
Capital contributions	1,126,704	210,121	1,336,825
Transfers in	633,468	1,774,086	2,407,554
Increase (decrease) in net assets	637,435	(215,649)	421,786
Fund net assets—beginning	<u>12,772,514</u>	<u>5,436,898</u>	<u>18,209,412</u>
Fund net assets—ending	<u>\$ 13,409,949</u>	<u>\$ 5,221,249</u>	<u>\$ 18,631,198</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Cash Flows of Proprietary Funds
Year Ended December 31, 2006

	Enterprise Funds		
	Airport	Transportation	Total
Cash flow from operating activities			
Charges for services and other	\$ 1,618,100	\$ 5,722,961	\$ 7,341,061
Receipt of operating grants and revenue	-	2,877,270	2,877,270
Payments to employees	(842,880)	-	(842,880)
Payments to suppliers of contracted services	(1,041,726)	(9,627,699)	(10,669,425)
Other nonoperating receipts	13,431	3,073	16,504
Net cash used in operating activities	<u>(253,075)</u>	<u>(1,024,395)</u>	<u>(1,277,470)</u>
Cash flow from noncapital and related financial activities			
Operating transfers	633,468	1,774,086	2,407,554
Net cash provided by noncapital and related financing activities	<u>633,468</u>	<u>1,774,086</u>	<u>2,407,554</u>
Cash flow from capital and related financial activities			
Capital contributions for fixed asset acquisitions	1,126,704	210,121	1,336,825
Capital transfers to governmental funds	(414,125)	(1,821,544)	(2,235,669)
Acquisition of capital assets	(704,559)	(274,534)	(979,093)
Proceeds received from debt issuance	961,945	450,460	1,412,405
Principal paid on long-term debt	(179,100)	(31,500)	(210,600)
Interest paid on long-term debt	(106,334)	(4,590)	(110,924)
Net cash (used in) provided by capital and related financing activities	<u>684,531</u>	<u>(1,471,587)</u>	<u>(787,056)</u>
Cash flow from investing activities			
Interest earned	147,646	10,213	157,859
Net cash provided by investing activities	<u>147,646</u>	<u>10,213</u>	<u>157,859</u>
Net increase in cash and cash equivalents	1,212,570	(711,683)	500,887
Cash and cash equivalents - beginning of the year	704,668	1,689,936	2,394,604
Cash and cash equivalents - end of the year	<u>\$ 1,917,238</u>	<u>\$ 978,253</u>	<u>\$ 2,895,491</u>
Reconciliation of operating loss to net cash used in operating activities			
Loss from operations	\$(1,177,480)	\$ (2,208,552)	\$ (3,386,032)
Adjustments to reconcile loss from operations to net cash used in operating activities			
Nonoperating revenue	13,431	3,073	16,504
Depreciation expense	824,276	761,068	1,585,344
Changes in operating assets and liabilities			
Accounts receivable	(20,970)	192,224	171,254
Inventories	(6,838)	-	(6,838)
Prepaid expenses	1,686	-	1,686
Accounts payable and accrued liabilities	117,890	227,792	345,682
Compensated absences	(5,070)	-	(5,070)
Net cash used in operating activities	<u>\$ (253,075)</u>	<u>\$ (1,024,395)</u>	<u>\$ (1,277,470)</u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Fiduciary Net Assets
December 31, 2006

	Private Purpose Trusts	Agency Funds
Assets		
Cash and cash equivalents	\$ 4,382	\$ 9,870,151
Mortgage tax receivable	-	1,089,866
Investments, at fair value	<u>1,500</u>	<u>-</u>
Total assets	<u>\$ 5,882</u>	<u>\$10,960,017</u>
Liabilities		
Refunds payable and others	<u>-</u>	<u>10,960,017</u>
Total liabilities	<u>-</u>	<u>\$10,960,017</u>
Net Assets		
Net assets held in trust	<u>\$ 5,882</u>	

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York
Statement of Changes in Fiduciary Net Assets
Year Ended December 31, 2006

	Private Purpose Trusts
Additions	
Interest	\$ 164
Deductions	
Economic assistance & opportunity	<u>(229)</u>
Changes in net assets	(65)
Net assets-beginning of the year	<u>5,947</u>
Net assets-end of the year	<u><u>5,882</u></u>

The accompanying notes are an integral part of these financial statements.

Dutchess County, New York

Notes to Financial Statements

December 31, 2006

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The accompanying general purpose financial statements of the County have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, including component units, the County has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The County has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the County's accounting policies are described below.

The accompanying financial statements present the activities of the County (the primary government which include the Dutchess Tobacco Asset Securitization Corporation (TASC) as a blended component unit) and the County's five discretely presented component units, entities for which the County is financially accountable. Dutchess Community College, Dutchess County Resource Recovery Agency, Dutchess County Industrial Development Agency, Dutchess County Water and Wastewater Authority, and Dutchess County Soil and Water Conservation District, are combined and displayed in a separate, discrete column in the financial statements (to emphasize their legal separateness from the primary government). The TASC is a blended component unit based upon its financial accountability and governing authority.

The decision to include a potential component unit in the County's reporting entity is based on several criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, including legal standing, fiscal dependency, financial accountability, selection of governing authority, ability to significantly influence operations, and the primary government's economic benefit from resources of the affiliated entity. Based on the application of these criteria, the following is a brief review of significant entities considered in determining the County's reporting entity.

Included within the reporting entity:

Dutchess Community College

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 (c) 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,

Dutchess County, New York

Notes to Financial Statements

December 31, 2006

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.

Dutchess County Resource Recovery Agency

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

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

Dutchess County Industrial Development Agency (Non-Major 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, advance the job opportunities, health, general prosperity and economic welfare of the people of Dutchess County. The function of the IDA 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, New York
Notes to Financial Statements
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Dutchess County Soil and Water Conservation District (Non-Major Component Unit)

The Dutchess County Soil and Water Conservation District ("SWCD") (including the Dutchess County Environmental Management Council) is a non-profit 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. The Environmental Management Council is actively involved in solid waste management, watershed and wetlands protection, land use management, geographic information system development and environmental education.

Dutchess Tobacco Asset Securitization Corporation (Blended Component Unit)

The Dutchess Tobacco Asset Securitization Corporation (the "TASC") 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.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the "County") and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to balances related to transfers between governmental funds and between enterprise funds, but not between governmental and enterprise funds. These statements distinguish between the governmental and business-type activities of the County and between the County and its discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for services rendered.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and for each segment of the business-type activities of the County. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Indirect expenses are not allocated.

Dutchess County, New York

Notes to Financial Statements

December 31, 2006

Fund Financial Statements: The fund financial statements provide information about the County's funds, including fiduciary funds. 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.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

General Fund

The general fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund

The capital project fund is used to account for the receipt and disbursement of resources for the construction of capital assets.

Dutchess Tobacco Asset Securitization Corporation (TASC)

The TASC is used to account for the receipt and disbursement of resources related to Tobacco Assets and related obligations.

The County reports the following major business type funds:

Enterprise Funds

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

The County reports the following fiduciary fund types:

Agency Funds

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

Private Purpose Trust Funds

This fund represents a trust arrangement under which cemetery plots are maintained.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

C. Basis of Accounting

The government-wide, proprietary, and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when all eligibility requirements are met and when they are measurable and available. The County considers property tax revenue reported in the governmental funds to be available if collected within sixty days after year-end and other revenues to be available if collected within one year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets and Liabilities

Primary Government:

Cash and Cash Equivalents

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

Property Tax Calendar

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 taxes are recognized in the period for which the tax was levied to finance the budget of that period.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Deferred Financing Costs and Bond Discount Amortization

Costs associated with financing of \$1,145,912 have been capitalized for government wide financial statement purposes and are being amortized over the life of the debt. Amortization expense of \$26,495 was incurred in 2006. Discounts recognized from the issuance of debt of \$1,902,637 are amortized over the life of the debt. Amortization expense of \$47,566 was recognized in 2006. In 2006, there was a premium of \$558,615 on the debt that was issued in December 2006. This premium will be amortized over the life of the debt. Amortization expense is \$27,931 each year.

Investments

Investments are recorded at fair value.

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

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

Real Property of the Dutchess Community College

Under the provisions of NYS Education Law Article 126, the Dutchess Community College (DCC) is prohibited from owning real property or incurring any obligations related to real property. Accordingly, the County holds title to all real property used by the DCC and has sole responsibility for payment of debt it has issued related to the property. Because the real property can only be used by the DCC, it is not considered to be capital assets of the County. Rather, the real property is held by the County in trust for the benefit of the DCC, effectively transferring the benefits and risks incident to the ownership of the property to the DCC. Accordingly, the discretely presented financial statement of the DCC, report real property as capital assets which are depreciated over the useful life of the assets. The County reports the obligation for the related debt as a general liability because it is legally required to make debt service payment.

Deferred Loss on Bond Refunding

The difference between the reacquisition cost and carrying value of old debt from bond refundings of \$4,124,068 have been capitalized for government wide financial statement purposes and are being amortized over the shorter life of the defeased or new debt. Amortization expense of \$126,870 was recognized in 2006.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Judgments and Claims

Costs associated with workers' compensation or legal liabilities for both reported and unreported insured events of \$27,178,127 at December 31, 2006, which include estimates of both future payment of losses and related claim adjustment expenses, are recorded as long-term liabilities in the government wide financial statements.

Compensated Absences

Vacation leave and other compensated absences with similar characteristics of \$7,352,868 at December 31, 2006, 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.

Net Assets

Net assets are classified and displayed in three components:

Invested in capital assets, net of related debt – Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets – Consist of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. This includes unspent construction funds.

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

The unrestricted net assets of the business type activity funds (enterprise funds) have been designated as follows at December 31, 2006:

	Airport	Transportation	Total
Unrestricted net assets (deficit), undesignated	\$ (1,740,273)	\$ 343,795	\$ (1,396,478)
Unrestricted net assets, designated for debt repayment	<u>3,456,830</u>	<u>518,474</u>	<u>3,975,304</u>
	<u>\$ 1,716,557</u>	<u>\$ 862,269</u>	<u>\$ 2,578,826</u>

Use of Estimates

The preparation of 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Component Units:

Dutchess Community College

The College's financial information has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States America applicable to public colleges and universities. The College's financial information applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The operations of the College are reported under the business-type activities model and as such, are accounted for on a flow of economic resources measurement focus. Within this measurement focus, all assets and liabilities associated with operations are included on the statement of net assets with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The Association and Foundation are private nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

Cash Equivalents

The College considers all highly liquid debt instruments, with original maturities of three months or less, to be cash equivalents. Cash equivalents consist principally of certificates of deposit.

Capital Assets

Capital assets include land and improvements, buildings and improvements, infrastructure assets and furniture and equipment. Capital assets are defined by the College as assets with an initial unit cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the College are depreciated using the straight-line method over the following useful lives.

	Estimated Useful Life
Buildings	20 – 50
Building improvements	20 – 50
Infrastructure	20 – 50
Furniture and equipment	3 – 10

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

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

County related debt, and from moneys in the debt service reserve fund held by the trustee. Capital appropriations include the annual debt service requirements on the County debt. The provisions of the State Education Law regarding the State appropriations from principal and interest payments do not constitute a legally enforceable obligation of the State.

Operating Revenue

The College's operating revenues consist principally of student tuition and fees, federal and state student financial aid grants and certain nongovernmental grants and contracts.

Nonoperating Revenue

Nonoperating revenues consist principally of state and local government appropriations.

Employee Benefits

The College recognizes a liability of vesting sick leave and other compensated absences with similar characteristics to the extent it is probable that the College will compensate the employees for the benefits through cash payments at retirement rather than being taken as absences due to illness or other contingencies.

Post Retirement Benefits

In addition to providing pension benefits, the College provides health insurance coverage and survivor benefits for retired employees and their survivors. The College's employees may become eligible for these benefits upon retirement, with a minimum of ten years of service. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The College recognizes the cost of providing benefits by recording its share of insurance premiums, \$734,000 in 2006 for 105 recipients as an expenditure in the year paid.

Income Taxes

The College is a political subdivision, and as such, is exempt from income taxes.

Resource Recovery Agency

Measurement Focus and Basis of Accounting

The Agency performs the function of solid waste management for the residents of the County of Dutchess. Its operations are financed primarily through user charges (tipping fees). Under standards set by the GASB, the Agency is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources.

The basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

The Agency considers all revenues as operating revenues, except that that subsidies and grants which finance either capital or current operations are reported as non-operating revenues.

The Agency generally applies unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Dutchess County, New York
Notes to Financial Statements
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The Agency's policy is to apply, first, (a) all GASB pronouncements, and then (b) Financial Accounting Standards Board Statements and Interpretations, APB Opinions, and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Cash and Cash Equivalents

The Agency considers all cash and cash equivalents classified as current assets, whether unrestricted or restricted, with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets are recorded at cost less accumulated depreciation. Cost includes interest incurred during construction. The Agency provides for depreciation of the capital assets on a straight-line basis over periods ranging from 3 to 40 years.

Debt Issuance Costs

Costs incurred relating to the issuance of Agency bonds and bond anticipation notes have been capitalized and are amortized on a straight-line basis over the life of the related bonds and notes.

Income Taxes

The Agency is exempt from federal income taxes under Internal Revenue Service Code Section 115.

Insurance

The Agency 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. 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. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to the duty of workers in similar occupations.

Equity Classifications

Equity is classified as net assets and displayed in three components:

Invested in capital-type assets, net of related debt - Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-authorized cost reimbursements.

Restricted net assets - Consist of net assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation; or (3) cash and cash equivalents that are restricted for capital asset acquisition.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

Dutchess County, New York

Notes to Financial Statements

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amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Water and Wastewater Authority

Measurement Focus and Basis of Accounting

The Authority performs the function of supplying water and sewer services to areas within the County of Dutchess. Its operations are financed primarily through user charges. Under standards set by the GASB, the Authority is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources.

This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

In accordance with GASB No. 20 regarding proprietary fund accounting, the Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statement and Interpretations, Accounting Principles Board Opinions, the American Institute of Certified Public Accountant's (AICPA) Accounting Research Bulletins and any FASB or AICPA pronouncements made applicable by GASB Statement or Interpretation.

The Authority generally applies restricted resources when an expense is incurred for purpose for which both restricted and unrestricted net assets are available.

The Authority considers all revenues as operating revenues, except that subsidies and grants which finance either capital or current operations are reported as non-operating revenues.

Cash, Cash Equivalents and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of inception.

State statutes govern the investment policies of the Authority. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies, obligations of New York State and repurchase agreements secured by U.S. Treasury obligations.

Restricted Assets

Proceeds from acquisition and construction financing are set aside for completion of capital improvements and reduction of debt service. The disbursements from the restricted accounts are under the control of third party trustees.

Deferred Bond Financing Costs

Bond financing costs are amortized over the life of the related bond issue, using the straight-line method.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Capital Assets

Capital assets are recorded at cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, and net of interest earned on the invested proceeds over the same period.

Depreciation is computed using the straight-line method over the following estimated useful lives, beginning in the year the asset is placed in service:

	Estimated Useful Life
Buildings	20
Wastewater Treatment System	5 – 20
Sewage Collection System	50
Water Transmission System	50

Revenues and Receivables

Revenues are derived generally from quarterly billing of user fees for customers and operating grants from Dutchess County, New York.

Receivables represent outstanding user fees. The Authority has an agreement with Dutchess County, the Town of Beekman and the Town of Pleasant Valley 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.

Deferred Revenue

Revenues received in advance of the period to which they relate are deferred and recorded as revenue when earned. Grants and aid received for construction costs are deferred until construction is complete and the assets are placed in service.

Equity Classifications

Equity is classified as net assets and displayed in three components:

Invested in capital-type assets, net of related debt - Consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds attributable to acquisition, construction or improvement of those assets, increased by costs incurred to obtain such financing and decreased by un-amortized cost reimbursements.

Restricted net assets-Consist of net assets with constraints placed in their use either by (1) external groups such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

The Authority is required to segregate and reserve the net income generated under the service agreements between the Authority and the County and local municipalities by each service agreement area.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Income Taxes

The Authority is exempt from federal income taxes under Internal Revenue Service Code Section 115.

Industrial Development Agency

Measurement Focus and Basis of Accounting

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.

Agency administrative fees are recognized upon transfer of property during the accrual period. Closing fees on transfer agreements are recognized when earned. Expenses are recognized when incurred.

The IDA operates from the same offices as the Dutchess County Economic Development Corporation (DCEDC). A portion of the contractual expenses are for administrative expenses provided by the DCEDC.

Basis of Accounting

The financial statements of the IDA have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Adjustment to DCC Separately Issued Financial Statements

The debt issued by the County for DCC is the obligation of the County, not DCC, as presented in DCC's separately issued financial statements, reported on by other auditors. As the County has sole responsibility for the debt, it has been included in the general long-term debt fund of the County primary government; and, the net assets and long-term liabilities presented in the separately issued financial statements of DCC have been adjusted herein to conform with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*.

As a result of this adjustment, net assets and long-term liabilities of DCC, as reported on by other auditors and included in the aggregate discretely presented component unit column of these financial statements have been increased and decreased, respectively, for the outstanding debt balance of \$14,653,508 at December 31, 2006.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

3. Detailed Disclosures Regarding Assets and Revenues

A. Restricted and Unrestricted Cash and Cash Equivalents

Primary Government:

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 equivalents consist of certificates of deposit and repurchase agreements and are stated at cost plus accrued interest receivable. Such basis approximates market.

The following schedule presents cash and cash equivalents by type at December 31, 2006:

	Carrying Amount
Primary government	
Cash and cash equivalents	\$ 56,826,893
Restricted cash and cash equivalents	<u>29,719,164</u>
	<u>\$ 86,546,057</u>
Fiduciary funds	
Cash and cash equivalents	<u>\$ 9,874,533</u>
Business-type activities	
Cash and cash equivalents	<u>\$ 2,895,491</u>

At year end, the bank balance of the County's deposits of cash and cash equivalents and restricted cash and investments was \$123,221,288, of which \$1,000,000 was covered by Federal Depository Insurance.

The bank balance of the County's cash and cash equivalents (including fiduciary funds) of \$36,301,314 are classified as Risk Category A, the lowest risk, as defined by the Governmental Accounting Standards Board (the "GASB"), as insured or registered, or securities held by the entity or its agent in the entity's name. The bank balance of the County's cash and cash equivalents of \$79,740,911 are classified as Risk Category B, as defined by GASB, with securities held by the pledging financial institution's trust department or agency in the entity's name. Disclosures relating to risk and type of investment as presented above are indicative of activity and positions held during the year.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation manages and attempts to minimize interest rate risk by investing in short-term investments that mature within one year, so that they can react to changing interest rates and invest in securities that provide the highest yield without exceeding interest rates on the TASC bonds.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Component Units:

The following schedule presents cash, cash equivalents and investments by type at December 31, 2006 for the aggregate discretely presented component units:

Cash and cash equivalents	\$ 19,113,368
Restricted cash and investments	18,455,544
Investments	<u>5,757,692</u>
	<u>\$ 43,326,604</u>

Dutchess Community College

Cash and Cash Equivalents and Short-Term Investments

The College's investment policies are governed by State statutes. Monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. Collateral is required for demand deposits and time deposits not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, repurchase agreements, and obligations of the State and its municipalities and school districts.

The carrying amount of the College's deposits with financial institutions was approximately \$9,729,000 and the bank balance was approximately \$10,318,000 as of August 31, 2006. The bank balance is collateralized as follows as of August 31, 2006:

Amount insured by FDIC	\$ 100,000
Securities collateral held by a third party in College's name	<u>10,218,115</u>
	<u>\$ 10,318,115</u>

Restricted Cash and Investments

The College has entered into various financing agreements to finance construction projects and has deposited funds with trustees for such projects. Bond proceeds, not yet expended for new construction and used to establish debt service funds, and related accumulated investment income, are held on deposit for such projects.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Deposits with bond trustees consist of the following:

	August 31, 2006		
	DASNY	County	Total
Cash and cash equivalents	\$ 58,457	\$ 1,111	59,568
U.S. Government obligations			
Construction Fund	608,780		608,780
Debt Service Fund	361,322		361,322
Debt Service Reserve Fund	114,368		114,368
Total	\$ 1,142,927	\$ 1,111	1,144,038

Deposits with Dormitory Authority of the State of New York (DASNY) are insured or collateralized by using a pooling method. Under this pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the trustees' agents in the name of the trustees. Since the trustees are acting in a fiduciary capacity for the College, these deposits are considered to be held by agents in the College's name. The amount of the pledged collateral is based on an approval averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using a pooling method report to the trustees the adequacy of their pooled collateral covering uninsured deposits. The trustees do not confirm amounts of collateral pledged for the College under a pooling method, so the potential exists for under-collateralization at any given point in time. However, the trustees must adhere to collateralization standards set forth by the State of New York.

At August 31, 2006, the College's deposits (including amounts in-transit) with the County and DASNY were covered by Federal Depository Insurance.

At August 31, 2006, the College's investments with DASNY were as follows:

Investment Type	Fair Value	Less Than One Year	One to Five Years
U.S. Treasury Notes	\$ 746,745	\$ 716,304	\$ 30,441
U.S. Treasury Bills	325,110	325,110	
U.S. Treasury Strips	12,615	6,774	5,841
Total	\$ 1,084,470	\$ 1,048,188	\$ 36,282

With regard to amounts on deposit with bond trustees, the College does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Further, the College's investments with the DASNY include only U.S. Government Treasury securities pursuant to the College's and DASNY investment policies.

Resource Recovery Agency

Cash and Cash Equivalents and Investments

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.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

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, 2006, the Agency had cash deposited in various banks aggregating approximately \$100,000, which are classified as Risk Category A, the lowest risk, as defined by the 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, 2006, the Agency had cash and cash equivalents and investments of \$12,278,606 in various accounts, which are not covered by FDIC. Bank balances differ from the Agency's cash balances by the amount of outstanding items clearing in the following month. The cash balances and repurchase agreements are collateralized with securities held by the counter party's trust department or agent in the entity's name and the investments are held by the counter party's trust department in the entity's name which are considered Risk Category B, as defined by the GASB.

Total risk category B, cash and cash equivalents, and investments are as follows as of December 31, 2006.

Risk Category B	
Bank Balance	\$ 2,588,315
U.S. Treasury Bills	5,516,558
Insured Investment	<u>4,173,733</u>
Total Risk Category B	<u>\$ 12,278,606</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.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

As of December 31, 2006, the trustee reported the following restricted cash and cash equivalents and investments as follows:

1998 Series C	
Project funds	\$ 804
Current restricted funds	<u>804</u>
Debt service reserve fund - non-current	<u>447,000</u>
 Total 1998 Series C	 <u>\$ 447,804</u>
 1999 Series A	
Project funds	\$ 211,173
Current restricted funds	<u>211,173</u>
 Reserve and contingency fund	 379,430
Debt service reserve fund	<u>3,347,303</u>
Non-current restricted funds	<u>3,726,733</u>
 Total 1999 Series A	 <u>\$ 3,937,906</u>
 Total	 <u><u>\$ 4,385,710</u></u>

The Debt Service Reserve Funds are funded in an amount equal to the greater of any annual principal and interest or sinking fund payments, but limited to 10% of the original principal amount of the 1998 B & 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 Agency entered into a Bond Anticipation Note Agreement in 2005 for \$14,800,000. The unspent proceeds of these funds amounted to \$2,265,380 as of December 31, 2006.

In addition, as a result of the assignment of the service agreement and other documents, in 1998, the Agency received funds to be used for capital improvements. At December 31, 2006, these funds, including interest earnings, amounted to \$36,762.

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 \$4,831,134 at December 31, 2006, and are included in restricted cash and cash equivalents.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Restricted assets are summarized as follows as of December 31, 2006:

Current restricted assets	
Series 1998 B&C bonds	\$ 804
Series 1999 A	211,173
Series 2005 BAN	2,265,380
Capital Improvement funds	36,761
Energy revenues and debt service funds	4,831,134
Total current restricted cash and investments	<u>7,345,252</u>
Noncurrent restricted cash and investments	
Series 1998 B&C bonds	\$ 447,000
Series 1999 A	3,726,733
Total non current restricted cash and investments	<u>4,173,000</u>
Total restricted cash and investments	<u>\$ 11,518,252</u>

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.

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 Authority can invest its excess cash balances at competitive interest rates. The Authority 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 Authority believes its contractual arrangements and short-term nature of its investments minimize these risks. Cost plus accrued interest approximates market value or fair value of the repurchase agreements and other investments.

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 of 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.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

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; 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, 2006:

	Category 1	Category 2	Category 3	Total
Cash in Banks	\$ 200,000	\$ 6,258,555	\$ -	\$ 6,458,555
<u>Investments</u>				
Money Market Funds	\$ -	\$ -	\$ 136,668	\$ 136,668
Mutual Funds	1,197,810	-	-	1,197,810
U.S. Treasury Bills & Notes	1,583,293	-	-	1,583,293
Investments Total	\$ 2,781,103	\$ -	\$ 136,668	\$ 2,917,771

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, 2006:

Litigation Reserve Funds	\$ 260,763
Construction Reserve Funds	377,868
Debt Service Sinking Funds	64,746
Debt Service Reserve Funds	102,829
Current Restricted Funds	806,206
Debt Service Reserve Funds Non Current	2,111,566
 Total	 \$ 2,917,772

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

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

classified as restricted non-current assets on the balance sheet. Interest earnings on these reserves have been classified as current as they are available to pay current debt.

Industrial Development Agency

Cash and Cash Equivalents and Investments

IDA monies are deposited in FDIC insured commercial banks or trust companies located within the State. The IDA is authorized to use demand deposit, time and money market savings accounts and certificates of deposit. At December 31, 2006, the IDA's deposits of \$3,193,305 were completely covered by Federal Depository Insurance or collateralized with securities held by an agent of the IDA in the IDA's name.

B. Property Taxes

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 taxes receivable 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 2006 is \$29,595,901,018. The effective tax rate on this value is \$2.57 per thousand. The constitutional tax limit is 1.5% of the 5-year average of the equalized assessment. The 2006 levy represents approximately 22.1% of the constitutional tax limit

Subsequent Event

In May 2007, the County sold property that was acquired due to delinquent taxes. The property was reserved for in the allowance for delinquent taxes. Accordingly, in 2006, the County reduced the reserve based on the sale price and recognized \$2,750,000 as a reduction in bad debt expense.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

C. Capital Assets

Primary Government:

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 4,754,388	\$ -	\$ -	\$ 4,754,388
Construction in progress	16,447,849	18,122,287	(15,500,085)	19,070,051
Total capital assets, not being depreciated	<u>21,202,237</u>	<u>18,122,287</u>	<u>(15,500,085)</u>	<u>23,824,439</u>
Capital assets, being depreciated:				
Buildings and improvements	103,164,329	59,397	-	103,223,726
Machinery and equipment	38,453,889	6,527,934	(1,490,558)	43,491,265
Infrastructure	112,971,017	9,180,156	(196,278)	121,954,895
Totals	<u>254,589,235</u>	<u>15,767,487</u>	<u>(1,686,836)</u>	<u>268,669,886</u>
Less: Accumulated depreciation for:				
Buildings and improvements	(54,849,693)	(3,769,668)	-	(58,619,361)
Machinery and equipment	(28,554,510)	(5,520,454)	1,490,558	(32,584,406)
Infrastructure	(61,676,612)	(6,496,417)	14,721	(68,158,308)
Totals	<u>(145,080,815)</u>	<u>(15,786,539)</u>	<u>1,505,279</u>	<u>(159,362,075)</u>
Total capital assets, being depreciated, net	<u>109,508,420</u>	<u>(19,052)</u>	<u>(181,557)</u>	<u>109,307,811</u>
Governmental activity capital assets, net	<u>\$ 130,710,657</u>	<u>\$ 18,103,235</u>	<u>\$(15,681,642)</u>	<u>\$ 133,132,250</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 3,385,364	\$ -	\$ -	\$ 3,385,364
Construction in progress	1,000,018	952,449	(362,530)	1,589,937
Total capital assets, not being depreciated	<u>4,385,382</u>	<u>952,449</u>	<u>(362,530)</u>	<u>4,975,301</u>
Capital assets, being depreciated:				
Buildings and improvement	9,544,544	132	-	9,544,676
Infrastructure	19,001,284	76,318	-	19,077,602
Equipment	9,208,275	312,723	(71,478)	9,449,520
Totals	<u>37,754,103</u>	<u>389,173</u>	<u>(71,478)</u>	<u>38,071,798</u>
Less: Accumulated depreciation for:				
Buildings and improvements	(4,913,532)	(413,524)	-	(5,327,056)
Infrastructure	(9,547,506)	(616,820)	-	(10,164,326)
Equipment	(7,469,318)	(591,658)	108,138	(7,952,838)
Totals	<u>(21,930,356)</u>	<u>(1,622,002)</u>	<u>108,138</u>	<u>(23,444,220)</u>
Total capital assets, being depreciated, net	<u>15,823,747</u>	<u>(1,232,829)</u>	<u>36,660</u>	<u>14,627,578</u>
Business-type activity capital assets, net	<u>\$ 20,209,129</u>	<u>\$ (280,380)</u>	<u>\$ (325,870)</u>	<u>\$ 19,602,879</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Component Units:

Dutchess Community College

Capital assets activity consists of the following for the year ended August 31, 2006:

	Beginning Balance	Increases	Decreases	Ending Balance
Grounds	\$ 958,465	\$ 190,000	\$ -	\$ 1,148,465
Buildings and improvements	80,066,621	2,547,278	-	82,613,899
Furniture and equipment	9,380,157	250,222	(671,607)	8,958,772
	<u>90,405,243</u>	<u>2,987,500</u>	<u>(671,607)</u>	<u>92,721,136</u>
Less: Accumulated depreciation	33,058,912	2,079,757	(612,628)	34,526,041
Capital assets, net	<u>\$ 57,346,331</u>	<u>\$ 907,743</u>	<u>\$ (58,979)</u>	<u>\$ 58,195,095</u>

At August 31, 2006, the cost basis and accumulated depreciation of assets under capital lease agreements were \$2,054,000.

Depreciation expense for the year ended August 31, 2006 was approximately \$2,080,000.

Resource Recovery Agency

Activity involving capital assets for the year ended December 31, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Property	\$ 517,591	\$ -	\$ -	\$ 517,591
Construction in progress	-	33,479	-	33,479
Plant	63,224,651	1,079,791	-	64,304,442
Equipment	1,063,331	-	-	1,063,331
	<u>64,805,573</u>	<u>1,113,270</u>	<u>-</u>	<u>65,918,843</u>
Less: Accumulated depreciation	(24,940,372)	(2,036,178)	-	(26,976,550)
Capital assets, net	<u>\$ 39,865,201</u>	<u>\$ (922,908)</u>	<u>\$ -</u>	<u>\$ 38,942,293</u>

Depreciation was recorded in the amount of \$2,036,178 less amortization of deferred revenues associated with the funding of capital improvements of \$108,085 resulting in \$1,928,093 in depreciation expense for the year ended December 31, 2006.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Water and Wastewater Authority

Capital assets consisted of the following as of December 31, 2006:

	Beginning Balance	Increase	Decrease	Ending Balance
Land	\$ 819,468	\$ -	\$ -	\$ 819,468
Buildings	9,333,128	-	-	9,333,128
Water system	15,161,800	186,792	(78,660)	15,269,932
Machinery and equipment	4,263,416	51,762	(18,000)	4,297,178
Sewage collection system	956,374	2,268	-	958,642
Construction in progress	27,819,024	3,667,230	(69,009)	31,417,245
Sub-total	58,353,210	3,908,052	(165,669)	62,095,593
Less: Accumulated	(8,831,654)	(849,479)	29,799	(9,651,334)
Net capital assets	\$ 49,521,556	\$ 3,058,573	\$ (135,870)	\$ 52,444,259

Depreciation expense amounted to \$849,479 for the year ended December 31, 2006.

D. Depreciation Expense

Depreciation expense was charged to functions/programs as follows for the year ended December 31, 2006:

Primary Government:

Governmental activities:	
General government	\$ 6,238,660
Public safety	1,917,048
Health	196,456
Transportation	5,804,530
Economic assistance and opportunity	119,174
Culture and recreation	722,433
Home and community services	788,238
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Total depreciation expense – governmental activities	\$ 15,786,539
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Business type activities:	
Airport	\$ 824,276
Transportation	761,068
	<hr/>

Total depreciation expense – business type activities	\$ 1,585,344
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Component units:	
Community College	\$ 2,080,000
Resource Recovery Agency	2,036,178
Industrial Development Agency	2,874
Water and Wastewater Authority	849,479
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Total depreciation expense – component units	\$ 4,968,531
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Dutchess County, New York
Notes to Financial Statements
December 31, 2006

4. Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Long-term Liabilities

Primary Government:

Long-term liability activity for the year ended December 31, 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 63,190,494	\$32,852,595	\$(14,179,400)	\$ 81,863,689	\$8,906,094
Tobacco Asset Securitization					
Bonds (TASC debt), net of discount	69,163,774	-	(1,342,434)	67,821,340	-
Installment purchase debt	70,000	-	(28,000)	42,000	-
Total bonds and BANS payable	132,424,268	32,852,595	(15,549,834)	149,727,029	
Guarantee, WWA	1,214,740	-	(4,532)	1,210,208	104,987
Judgments and claims	25,284,086	1,894,041	-	27,178,127	-
Compensated absences	6,390,126	962,742	-	7,352,868	-
Governmental activity long- term liabilities	<u>\$165,313,220</u>	<u>\$35,709,378</u>	<u>\$(15,554,366)</u>	<u>\$185,468,232</u>	<u>\$9,011,081</u>

General long-term debt of the County (not including the TASC debt) is issued principally as serial bonds, which are due at various times through 2022. 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 5.37% of its constitutional debt limit as of December 31, 2006.

On June 2, 1993, the County of Dutchess issued \$7.445 million in General Obligation Bonds with an average interest rate of 4.37 percent to advance refund \$6.525 million of outstanding 1988 Series bonds with an average interest rate of 7.26 percent. The net proceeds of \$7.373 million (after payment of \$118,000 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1988 Series bonds. As a result, the 1988 Series bonds are considered to be defeased and the liability for those bonds has been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$1,345,000 at December 31, 2006.

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 liability

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

for these bonds have been removed from the County's long term liabilities. The balance of the defeased debt is approximately \$8,840,000 at December 31, 2006. 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 on 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 \$10,250,000 at December 31, 2006.

In December 2003, the TASC issued \$47,815,000 in bonds (TASC debt, see below) to finance the acquisition of tobacco assets from the County. The TASC transferred \$40,811,628 in proceeds to the General Fund to refund \$36,141,402 of general obligation debt. The proceeds of \$47,815,000 (\$40,811,628 for the General Fund and \$1,158,722 for the Enterprise Funds), net of \$1,902,637 in discount, \$425,576 in bond issue costs and \$3,516,437 deposited into a liquidity reserve were transferred to the general fund which then deposited the \$41,970,350 in irrevocable trust with an escrow agent to provide for all future debt service payments for the 1996, 1997, 1998, 2001, 2004 Series bonds at interest rates ranging from 2% to 7%. As such, \$37,300,124 of debt was removed from the General Fund and Enterprise Funds debt. The County recorded a deferred loss from refunding in the amount of \$4,670,226 related to this transaction. This deferred loss is amortized over the life of the TASC debt; accordingly, amortization expense of \$116,756 was recognized in 2006. The balance of the defeased debt is \$41,585,061 at December 31, 2006. The TASC recorded \$45,912,362 of debt from this sale of tobacco bonds. The TASC debt will be repaid with proceeds from tobacco sales, in future periods, as dictated by the Master Settlement Agreement and Indenture Agreement, as defined.

In November 2005, the TASC issued \$26,236,279 in bonds (TASC debt, see below) to finance the acquisition of tobacco assets from the County. The proceeds of \$26,236,279, net of \$692,437 in bond issue costs were transferred (\$9,543,842) to the General Fund and (\$16,000,000) to the Capital Projects Fund. The County deposited the \$9,543,842 in an irrevocable trust with an escrow agent to provide for all future debt service payments for a portion of the 2004 Series bond at interest rates ranging from 6% to 7.85%. As such, \$10,090,000 of debt was removed from the General Fund. The County recorded a deferred gain from refunding in the amount of \$546,158 related to this transaction. This deferred gain is amortized over the life of the TASC debt, accordingly, amortization of \$10,114 was recognized in 2006. The balance of the defeased debt is \$26,236,279 at December 31, 2006. The TASC recorded \$26,236,279 of debt from this sale of tobacco bonds. The TASC debt will be repaid with proceeds from tobacco sales, in future periods, as dictated by the Master Settlement Agreement and Indenture Agreement, as defined.

In December 2006, the County issued \$24,000,000 in public improvement serial bonds with an average interest rate of 4.25%. The proceeds will be used to finance various capital projects. The balance of the debt is approximately \$22,588,000 at December 31, 2006.

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TASC Debt

On December 18, 2003, the TASC issued the 2004 New York Counties Tobacco Trust III Tobacco Settlement Pass-Through Bonds (TASC debt, Series 2003 Term Bonds) amounting to \$47,815,000, with an issue value of \$45,912,363, net of bond discount of \$1,902,637. The TASC recognized \$47,566 in amortization expense related to the bond discount and \$10,955 related to the amortization of deferred financing costs in 2006.

On November 28, 2005, the TASC issued the 2005 New York Tobacco Trust V, Tobacco Settlement Pass Through Bonds (Subordinate Turbo Capital Appreciation Bonds ("CABs")) amounting to \$26,236,279. The TASC recognized \$315 related to the amortization of deferred financing costs in 2006.

Collectively these bonds are considered the "TASC Debt"

The TASC debt is secured and payable from collections including all Tobacco Settlement Revenues (TSR) to be received by the TASC, reserves, amounts held in other accounts established by the indenture and the TASC's rights under the purchase agreement. The proceeds will be used for the purpose of (i) purchasing all rights, title and interest in certain litigation awards under the Master Settlement Agreement (MSA) entered into by participating cigarette manufacturers, and (ii) issuance of Tobacco Settlement Asset Backed Bonds to pay the purchase price for the rights. These rights were purchased from Dutchess County and accounted for as a transaction between entities under common control (therefore, no gain or loss on the transfer was recognized).

The TASC Debt is payable only from the assets of the TASC. In the event that the assets of the TASC have been exhausted, no amounts will thereafter be paid on the TASC Debt. The TASC Debt is not a legal or moral obligations of Dutchess County, and no recourse may be had thereto for payment of amounts owing on the TASC Debt. The TASC's only source of funds for payments on the TASC Debt are the TSRs. The TASC has no taxing power. Because of the many adjustments included in the MSA, it is not possible to know the exact future collections under the MSA.

The ability of the TASC to make debt service payments on the TASC Debt is contingent upon the receipt of TSRs. TSR payments may vary based on inflation adjustments, volume adjustments of cigarette sales, litigation adjustments from non-settling states, offsets for miscalculated or disputed payments, federal tobacco legislation offsets, litigation releasing parties offsets, and offsets for claims over the amounts of the award.

The assets of the TASC are not available to pay any creditor of Dutchess County. The TASC Debt issued by the TASC does not constitute a claim against the full faith, credit and taxing power of the General Fund of Dutchess County. The ability of the TASC to meet debt service payments of bonds is contingent upon the receipt of Tobacco Settlement awards.

The TASC Debt includes various administrative covenants, including required filing of audited financial statements within a specific timeframe.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Long-term debt, the proceeds of which have been used primarily to provide funds for various capital projects, consists of the following at December 31, 2006:

Interest Rate	Date Issued	Maturity Date	Amount of Original Issue	Outstanding December 31, 2006	Annual Principal Installments
Serial bonds					
2.50% – 5.25%	1993	2013	\$ 7,445,000	\$ 1,345,000	\$ 150,000 - 430,000
5.00 – 5.50	1996	2016	18,300,000	-	500,000 - 1,000,000
4.00 – 6.25	1997	2014	5,200,000	-	300,000 - 325,000
4.00 – 5.25	1998	2018	8,550,000	2,685,000	175,000 - 565,000
4.00 – 5.25	1998	2018	11,497,000	-	100,000 - 580,000
3.50 – 5.00	2001	2021	29,850,000	13,240,382	470,000 - 1,975,737
3.25 – 5.00	2001	2016	16,360,000	8,840,000	305,000 - 1,374,000
2.00 – 4.50	2003	2022	18,800,000	7,800,603	140,000 - 1,866,572
3.00 – 3.88	2003	2008	3,660,000	1,650,000	675,000 - 850,000
5.00 – 6.00	2003	2043	45,912,362	41,585,061	0 - 3,245,000
5.00 – 6.00	2004	2019	17,085,000	13,465,108	640,000 - 825,000
6.00 – 7.85	2005	2060	26,236,279	26,236,279	2,604,375 - 10,384,242
4.00 – 4.25	2006	2014	1,525,000	1,510,000	5000 - 305,000
4.00 – 5.00	2006	2018	8,740,000	8,740,000	0 - 1,385,000
3.50 – 5.00	2006	2027	24,000,000	22,587,595	550,000 - 1,670,000
Installment debt				42,000	
Total long-term debt				\$ 149,727,028	

Compensated absences for governmental activities typically have been liquidated from the General Fund and the Special Revenue Funds. Claims and judgments typically have been liquidated from the General Fund.

Business-Type Activities

Long-term liability activity for the year ended December 31, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type activities					
Bonds payable:					
Airport bonds	\$ 2,881,506	\$ 961,945	\$ (179,100)	\$ 3,664,351	\$ 207,522
Transportation bonds	153,000	450,460	(31,500)	571,960	53,486
Total bonds payable	3,034,506	1,412,405	(210,600)	4,236,311	261,008
Compensated absences	48,368	-	(5,070)	43,298	-
Business-type activity long-term liabilities	\$ 3,082,874	\$ 1,412,405	\$ (215,670)	\$ 4,279,609	\$ 261,008

Dutchess County, New York
Notes to Financial Statements
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Long-term debt at December 31, 2006 consists of the following:

Airport

2001 serial bond, interest at 3.5% to 5% due in various installments through 2010	\$ 4,618
2003 serial bonds, interest at 2% to 4.5% due in various installments through 2022	934,396
2004 public improvement bonds, interest at 2% to 5% due in various installments through 2002	1,763,392
2006 public improvement bonds, interest at 3.5% to 5% due in various installments through 2027	961,945
Total airport bonds	<u>3,664,351</u>
Less: current portion	(207,373)
Total bonds, net of current portion	<u>\$ 3,456,978</u>

Transportation

2004 public improvement bonds, interest at 2% to 5% due in various installments through 2022	\$ 121,500
2004 public improvement bonds, interest at 3.5% to 5% due in various installments through 2027	450,460
Total transportation bonds	<u>571,960</u>
Less: current portion	(53,486)
Total bonds, net of current portion	<u>\$ 518,474</u>

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Annual debt service requirements to amortize general long-term debt as of December 31, 2006 are as follows:

Year Ended	Government Activities General Obligation Bonds		TASC Bonds		Business-type Activities Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
December 31						
2007	\$ 4,949,141	\$ 3,055,259	\$	\$ 2,482,313	\$ 260,859	\$ 133,573
2008	5,227,343	2,881,407		2,482,313	337,657	128,123
2009	4,033,520	3,029,443		2,482,313	316,480	119,064
2010	7,928,850	2,819,323		2,482,313	301,150	109,840
2011-2015	37,117,603	9,080,063		14,896,876	1,572,397	385,871
2016-2020	16,629,379	2,918,444	2,640,000	14,876,563	1,005,021	171,447
2021-2025	4,942,588	687,838	5,660,000	16,733,562	377,412	45,637
2026-2030	1,035,265	62,116	6,905,000	16,332,519	64,735	3,884
2031-2035			9,160,000	16,298,587		
2036-2040			23,049,242	77,119,808		
2041-2045			6,315,000	6,699,150		
2046-2050			4,889,934	66,030,066		
2051-2055			2,604,375	70,490,625		
2056-2060			8,357,728	547,342,272		
Total	<u>81,863,689</u>	<u>24,533,893</u>	<u>69,581,279</u>	<u>856,751,280</u>	<u>4,236,312</u>	<u>1,097,439</u>
Less: Discount			<u>(1,759,939)</u>			
Total	<u>\$ 81,863,689</u>	<u>\$ 24,533,893</u>	<u>\$ 67,821,340</u>	<u>\$856,751,280</u>	<u>\$ 4,236,312</u>	<u>\$ 1,097,439</u>

Dutchess County subsidizes the net service fees of the Dutchess County Resource Recovery Agency, when revenues of that Agency are insufficient to cover operating expenses and debt service requirements. Payments are subject to the approval of the Dutchess County legislature. Net service revenue received from Dutchess County by the Resource Recovery Agency in 2005 was \$1,242,302. This amount varies by year and is not estimable.

Dutchess County issued \$10.3 million Public Improvement Refunding Bonds, 2006 Series dated May 18, 2006. The series consisted of \$8.7 million Public Improvement (Serial) Bonds 2006, Series A, maturity date February 15, 2018 and \$1.5 million Public Improvement (Serial) Bonds, Series B, maturity date August 15, 2014. Their interest rates range from 4% to 5%.

The 2006 bonds were issued to advance refund \$10.2 in Public Improvement (Serial) Bonds originally issued by the County as follows: \$5.8 Million remaining from the \$18.3 million Public Improvement (Serial) Bonds, July 15, 1996, maturity date March 15, 2016; \$1.5 million remaining from the \$5.2 million Public Improvement (Serial) Bonds, August 1, 1997, maturity date October 15, 2014; and \$2.9 million remaining from the \$11.5 million Public Improvement (Serial) Bonds, July 15, 1998, maturity date June 15, 2018. Their interest rates ranged between 5.50% and 4.6%.

The bond principal increased \$45,000; interest decreased \$567,504. The total overall savings is \$522,505 to the County.

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Component Units:

Dutchess Community College

The College has entered into financing agreements with DASNY and Dutchess County to finance most of its educational facilities. The DASNY bonds for these facilities, which have a maximum 30-year life, will be repaid from the appropriations received from the State of New York. Dutchess County has issued general obligation bonds, with a maximum 30-year life, to fund their portion of the construction costs. The College is currently paying the County an annual fee for service on these bonds (\$100,000 in 2006 and \$600,000 in 2005) derived from capital chargebacks.

In March 2005, DASNY issued \$9,237,688 in bonds (2005A, 2005B and 2005C) with average interest rates ranging between 3.2% - 5.5% to advance refund \$8,972,000 in previously issued bonds (1994A, 1999A, 2000A, and 2001A) with average interest rates ranging between 4.7% - 5.8%. Net proceeds of \$9,647,340 (after deduction of \$217,441 in financing costs) were transferred to an escrow account to provide for all future debt service payments on the refunded portion of bonds. As a result, the refunded bonds are considered to be defeased and the liability for that portion of the bonds has been removed from the financing agreement obligations. The advance refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$366,905.

	Balance August 31, 2005	New Borrowings	Repayments	Balance August 31, 2006
Financing arrangements	<u>\$ 35,421,218</u>	<u>\$ 1,152,361</u>	<u>\$ (1,145,780)</u>	<u>\$ 35,427,799</u>

As of August 31, 2006, debt service requirements relating to these obligations are as follows:

	DASNY	Dutchess County	Total Principal	Total Interest
Year Ending August 31:				
2007	\$ 332,152	\$ 965,000	\$ 1,297,152	\$ 1,599,424
2008	493,586	966,000	1,459,586	1,548,389
2009	639,440	952,000	1,591,440	1,487,675
2010	684,466	989,000	1,673,466	1,419,570
2011	623,186	1,056,000	1,679,186	1,344,411
2012-2016	4,758,715	5,424,000	10,182,715	5,480,743
2017-2021	5,094,777	3,213,000	8,307,777	3,124,822
2022-2026	5,116,460	25,000	5,141,460	1,475,993
2027-2031	2,712,320	-	2,712,320	634,468
2032-2036	319,189	-	319,189	349,753
2037-2041	-	1,063,508	1,063,508	287,147
	<u>\$ 20,774,291</u>	<u>\$ 14,653,508</u>	<u>\$ 35,427,799</u>	<u>\$ 18,752,395</u>

Interest on the DASNY bonds range from 2% to 5.5%. Interest on the Dutchess County bonds ranges from 3% to 6%.

Dutchess County, New York
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Interest expense on total financing agreements for the College was approximately \$1,556,000 in 2006.

Resource Recovery Agency

Bond Anticipation Notes

In April 2005, the Agency renewed a bond anticipation note for \$5,800,000 with a maturity date of December 28, 2007 and an interest rate of 3.65%. The purpose of the note is to upgrade the facility for clean air modifications according to the Environmental Protection Agency. As of December 31, 2006, the amount outstanding for the bond anticipation note is \$14,800,000.

1998 A, B and C Series – Advance Refunding and Defeasance of Debt

In August 1998, the Agency refinanced both the 1990 A Series and the 1995 A&B Series Bonds in a transaction accounted for as an advance refunding of debt. The Agency issued a total of \$39,485,000 in new debt bearing interest rates from 4.10% to 6% to advance refund \$37,640,000 of outstanding 1990 and 1995 Solid Waste Management Revenue Bonds with interest rates ranging up to 7.50%. The proceeds, Agency and contractor contributions, and unspent prior bond proceeds, net of \$1,515,534 in underwriting fees, insurance, and other costs, amounting to \$39,709,458 were used to purchase U.S. government securities. These securities were deposited in irrevocable trusts with an escrow agent for all future debt service payments on the 1990 A and 1995 A&B Series bonds. As a result, the 1990 A and 1995 A&B Series bonds were considered to be in substance defeased and the liability for these bonds were removed from the Agency's financial statements.

The Agency recorded a deferred loss in the amount of \$3,303,920, representing the difference between the net carrying value of the old debt including unamortized bond issuance costs and the reacquisition price. This loss will be written over the life of the new debt. The present values of the difference in debt service requirements and including the effect of the extension of the debt from 2010 to 2014 has resulted in an economic gain of \$1,130,250. The unamortized deferred loss at December 31, 2006 consists of \$630,921.

As of January 3, 2000 the 1990 A Series bonds were called and payments of \$29,923,500 in principal and \$1,089,870 in interest were made. As of January 2, 2003, 1995A and 1995B Series were called and payments of \$4,815,000 in principal and \$86,900 in interest were made.

1999 A 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.

The 1998 and 1999 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.

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Notes to Financial Statements
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Bonds payable, with interest payable semiannually on January 1, and July 1, consist of the following as of December 31, 2006:

Interest Rate	Issue Date	Maturity Date	Outstanding December 31, 2006
Serial Bonds			
5.05%	1999	2009	\$ 2,305,000
5.15%	1999	2010	2,420,000
5.25%	1999	2011	3,075,000
5.35%	1999	2012	3,235,000
5.40%	1999	2013	3,410,000
5.45%	1999	2014	3,595,000
Term Bonds			
5.00%	1999	2008	3,100,000
5.00%	1999	2010	3,060,000
			<u>24,200,000</u>
Less: Current maturities of bonds payable			<u>(2,525,000)</u>
			<u>\$ 21,675,000</u>

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

Year Ended December 31,	Principal	Interest	Total
2007	\$ 2,525,000	\$ 1,200,485	\$ 3,725,485
2008	2,650,000	1,071,110	3,721,110
2009	2,785,000	934,659	3,719,659
2010	2,925,000	789,517	3,714,517
2011	3,075,000	633,859	3,708,859
2011 – 2014	<u>10,240,000</u>	<u>852,565</u>	<u>11,092,565</u>
Totals	<u>\$ 24,200,000</u>	<u>\$ 5,482,195</u>	<u>\$ 29,682,195</u>

The Series 1998 C Term Bonds maturing on January 1, 2010 and the Series 2001 A Term Bonds maturing January 1, 2008 are subject to mandatory redemption prior to maturity in part on any January 1, beginning January 1, 2004 for C Series bonds and January 1, 2005 for A Series bonds, from mandatory sinking fund installments made between 2004 and 2010.

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, 2006 these debt service reserves exceeded their funding requirements.

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Water and Wastewater Authority

Bonds Payable

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

Trust Indenture

As of June 1, 1995 the Authority executed a trust indenture authorizing the issuance of debt for the purpose of acquiring a sewage facility. One supplemental trust indenture was authorized under terms similar to those described in the General Bond Resolution described below.

Special Bond Resolution

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

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 party debt. The Authority has issued seven supplemental resolutions pursuant to this general bond resolution, authorizing debt issues in the years of 1998, 1999, 2000, 2001 and two issues during 2002 and an issue in 2004.

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 is as follows as of December 31, 2006:

New York State Environmental Facilities Corporation State Water Pollution Control Revolving Fund Revenue Bond Series 1995A, due in various installments through 2015, interest 3.70% - 5.55%	\$ 430,000
1997 Special Revenue Bond No. 1, due in various installments through 2007, interest 6.00%	25,822
1998 Revenue Bond (Zero Coupon) Series One, due in various installments starting in 2021 through 2029, interest 3.90% - 5.40%	3,817,818
1998 Revenue Bond Series Two, due in various installments through 2019, interest 3.90% - 5.43%	400,000
New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding) Bond Series 1999B, due in various installments through 2019, interest 3.97% - 5.43%	13,705,000

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New York State Environmental Facilities Corporation State Clean Water and Drinking Water Revolving Fund Revenue (Refunding)	
Bonds Series 1999B, due in various installments through 2019, interest 3.97% - 5.43%	300,000
2000 Service Agreement Revenue Bond Series 2000, due in various installments through 2020, interest 5.65%	665,000
2001 Service Agreement Revenue (Refunding) Bonds Series 2001, due in various installments through 2041, interest 3.00% - 5.36% - Partially refunded in 2002 as described below	1,223,410
2002 Service Agreement Revenue (Refunding) Bonds Series 2002 Harbour Hills, due in various installments through 2021, interest 1.333% - 5.063%	2,560,000
New York State Environmental Facilities Corporation State Clean Water Revolving Fund Revenue (Refunding) Bonds Series 2002 WPC, due in various installments through 2023, interest 1.825% - 5.705%	440,000
2004 Water Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00% - 4.25%	1,955,000
2004 Sewer Service Agreement Revenue Bond Series 2004, due in various installments through 2024, interest 2.00% - 4.25%	<u>2,075,000</u>
Total bonds payable	27,597,050
Accreted interest recorded on zero coupon bonds	<u>2,493,622</u>
Total long term debt	30,090,672
Current portion of long term debt	<u>(1,295,823)</u>
Total long term debt, less current portion	<u>\$ 28,794,849</u>

Long term debt increased by \$398,924 in accreted interest and decreased by \$1,266,372 in payments.

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December 31, 2006

Debt Service Requirements

Debt Service requirements to maturity as of December 31, 2006 are as follows:

Year Ending December 31	Principal	Interest	Total
2007	\$ 1,295,823	\$ 1,101,361	\$ 2,397,184
2008	1,310,000	1,046,681	2,356,681
2009	1,350,000	988,754	2,338,754
2010	1,395,000	927,435	2,322,435
2011	1,450,000	862,789	2,312,789
2012 – 2016	8,240,000	3,190,728	11,430,728
2017 – 2021	7,663,879	3,275,777	10,939,656
2022 – 2026	3,273,421	6,105,221	9,378,642
2027 – 2031	1,227,551	3,812,557	5,040,108
2032 – 2036	222,005	10,550	232,555
2037 – 3041	169,371	8,079	177,450
Total	\$ 27,597,050	\$ 21,329,932	\$ 48,926,982

Bond Anticipation Note

In December 2006, the Authority issued a Bond Anticipation Note in the amount of \$330,000, maturing June 2007 with an interest rate of 3.94%. The proceeds of the note is to pay the cost of replacing equipment and sewer mains within the Valley Dale Sewer System. The Authority plans to permanently finance these improvements with a serial bond to be issued in 2007.

In December of 2006, the Authority renewed a Bond Anticipation Noted in the amount of \$1,765,000 which currently bears an interest rate of 3.83%. The proceeds of the note will pay the cost of replacing the wastewater treatment facility for the Chelsea Cove Sewer System. The Authority plans to permanently finance these improvements with a serial bond to be issued in 2007.

Advance Refunding and Defeasance of Debt

In July 2002, the Authority refinanced a portion of the 2001 Series (Zone D Project) and a portion of the 1999 Series (Water Pollution Control) bonds in transactions accounted for as advance refundings of debt. The Authority defeased bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2006, the balance of the 2001 and 1999 defeased debt outstanding was \$2,460,000.

The Authority recorded a deferred loss in the amount of \$97,853, pertaining to the 2001 Series debt, representing the difference between the net carrying value of the old debt and the reacquisition price. This loss will be amortized over the life of the new debt. The present values of the difference in debt service requirements including subsidies obtained through the New York State Environmental Facilities Corporation has resulted in an economic gain of \$272,360, while the difference in net cash flows resulted in a net savings of \$348,852.

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The Authority recorded a deferred loss in the amount of \$20,825, pertaining to the 1999 Series debt, representing the difference between the net carrying value of the old debt and the reacquisition price. The costs of issuance and this loss, which are equal to the bond premium of \$27,005, will be amortized over the life of the new debt. The present values of the difference in debt service requirements including subsidies obtained through the New York State Environmental Facilities Corporation has resulted in an economic gain of \$27,660, although the difference in net cash flows resulted in an outflow of \$104,191.

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 4C – Commitments and Contingencies.

B. Lease Obligations

Primary Government:

The County leases, buildings and equipment under noncancelable operating leases. Total costs for such leases were \$1,869,369 for governmental activities for the year ended December 31, 2006. Future minimum lease payments at December 31, 2006 were as follows:

Year Ended December 31	Governmental Activities
2007	\$ 1,675,441
2008	1,453,027
2009	1,376,463
2010	949,890
2011-2015	278,693
	<hr/>
Total	\$ 5,733,514

Dutchess County, New York
Notes to Financial Statements
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Component Units:

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 4.5% to 4.9%.

	Balance August 31, 2005	New Borrowings	Repayments	Balance August 31, 2006
Capital lease obligations	<u>\$ 1,600,086</u>	<u>\$</u>	<u>\$ (185,538)</u>	<u>\$ 1,414,548</u>

The future minimum payments required under the lease are as of August 31, 2006 follows:

	Principal	Interest
2007	\$ 194,737	\$ 64,249
2008	204,390	54,595
2009	214,523	44,462
2010	225,158	33,827
2011	236,320	22,665
2012 – 2015	<u>339,420</u>	<u>20,132</u>
	<u>\$ 1,414,548</u>	<u>\$ 239,930</u>

Interest expense related to capital lease obligations was approximately \$73,500.

Operating Leases

The College leases buildings for use in its operations under operating lease agreement which expire in August 2010. The agreements require the following minimum future annual lease payments as of August 31, 2006:

Year ending August 31	
2007	\$ 316,438
2008	9,885
2009	10,083
2010	<u>10,285</u>
	<u>\$ 346,691</u>

Rental expense for 2006 was approximately \$680,200.

Dutchess County, New York
Notes to Financial Statements
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C. Interfund Balances and Activity

Interfund Receivables and Payables

Interfund balances at December 31, 2006 were as follows:

Payable from:	Payable to: General Fund
Capital projects	\$ 2,636,691
Airport	328,990
Transportation	156,315
Agency	<u>99,649</u>
Total	<u>\$ 3,221,645</u>

The purpose of these interfund receivables and payables result from cash advances made by the general fund to other funds to cover capital expenses.

Interfund Transfers

Interfund transfers for the year ended December 31, 2006 were as follows:

Transfer from:	General Fund	Capital Projects	Other Governmental	Airport	Transportation	Component Units	Total
General fund	\$ -	\$1,049,427	\$ 685,202	\$ 633,468	\$1,774,086	\$8,583,678	\$12,725,861
Total	<u>\$</u>	<u>\$1,049,427</u>	<u>\$ 685,202</u>	<u>\$ 633,468</u>	<u>\$1,744,086</u>	<u>\$8,583,678</u>	<u>\$12,725,861</u>

Amounts transferred to the Airport and Transportation funds were the result of budgeted subsidies to fund capital project expenditures until federal and state funding is received. Amounts transferred to the capital projects fund is matching for state and federal grants.

D. Retirement Plan

Primary Government:

Plan Description

The New York State and Local Retirement System (the "System") is a cost-sharing, multiple-employer public employee retirement system (PERS) comprised of the New York State and Local Employees' Retirement System (ERS) and Local Police and Fire Retirement System (PFRS). The System is established pursuant to the New York State Retirement and Social Security Law, to provide retirement allowances and other specified benefits for the State, local governments and their employees. Substantially all employees of the County are eligible to participate in the System. The System provides 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 System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a

Dutchess County, New York
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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 System is 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 their first ten years of service, thereafter the Plan is noncontributory. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The County is required to contribute at an actuarially determined rate. The contributions for the current year and two preceding years were:

2006:	General fund	\$ 9,348,686
	Other governmental	619,742
2005:	General fund	10,598,621
	Other governmental	703,830
2004:	General fund	7,814,834
	Other governmental	448,706

The County's contributions made to the System were equal to 100 percent of the contributions required for the year.

Component Units:

Dutchess Community College

Plan Description

The College participates in the New York State and Local Employees' Retirement System (ERS), the New York State Teachers' Retirement System (TRS) and the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). ERS and TRS 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 for the TRS and ERS are governed by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). The Systems issue a publicly available financial report that includes financial statements and required supplementary information. The ERS report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244. The TRS report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Dutchess County, New York
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Funding Policy

The Systems are noncontributory except for employees who joined the Systems after July 27, 1976 who contributed 3% of their salaries. Effective October 1, 2000, employees who joined the Systems after July 27, 1976 and have been members of the Systems for at least ten years, or have at least ten years of credited service are no longer required to contribute 3% of their salaries. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board.

The College is required to contribute at an actuarially determined rate. The actuarially determined rate and the required contributions for the current year and two preceding years were:

	ERS		TRS	
	Actuarially Determined Rate	Required Contributions	Actuarially Determined Rate	Required Contributions
2006	10.4-15.1%	\$815,095	7.97%	\$244,208
2005	11.0-16.8%	777,161	5.63%	145,355
2004	4.9%	346,385	2.52%	54,303

The College's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA – CREF)

TIAA-CREF is a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the Plan, the College is required to make contributions based on the gross salaries of the participants. Certain participants are also required to make a participating contribution. For the year ended August 31, 2006, the College incurred approximately \$1,112,000 in pension expense under this Plan.

Resource Recovery Agency

Plan Description

The Agency participates in the New York State and Local Employees' Retirement System (ERS) (System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The New York State Retirement and Social Security Law (NYSRSSL) govern obligations of employers and employees to contribute and benefits to employees. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of their funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

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Funding Policy

The System is non-contributory except for employees who joined ERS after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Agency is required to contribute annually at an actuarially determined rate. The required contributions for the current year and two preceding years ending December 31 were:

	ERS
2006	\$ 53,254
2005	53,865
2004	45,178

The Agency's contributions made to the System were equal to 100 percent of the contributions required for each year.

Water and Wastewater Authority

Pension Plan

Plan Description

Through the acquisition of the assets and employees of the Hyde Park Fire District, the Dutchess County Water and Wastewater Authority is now required to participate in the New York State Local Employees Retirement System and the Public Employees' Group Life Insurance Plan System. This is a cost sharing multiple employer retirement system. The System provides 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 serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes an Annual Report and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236.

Funding Policy

The systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for the current year was \$79,615. The Authority's contributions made to the System were equal to 100% of the contributions required for those years.

Dutchess County, New York
Notes to Financial Statements
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E. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In October 1997 the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. This statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

As of October 1, 1997 the New York State Deferred Compensation Board (the "Board") created a Trust and Custody agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Consequently, Statement No. 32 became effective for the New York State Deferred Compensation Plan as of October 1, 1997. 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. Therefore, 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, 2006, the market value of the plan assets totaled \$69,241,579.

F. Post Employment Benefits

Primary Government:

The GASB issued GASB, Statement No. 45, *Accounting and Financial Reporting by Employees for Post-Employment Benefits other than Pension* that will require an accrual of a post retirement benefits liability in the future. Currently, the County records the cost and obligations for its post retirement benefits on the "pay as you go" basis. The impact of this standard to the County is not determinable at this time although it's expected to have a substantive effect on the County's financial position.

Component Units:

Dutchess Community College

Post Retirement Benefits

The College provides certain post retirement benefits to its employees and their survivors, primarily by payment of health insurance premiums after their retirement. These costs are recognized as paid.

The obligation for these benefits at August 31, 2006 was estimated at approximately \$3.8 million for current retirees, an estimate of an amount equal to the present value of the future liabilities for health insurance premiums. This obligation is not recognized as a liability in the College's financial statements. A portion of unrestricted net assets has been designated in this connection.

Dutchess County, New York
Notes to Financial Statements
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Resource Recovery Agency

Post Retirement Benefits

The Agency provides health care benefits for retired employees under a plan administered by Dutchess County and established by the Dutchess County Legislature. All employees become eligible for these benefits if they qualify for retirement while working for the Agency. The costs of these benefits are expensed as premiums are paid. The Agency will pay 35% to 50% of the total premium, depending upon the type of coverage provided to the employee. For the year ended December 31, 2006, the Agency paid \$2,142 on behalf of one retiree.

Water and Wastewater Authority

Post Employment Benefits

The Authority offers health insurance coverage for retired employees. Substantially all of the Authority's employees may become eligible for these benefits. The post-retirement health benefit is provided through an insurance company whose premium is based on the benefits paid during the year. The Authority would recognize the cost of providing the benefit by recording the insurance premium as an expense in the year incurred. During 2006, there were no insurance benefits paid.

G. Self-Insurance - Workers' Compensation

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 \$500,000.

Dutchess County, New York
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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:

	2006
Unpaid claims and claim adjustment expenses at beginning of year	\$ 24,284,086
Included claims and claim adjustment expenses:	
Provision for events of the current year	678,588
Increase in provision for events of prior years	3,083,926
Total incurred claims and claim adjustment expenses	<u>3,762,514</u>
Payments:	
Claims and claim adjustment expenses attributable to events of the current year	(207,554)
Claims and claim adjustment expenses attributable to events of prior years	(1,660,919)
Total payments	<u>(1,868,473)</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 26,178,127</u>

Summarized financial information for the self-insurance fund on the modified accrual basis at December 31, 2006 is as follows:

Total assets	\$ 2,035,911
Total revenues	\$ 9,158,861
Total expenses	\$ 7,691,470

Dutchess County, New York
Notes to Financial Statements
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5. Other Note Disclosures

A. Condensed financial statements of component units

CONDENSED STATEMENT OF NET ASSETS

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total Aggregate Discretely Presented Component Units
Assets					
Cash and cash equivalents	\$ 11,498,799	\$ 768,243	\$ 6,458,555	\$ 387,771	\$ 19,113,368
Restricted cash and investments	1,144,038	11,518,985	2,917,771	2,874,750	18,455,544
Investments	5,757,692	-	-	-	5,757,692
Receivables, net	10,921,454	1,492,709	1,130,493	-	13,544,656
Inventories	538,620	-	-	-	538,620
Due from other governments	-	71,672	-	-	71,672
Other assets	1,012,614	1,513,719	1,456,280	38,073	4,020,686
Capital assets, net	58,704,254	38,942,294	52,444,259	1,135	150,091,942
Total assets	89,577,471	54,307,622	64,407,358	3,301,729	211,594,180
Liabilities					
Accounts payable and accrued liabilities	5,982,357	3,706,437	685,774	135,737	10,510,305
Deferred revenue	11,269,399	821,677	32,628,972	-	44,720,048
Due to other governments	1,450	240,539	101,366	-	343,355
Due within one year	1,491,889	2,525,000	1,295,823	-	5,312,712
Due within more than one year	20,696,950	36,475,000	30,889,849	-	88,061,799
Total liabilities	39,442,045	43,768,653	65,601,784	135,737	148,948,219
Net Assets					
Invested in capital, net of related debt	37,208,325	(32,772)	(7,204,187)	1,135	29,972,501
Restricted	3,659,909	11,518,985	2,917,771	-	18,096,665
Unrestricted	9,267,192	(947,244)	3,091,990	3,164,857	14,576,795
Total net assets	\$ 50,135,426	\$ 10,538,969	\$ (1,194,426)	\$ 3,165,992	\$ 62,645,961

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

CONDENSED STATEMENT OF ACTIVITIES

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total
Operating expenses					
Disposal fees	\$	\$ 2,008,477	\$	\$	\$ 2,008,477
Service fees		9,795,395			9,795,395
Administrative expenses	3,751,168	1,725,243	804,032		6,280,443
Interest expense	1,638,810	1,803,610	1,622,555		5,064,975
Depreciation	2,079,757	1,928,093	847,907	2,874	4,858,631
Amortization		478,763	77,333		556,096
Instruction	22,733,413				22,733,413
Public service	336,814				336,814
Academic support	3,195,888				3,195,888
Libraries	1,064,905				1,064,905
Student services	4,062,575				4,062,575
General institution	5,338,447				5,338,447
Operation and maintenance of plant	6,421,592		1,436,766		7,858,358
Student aid	4,932,212				4,932,212
Auxiliary	577,799				577,799
Bookstore	2,832,987				2,832,987
Food service and other	86,298				86,298
Day care	334,946				334,946
Personal services				333,320	333,320
Employee benefits				87,291	87,291
Purchases and contracted services			48,530	1,160,967	1,209,497
Other	1,145,597				1,145,597
Total operating expenses	60,533,208	17,739,581	4,837,123	1,584,452	84,694,364
Program revenues					
Tipping fees		12,058,294			12,058,294
Energy sales		3,172,587		355,277	3,527,864
Other charges for services	1,886,990		2,517,481		4,404,471
Student tuition and fees	18,867,613				18,867,613
Grants and contracts	6,826,808				6,826,808
Auxiliary	585,440				585,440
Bookstore	3,410,795				3,410,795
Other	3,277,940	4,176	28,650		3,310,766
Operating grants and contributions	13,613,280	38,295		203,386	13,854,961
Capital grants and contributions	2,678,739				2,678,739
Total program revenues	51,147,605	15,273,352	2,546,131	558,663	69,525,751
Net program expense	(9,385,603)	(2,466,229)	(2,290,992)	(1,025,789)	(15,168,613)

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

	Dutchess Community College	Resource Recovery Agency	Water and Wastewater Authority	Aggregated Non-Major Component Units	Total
General revenues					
Payments from Dutchess County	8,583,678	2,124,528	2,313,165	193,686	13,215,057
Unrestricted interest earnings and other	1,741,072	459,844	519,842	-	2,720,758
Total general revenues	<u>10,324,750</u>	<u>2,584,372</u>	<u>2,833,007</u>	<u>193,686</u>	<u>15,935,815</u>
Change in net assets	939,147	118,143	542,015	(832,103)	767,202
Beginning net assets	49,196,279	10,420,826	(1,736,441)	3,998,095	61,878,759
Ending net assets	<u>\$ 50,135,426</u>	<u>\$ 10,538,969</u>	<u>\$ (1,194,426)</u>	<u>\$ 3,165,992</u>	<u>\$ 62,645,961</u>

B. Related Party Transactions

Primary Government:

The following schedule presents significant transactions between the primary government and its component units during the year ended December 31, 2006:

	Component Unit	Nature of Transaction
Community College	\$ 8,583,678	Operating and Capital Support
Resource Recovery Agency	2,124,528	Net Service Fees
Water and Wastewater Authority	<u>2,313,165</u>	Charges for Services
	<u>\$ 13,021,371</u>	

Component Units:

Resource Recovery Agency:

Dutchess County is responsible for net service fees due to the Agency. These fees amounted to \$2,124,528 in 2006. At December 31, 2006, \$24,716 was due to Dutchess County and included in Due to other governments.

During 2006, the Agency participated in the health and dental insurance plan administered by Dutchess County and was charged \$128,886.

In addition, the Agency leases the building used as the Dutchess County Materials Recovery Facility from Dutchess County at a nominal rent. The term of the current lease is for five years, through 2002, with provisions for renewal.

Dutchess County, New York
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Water and Wastewater Authority:

The Authority has entered into a service agreement with Dutchess County to provide water service 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 year ended 2006, the Authority recorded revenues of \$2,313,165 and \$101,366 was due to the County. Since the Authority is a component unit of Dutchess County, these transactions are also considered related party transactions.

C. Commitments and Contingencies

Primary Government:

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 including discussions with outside counsel in certain instances, such litigation will not in the aggregate have a material adverse effect on the financial position or results of operations of the County. At December 31, 2006, a liability of \$1,000,000 has been recorded in the caption "Judgments and claims" on the government-wide statement of net assets. Such estimate is based upon individual cases reported at December 31, 2006 for which the estimate of possible exposure is a range between \$1,000,000 and \$3,000,000.

Dutchess County, New York
Notes to Financial Statements
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Commitments

The County had the following outstanding construction projects in progress as of December 31, 2006, as evidenced by contractual commitments.

Project	Commitment Remaining
Equipment, machinery and vehicle purchases	\$ 264,701
County road repair	3,723,262
Replacement of underground fuel tanks	109,427
Dutchess Community College building renovations	106,420
Airport snow and tree removal / equipment	264,292
County building / roof repairs	1,902,943
County Bridge repair / reconstruction	1,027,922
Airport public works	89,408
Safety/emergency response	505,295
Property remediation	41,445
Parks projects	6,000
County networking	102,503
Preservation	150,471
Records management	356,528
Water line	55,320
	<hr/>
	\$ 8,705,937

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, 2006, the County has provided \$10,362,907 to the Authority which is reflected as "Other Assets" in the Statement of Net Assets. The project is substantially complete as of December 2006.

Component Units:

Dutchess Community College

Contingencies

The College has received Federal and State Aid and Grants which are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowance and a request for a return of funds to the Federal and State governments. The College believes disallowances, if any, will be immaterial.

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.

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 yearly basis.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Rate Adjustment – Capital 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 local sponsor's capital share of the costs. The law requires that these amounts be separately accounted for and that the funds be utilized to meet capital expenditure requirements of future periods.

Section 6305-2 of the New York State Education Law obligates home counties for a portion of the local sponsor's share of the capital costs incurred to provide facilities in which nonresident students can be accommodated. The counties within the City of New York and various other counties maintain that such capital costs are not payable when the teaching services are rendered outside the College's own facilities. The statement of net assets reflects receivables of approximately \$982,000 as of December 31, 2006 for such costs which are presently being disputed. The College has established an allowance for 100% of the above amounts because the collectibility of these funds, without litigation, is not presently determinable.

Capital chargeback funds are accounted for within the restricted net asset class. The current deficit in net assets restricted for capital projects of approximately \$1,468,000 is the result of expending capital chargeback funds in advance of the revenue being earned. The deficit is expected to be covered by capital chargeback funds to be received in future years.

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 remain in effect through July 1, 2014.

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 and includes provisions for renewal.

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. In addition, the Agency has contracted to pay utilities, insurance and certain other expenses pertaining to plant operations subject to certain maximum levels.

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

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

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. However, during 2006 the Agency caused to have delivered 153,465 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 Nonprocessable Waste

Effective January 2, 1999, the Agency executed a contract with a commercial corporation for the transportation of ash residue and non-processible 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. The amount of tonnage shall be prorated over 2004.

Landfill Agreement

In January 2003, the Agency began delivering ash residue and by-pass waste to a municipal landfill under terms of a five-year contract through December 31, 2007. As of January 1, 2003, the agreement was modified to provide for 12 monthly installments of \$84,375 totaling \$1,000,000 for the disposal of the first 50,000 tons of ash. Tonnage in excess of this is billed at a rate of \$45 per ton. The Agency may deliver up to a maximum of 55,000 tons of ash on an annual basis. The Agency is entitled to deposit up to 5,000 tons of bypass waste as a substitute for ash. Tonnage for the bypass waste is billed at a rate of \$30 per ton.

Recyclable Processing Agreement

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

Materials Recovery Facility Project Agreement

The Agency has contracted with a commercial corporation to operate its materials recovery facility. The Agency will provide the plant with commingled and source separated recyclable materials, provide for the removal and disposal of rejected materials, and pay to the corporation service fees to operate the facility at an annual rate of \$250,000 for the year ending December 31, 2006.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Economic Dependency

As described in the Recyclable Processing Agreement Note, 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 2006, the Agency recorded net service revenue of \$2,124,528.

Operating Permits

The Agency is required to maintain operating permits for its small power production and solid waste management facility which currently expire in July 2011.

Emissions Standards

The Agency is subject to regulation of its air emissions, enforced by the NYS Department of Environmental Conservation, but under standards set by the U.S. Environmental Protection Agency (E.P.A.). The E.P.A. issued standards pertaining to air emissions in the form of final regulations in December 1995, certain of which pertaining to small municipal waste combustion units were revised and final regulations adopted in December 2001. Compliance is currently required by December 2005. Compliance with these standards and regulations in their current form could require certain modifications to the resource recovery plant, the resultant costs of which are estimated to not exceed \$15,000,000. The Agency has adopted resolutions declaring its intent to issue revenue bonds or bond anticipation notes to fund repairs, replacements and rehabilitation of the plant in connection with complying with these standards and regulations. These improvements have been completed and placed into service in December 2005. Through 2006, the Agency has issued debt in the form of a bond anticipation Note amounting to \$14,800,000.

Water and Wastewater Authority

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

The Authority assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The Authority has purchased insurance with limits as follows: umbrella coverage of \$20,000,000 business auto of \$1,000,000, general liability of \$1,000,000, property of \$28,688,094, workers compensation of \$100,000.

Dutchess County, New York
Notes to Financial Statements
December 31, 2006

Dutchess Central Utility Corridor

In June 2002, the Authority signed an agreement with Dutchess County outlining a project known as the Dutchess Central Utility Corridor, consisting of a 24" water transmission line and necessary pumping capacity for the purpose of transmission of water to serve the Hudson Valley Research Park in East Fishkill, New York and other future customers. The project is currently estimated to cost \$33,269,000, with funding coming in the form of grants from New York State, \$11,250,000, International Business Machines, Inc. \$11,375,000, the Town of East Fishkill \$269,000 and Dutchess County \$10,375,000. Current projections include a final completion date of April 2007. The Authority has incurred construction in progress costs of \$28,886,380 through year-end. Advances and grants received, amounting to \$32,607,061 have been deferred until construction is complete and the line is placed in service.

Authorized Debt

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

Industrial Development Agency

Industrial Revenue Bonds

Bonds authorized by the IDA and issued through various lending institutions are designated as special obligations of the IDA and payable solely from the revenues and other assets pledged as collateral against the bonds. While in most instances the IDA is the holder of legal title to properties acquired with industrial revenue bond financing until such point in time as the construction of property improvements has been completed or satisfaction of the obligation has been affected in full, the IDA does not act as a guarantor in the event of default. Accordingly, recourse on the part of the lending institution against the IDA is limited to collateralization properties and revenues as specified in the body of the applicable financing agreement. Additionally, in each of these financings, the IDA has assigned all rights to receive certain revenues derived with respect to the facilities it has financed to the holders of the industrial revenue bonds. As a consequence, the IDA does not reflect such bonds or related properties on its financial statements. Industrial revenue bonds authorized by the IDA and outstanding at December 31, 2006 total \$402,820,000.

D. Impact of Future Accounting Pronouncements

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45 *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*. This statement establishes certain new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require the reporting of liabilities pertaining to postemployment benefits earned by employees on a current basis. The County is required to implement this standard for the year ending December 31, 2007. The County is in the process of implementing the provisions of GASB Statement 45. The implementation of GASB Statement 45 is expected to have substantive effect on the County's financial position.

Dutchess County, New York
Budgetary Comparison Schedule of the General Fund - RSI
Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget— Favorable (Unfavorable)
	Original	Final		
Budgetary fund balance, January 1	\$ 54,098,027	\$ 54,098,027	\$ 54,098,027	\$ -
Resources (inflows)				
Real property taxes	66,425,527	66,425,527	65,723,497	(702,030)
Sale and use taxes	132,500,000	132,500,000	121,224,439	(11,275,561)
Other taxes	4,773,014	4,773,014	4,384,978	(388,036)
Departmental	29,983,043	30,081,966	42,830,303	12,748,337
Interest and rentals	2,231,806	2,231,806	4,459,277	2,227,471
Grants and aid	96,652,361	99,576,968	92,836,415	(6,740,553)
Miscellaneous	2,018,365	2,030,294	8,821,750	6,791,456
Transfers in	160,000	160,000	450,000	290,000
Proceeds of obligations	-	-	-	-
Self insurance (added to departmental, misc. interest, transfer)	8,790,700	8,790,700	-	(8,790,700)
Appropriated reserve		1,125,179	-	(1,125,179)
Appropriated fund balance		12,963,981	-	(12,963,981)
Total revenues and appropriation of prior year's fund balance	<u>343,534,816</u>	<u>360,659,435</u>	<u>340,730,659</u>	<u>(19,928,776)</u>
Expenditures and encumbrances				
General government	32,379,931	34,092,550	33,381,916	710,634
Education	1,505,000	1,505,000	1,841,468	(336,468)
Public safety	47,859,321	50,187,275	47,440,523	2,746,752
Health	58,604,922	62,303,483	58,819,687	3,483,796
Transportation	2,377,701	2,377,701	2,417,098	(39,397)
Economic assistance and opportunity	123,748,409	125,634,192	121,834,083	3,800,109
Culture and recreation	2,935,418	3,071,158	2,914,682	156,476
Home and community services	8,822,460	10,141,007	6,756,759	3,384,248
Employee benefits	39,519,918	43,659,770	38,429,838	5,229,932
Debt service				-
Principal retirement	3,822,219	3,837,219	3,854,400	(17,181)
Interest	1,993,760	1,967,420	1,810,709	156,711
Self insurance	8,790,700	8,790,700	7,241,470	1,549,230
Transfer out	11,175,057	13,091,960	13,175,861	(83,901)
Total expenditures and encumbrances	<u>343,534,816</u>	<u>360,659,435</u>	<u>339,918,494</u>	<u>20,740,941</u>
Fund balance, December 31	<u>\$ 54,098,027</u>	<u>\$ 54,098,027</u>		

Dutchess County, New York
Budgetary Comparison Schedule - Note to RSI
Year Ended December 31, 2006

**Explanation of Differences between Budgetary Inflows and Outflows and
GAAP Revenues and Expenditures**

	General Fund
Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 340,730,659
Differences—budget to GAAP	
Transfers from other funds are inflows of budgetary resources but are not <i>revenues</i> for financial reporting purposes.	<u>(450,000)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 340,280,659</u>
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 339,919,494
Differences—budget to GAAP:	
Transfer to other funds are outflows of budgetary resources but are not expenses for financial reporting purposes	(13,175,861)
Transfers to other funds	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 326,743,633</u>
Expenditures for self-insurance included in the statement of revenues, expenditures and encumbrances - budget and actual are unfavorable, as certain amounts are not budgeted for, but are paid from reserve funds.	