

**TOWN OF POUGHKEEPSIE, NEW YORK**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED  
DECEMBER 31, 2006**

**TOWN OF POUGHKEEPSIE, NEW YORK**  
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**DECEMBER 31, 2006**

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## **INDEPENDENT AUDITORS' REPORT**

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*Linda M. Hannigan, CPA*  
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To the Supervisor and  
Members of the Town Board  
Town of Poughkeepsie, New York  
One Overocker Road  
Poughkeepsie, New York 12603

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of December 31, 2006, and for the year then ended which collectively comprise the Town's basis financial statements as listed in the forgoing Table of Contents. These basic financial statements are the responsibility of the Town of Poughkeepsie, New York, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards*. Those standards issued by the Comptroller General of the United States, require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York as of December 31, 2006 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Exhibit I, budgetary comparison information, listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibit II, the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town of Poughkeepsie, New York. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007, on our consideration of the Town of Poughkeepsie, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. The report on compliance with laws and regulations and internal control over financial reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of our audit, this report should be read in conjunction with the auditor's report on the basic financial statements.

*Sedore & Company, CPA's*

Poughkeepsie, New York  
August 24, 2007



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

To the Supervisor and  
Members of the Town Board  
Town of Poughkeepsie, New York  
One Overocker Road  
Poughkeepsie, New York 12603

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of and for the year ended December 31, 2006, which collectively comprise the Town of Poughkeepsie, New York's basic financial statements and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Poughkeepsie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not to provide an opinion on the effectiveness of the Town of Poughkeepsie's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Poughkeepsie's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Poughkeepsie's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Poughkeepsie's financial statements that is more than consequential will not be prevented or detected by the Town's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other findings involving the internal control over financial reporting that we have reported to management of the Town of Poughkeepsie, New York, as described in the accompanying Schedule of Findings and Recommendations as listed in the Table of Contents.

#### Compliance and Other Matters

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

We also noted certain immaterial instances of noncompliance that we have reported to the management of the Town of Poughkeepsie, New York, in the Schedule of Findings, Questioned Costs and Recommendations listed in the Table of Contents.

This report is intended solely for the information and use of the Supervisor, Town Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sedore + Company, CPAs*

Poughkeepsie, New York  
August 24, 2007



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Supervisor and  
Members of the Town Board  
Town of Poughkeepsie, New York  
One Overocker Road  
Poughkeepsie, New York 12603

## Compliance

We have audited the compliance of the Town of Poughkeepsie, New York, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. The Town of Poughkeepsie, New York's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs and Recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Poughkeepsie, New York's management. Our responsibility is to express an opinion on the Town of Poughkeepsie, New York's compliance based on our audit.

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

In our opinion, the Town of Poughkeepsie, New York, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Poughkeepsie's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than consequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town of Poughkeepsie's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Supervisor, Town Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sedore & Company, CPAs*

Poughkeepsie, New York  
August 24, 2007

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006  
(UN-AUDITED)**

As the management of the Town of Poughkeepsie, Dutchess County, New York, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2006. This discussion and analysis should be read in conjunction with the financial statements and the accompanying notes to the statements that begin on page 23.

The Basic Financial Statements consist of a series of inter-related financial statements. The statements of Net Assets and Statement of Activities (on pages 15, 16 and 17) provide information about the activities of the Town as a whole, presenting both short-term and longer-term views of the Town's finances. For governmental activities, the Town's traditional fund financial statements (beginning on page 18) tell the reader how Town provided services and programs were financed in 2006, as well as what resources is available for future spending. Fund financial statements report on the Town's operations in greater detail than the government-wide statements, and concentrate on the Town's most significant funds (identified as "major" funds), with less significant or "non-major" funds accumulated for presentation in one column. Fiduciary fund statements provide information about financial activities for which the Town acts solely as trustee or agent for the benefit of organizations or persons outside of the Town government.

**Reporting on the Town as an Entity:  
The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and Liabilities of the Town as a whole, with the difference between Assets and Liabilities reported as Net Assets. The Statement of Activities presents financial information as to how the Town's Net Assets changed during the fiscal year, with all changes being reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Over time, increases or decreases in the Town's Net Assets position are one indicator of whether its "financial health" is strengthening or deteriorating. These statements are inclusive of all Town's basic services including police, public works/highway, parks and recreation. Both statements utilize the accrual basis of accounting, the same accounting method used by most private-sector organizations.

**Reporting the Town's Most Significant Funds:  
Fund Financial Statements**

The Fund Financial Statements provide detailed financial information about the most significant funds of the Town, not the Town as a whole. Some funds (most notably the General and Highway funds) are established as required by State law, while other funds are established at the Town's discretion to help it account for and manage money for specific purposes. All of the Town's funds are classified as the Governmental Funds which focus on near-term inflows and outflows of spend able resources, and on balances of spend able resources still available at the end of the fiscal year. This measurement focus is known as the modified accrual basis of accounting.

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

Financial information is presented separately in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Town's General Fund and Highway, Water, Sewer and Capital Projects Funds. Financial information for all other Governmental Funds is combined into a single-aggregated presentation.

Compliance with the Original and Final Operating budget for the Town's major funds is reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual.

In that the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information provided in each. The reader may then better understand the long-term impacts of the Town's near-term financing decisions. The reconciliation of the Fund Balances to the Net Assets of Governmental Activities provided in the Governmental Funds Balance Sheet, and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Governmental Fund Balances to the Statement of Activities facilitate the comparison between Governmental Activities.

**Reporting the Town's Fiduciary Responsibilities:  
The Town as Trustee**

Fiduciary Funds are not reported in the government-wide financial statements in that the resources of those funds are not available to support the Town's services and programs. The Town is responsible for ensuring that the assets reported in these funds are utilized for their intended purpose. The Town's fiduciary activities are reported in the Statement of Fiduciary Net Assets (on page 22), and are prepared using the full accrual basis of accounting.

**Notes to the Basic Financial Statements**

The Notes to the Basic Financial Statements (beginning on page 23) provide additional information essential to a clear understanding of the financial information provided in the government-wide and fund financial statements.

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

**The Town as a Whole  
Governmental Activities**

For the fiscal year ended December 31, 2006 Net Assets changed as noted below, with the total \$1,287,252 increase representing a 5.5% increase in Net Assets.

Beginning Net Assets	\$23,182,342
Change in Net Assets	<u>1,287,252</u>
Ending Net Assets	<u>\$24,469,594</u> ^

**Statement of Net Assets**

Comparative Schedule for Fiscal Years Ended December 31, 2006 and 2005

	Year Ended <u>12/31/2006</u>	Year Ended <u>12/31/2005</u>
<b>Revenues</b>		
<u>Program Revenues</u>		
Charges for Service	\$5,883,640	\$6,248,593
Grants	1,468,309	1,481,059
<b>General Revenue</b>		
Property Tax	\$22,582,439	\$22,350,102
Mortgage Tax	2,162,952	2,492,431
Sales Tax	2,201,247	2,330,099
Fees, Fines and Licenses	1,311,142	1,076,637
Other Revenue	<u>3,975,306</u>	<u>4,183,349</u>
	<u>\$39,585,035</u>	<u>\$40,162,270</u>

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

	Year Ended <u>12/31/2006</u>	Year Ended <u>12/31/2005</u>
<b>EXPENSES</b>		
General Government Support	\$4,978,858	\$4,834,841
Public Safety & Health	14,151,652	12,358,038
Health	20,269	-0-
Transportation	5,643,029	5,442,391
Economic Assistance	77,771	85,074
Culture & Recreation	712,501	616,313
Home & Community Service	11,114,061	10,477,742
Interest Long term Debt	<u>1,599,642</u>	<u>1,522,795</u>
Total Expenses	<u>\$38,297,783</u>	<u>\$35,337,194</u>

Net Assets of \$24,469,594 as of year-end reflects a total increase of \$1,287,252.

**The Town's Governmental Funds**

For the fiscal year ended December 31, 2006 the Town's Governmental Funds reported combined ending fund balances of \$3,781,092, a net decrease from fiscal year 2005 fund balances of \$3,247,059 or 46%. Of the net decrease, \$1,550,895 relates to the excess of liabilities over revenues on the Capital Project Fund. Operations in the General and Highway Funds, the Town's two major operating funds, resulted in fund balance decreases of \$456,098.

The designated portion of total fund balances not available for new spending includes: General and Sewer Funds appropriated for use in the ensuing year's budget totaling \$1,100,000, outstanding contract and purchase order commitments of \$1,025,170, and a Reserve for Debt Service of \$585,179. The unreserved undesignated portion of total fund balances includes: \$1,062,017 in un-appropriated fund balances available for future use.

**Comparative Schedule of Expenditures**

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund expenditures for the fiscal year ended December 31, 2006 and 2005.

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

<u>Expenditures:</u>	<u>Year Ended 12/31/2006</u>	<u>Year Ended 12/31/2005</u>
General Governmental Support	\$5,335,901	\$5,147,862
Public Safety	12,232,897	11,500,486
Health	20,269	23,684
Transportation	7,265,360	5,583,252
Economic Assistance/Opportunity	77,771	85,074
Culture and Recreation	658,311	576,333
Home and Community Services	11,821,977	14,906,820
Employee Benefits	1,369,930	1,045,357
Debt Service	<u>5,196,023</u>	<u>5,062,357</u>
Total Expenditures	<u>\$43,978,439</u>	<u>\$43,931,225</u>

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town expended \$43,978,439 for current year operations. By comparison, this was \$47,214 (on net basis) more than the \$43,931,225 expended in 2005.

**Comparative Schedule of Revenues**

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund revenues for the fiscal years ended December 31, 2006 and 2005.

<u>Revenue Sources:</u>	<u>Year Ended 12/31/2006</u>	<u>Year Ended 12/31/2005</u>
Real Property Tax items	\$23,181,146	\$22,871,743
Non-Property Taxes	2,724,019	2,839,577
Dept. Income/Charges/fees/permits	6,049,054	6,562,537
Use of Money and Property	1,586,630	1,144,006
Fines and Forfeitures	578,574	493,685
License & Permits	732,568	583,052
Sale of Property & compensation loss	233,694	56,148
State and Federal Aid/Payments	3,935,314	4,433,711
All Other Revenues	<u>599,010</u>	<u>1,736,651</u>
Total Revenues	<u>\$39,620,323</u>	<u>\$40,721,110</u>

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

Again, as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town recorded \$39,620,323 in revenues to support current year operations. By comparison, this was (on a net basis) \$1,100,787 less than the \$40,721,110 recorded in 2005. Non Property Tax Items decreased by \$115,558, State and Federal Aid decreased by \$498,397 and all other revenue decreased by \$1,137,641 accounted for the majority of decreased revenues.

General Fund. The General Fund, a major fund, is the primary operating fund of the Town, including the operations of the Police, Parks and Recreation, and Public Works Departments, General Administration, the Town Court, and that portion of the Highway Department not required to be accounted for in the Highway Fund. Results of operations in the General Fund resulted in a \$570,419 negative net change in fund balance. The present \$2,288,813 in unreserved, un-appropriated fund balance represents 10.56% of the \$21,663,596 in total fund expenditures and operating transfers out recorded in the fiscal year.

Highway Fund. The Highway Fund, also classified as a major fund, includes the greater portion of the activities of the Town's Highway Department (with the balance of highway Department activities being accounted for in the General Fund). Highway Fund activities include road repair, machinery acquisition and maintenance, and snow and ice control. Results of operations in the Highway Fund resulted in a \$114,321 increase net change in fund balance. The \$469,859 unreserved, un-appropriated fund balance represents 9.6% of the \$4,880,126 in fund expenditures and operating transfers out recorded in the fiscal year.

The Town received \$188,830 in State Aid which contributed to the increase in Fund Balance along with an increase in Real Property tax, final net result of operations was better than initially planned.

Water Fund. The Town runs a joint venture with the City of Poughkeepsie. The Town operates ten water districts, collecting capital improvements from each district. It also sells water to Town residents for the operation and maintenance of the facility. Sale of water was down \$113,828 resulting in a net decrease in Fund Balance. The unreserved, un-appropriated fund balance of \$2,191,731 represents 33.9% of the \$6,455,949 in fund expenditures and operating transfers out recorded in the fiscal year.

Sewer Fund The Town operates 33 Sewer Districts. Taxes are collected for capital expenditures for each district. It also collects sewer rents for operation and maintenance of the facility. The Town has plans for the expansion and upgrade to the Sewer Treatment Plan in the year 2007. The Town is currently incurring engineering expenses in the design and expansion of the plant. All of the current fund balance of \$405,806 is designated for debt and expenditures on the expansion of the plant.

"Non-Major" Special Revenue (Governmental) Funds. "Non-Major" Special Revenue Funds are used to account for taxes, user fees and other revenues that are raised or received to fund special governmental activities including the ambulance, fire protection, street lighting, and refuse collection to

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

service areas that may or may not encompass the entire Town. Collectively accounting for approximately \$2,000,000 of all governmental activities, operations of all "Non-Major" Special Revenue funds resulted in a \$191,139 positive net change in fund balances.

**Capital Assets and Debt Administration**

Capital Assets. In accordance with Governmental Accounting Standards Board (GASB) Statement #34, the Town records depreciation expense and accumulated depreciation associated with all of its assets including infrastructure. The Town's investment in capital assets for its governmental activities totals \$37,807,547, net of accumulated depreciation.

Debt Administration. At year-end 2006, the Town had \$32,581,057 in Serial Bonds and \$9,700,000 in Bond Anticipation Notes (BAN's) outstanding.

The Town maintains a conservative debt borrowing policy and presently holds an AAA-2 rating from Moody's Investors Service.

At year-end 2006, the Town had \$2,316,705 in accumulated Compensated Absences due to its employees, a net increase of \$508,705 from the prior year. The Town does not specifically budget for the payment of compensated absences, but utilizes available budgetary appropriations when that portion of the liability that relates to an employee severing service with the Town is "cashed out".

**Economic Factors, Subsequent Significant Events, and Future Budget Impacts**

The Town's historically conservative budget philosophy, and continued strong fund balance position in its General and Highway funds (both being major funds) effectively serve to insulate the Town from adverse economic impacts. The critical revenue base for the new year appears secure. Town property taxes provide roughly sixty percent of the operating revenues needed to fund Town services and programs. When considered together with appropriated fund balances, the Town is virtually assured of more than 70% of its needed resources.

No major shortfalls in appropriations are presently anticipated that cannot be addressed either through the additional appropriation of fund balance, or through the transfer of existing, available budgeted appropriations. The Town also has a \$10,000 Contingent Fund budgeted and available to meet unanticipated needs.

**TOWN OF POUGHKEEPSIE, NEW YORK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2006 (CONT'D.)  
(UN-AUDITED)**

**Contracting the Town's Financial Management**

This financial report is designed to provide a general overview of the Town's finances for all those having an interest, and should be considered along with the Basic Financial Statements and related notes. Questions concerning any of the information provided in this report may be addressed to the Comptroller, at One Overocker Road, Poughkeepsie, New York, 12603.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 15,664,460
Restricted cash and investments	660,315
Receivables (net)	3,461,114
Prepaid expenses	188,867
Inventory	28,056
<b>Total current assets</b>	<u>20,002,812</u>
<b>Non-current assets</b>	
Bond issue costs	136,955
Capital assets:	
Land	10,686,296
Infrastructure, net of depreciation	14,922,508
Buildings, machinery and equipment, net of depreciation	12,198,743
<b>Total capital assets</b>	<u>37,807,547</u>
Investment in Joint Water Project	<u>19,662,768</u>
<b>Total assets</b>	<u><u>\$ 77,610,082</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	2,155,527
Accrued expenses and retainage payable	3,084,467
Bond anticipation note	9,700,000
Due to related party	987,512
Deferred revenues	107,549
<b>Current portion of long-term liabilities</b>	
Capital lease payable	239,978
Compensated absence liability	231,675
Bonds payable	3,090,000
<b>Total current liabilities</b>	<u>19,596,708</u>
<b>Non-current liabilities</b>	
Capital lease payable	828,079
Compensated absence liabilities	2,085,030
Landfill remediation liability	1,139,614
Bonds payable	29,491,057
<b>Total non-current liabilities</b>	<u>33,543,780</u>
<b>Total liabilities</b>	<u>53,140,488</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, net of related debt	17,983,433
Invested in Joint Water Project, net of related debt	5,837,768
Restricted for:	
Debt service	585,179
Unrestricted	63,214
<b>Total net assets</b>	<u>24,469,594</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 77,610,082</u></u>

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.

**TOWN OF POUGHKEEPSIE, NEW YORK  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>FUNCTIONS/PROGRAMS</b>	<b>EXPENSES</b>	<b>CHARGES FOR SERVICES</b>	<b>OPERATING GRANTS AND CONTRIBUTIONS</b>
<b>Governmental Activities:</b>			
General government support	\$ 4,978,858	\$ 8,656	\$ 7,217
Public safety	14,151,652	198,269	265,753
Health	20,269	-	-
Transportation	5,643,029	-	-
Economic assistance & opportunity	77,771	-	760,832
Culture and recreation	712,501	-	144,441
Home and community services	11,114,061	5,676,715	-
Interest on long-term debt	1,599,642	-	-
<b>Total governmental activities</b>	<b>38,297,783</b>	<b>5,883,640</b>	<b>1,178,243</b>

**General revenues**

Taxes:

- Real property taxes
- Real property tax-related items
- Sales tax distribution
- Mortgage tax distribution
- Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Fees, fines and licenses

Special item-Gain on sale of property and compensation for loss

Miscellaneous

Total general revenues and special items

Change in net assets

Net assets- beginning of year

Net assets - end of year

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.

**NET (EXPENSE) REVENUE  
AND CHANGES IN  
NET ASSETS**

<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
\$ -	\$ (4,962,985)
-	(13,687,630)
-	(20,269)
98,647	(5,544,382)
-	683,061
-	(568,060)
191,419	(5,245,927)
-	(1,599,642)
<hr/>	<hr/>
290,066	(30,945,834)

22,582,439

599,021

2,201,247

2,162,952

522,772

455,711

1,586,630

1,311,142

212,162

599,010

---

32,233,086

1,287,252

---

23,182,342

\$ 24,469,594

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

	GENERAL FUND	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>							
Cash and cash equivalents	\$ 4,279,132	\$ 1,194,117	\$ 2,147,856	\$ 731,813	\$ 6,338,105	\$ 973,437	\$ 15,664,460
Restricted cash and investments	-	-	-	-	660,315	-	660,315
Receivables:							
Charges for services	-	-	753,290	479,172	-	-	1,232,462
Other	426,717	45,862	-	-	51,788	4,872	529,239
Due from other funds	99,997	44,426	548,102	-	29,337	112,320	834,182
Due from other governments	1,153,811	-	-	602	-	-	1,154,413
State and federal receivable	545,000	-	-	-	-	-	545,000
Prepaid expenses	71,281	36,868	31,120	49,598	-	-	188,867
<b>Total assets</b>	<b>\$ 6,575,938</b>	<b>\$ 1,321,273</b>	<b>\$ 3,480,368</b>	<b>\$ 1,261,185</b>	<b>\$ 7,079,545</b>	<b>\$ 1,090,629</b>	<b>\$ 20,808,938</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 808,136	\$ 303,403	\$ 75,094	\$ 147,449	\$ 759,876	\$ 61,571	\$ 2,155,529
Accrued expenses	418,394	54,710	33,600	66,397	-	5,698	578,799
Retainage payable	-	-	1,502	-	246,544	-	248,046
Bond anticipation note	-	-	-	-	9,700,000	-	9,700,000
Due to other funds	211,541	112,620	29,337	432,637	33,380	14,667	834,182
Due to other governments	1,328,881	-	-	136,388	-	321,137	1,786,406
Due to related party	-	-	936,102	-	51,410	-	987,512
Deferred revenues	13,115	-	155,229	72,508	94,434	-	335,286
Compensated absence obligation	402,086	-	-	-	-	-	402,086
<b>Total liabilities</b>	<b>3,182,153</b>	<b>470,733</b>	<b>1,230,864</b>	<b>855,379</b>	<b>10,885,644</b>	<b>403,073</b>	<b>17,027,846</b>
<b>FUND EQUITY</b>							
Fund balance (deficit):							
Reserved for:							
Encumbrances	96,246	280,681	57,773	589,438	1,032	-	1,025,170
Bonded debt	-	-	-	413,558	-	171,621	585,179
Miscellaneous	8,726	-	-	-	-	-	8,726
Unreserved:							
Subsequent year's expenditures	1,000,000	100,000	-	-	-	-	1,100,000
Undesignated	2,288,813	469,859	2,191,731	(597,190)	(3,807,131)	515,935	1,062,017
<b>Total fund equity</b>	<b>3,393,785</b>	<b>850,540</b>	<b>2,249,504</b>	<b>405,806</b>	<b>(3,806,099)</b>	<b>687,556</b>	<b>3,781,092</b>
<b>Total liabilities and fund equity</b>	<b>\$ 6,575,938</b>	<b>\$ 1,321,273</b>	<b>\$ 3,480,368</b>	<b>\$ 1,261,185</b>	<b>\$ 7,079,545</b>	<b>\$ 1,090,629</b>	<b>\$ 20,808,938</b>

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

Total fund equity for governmental funds	\$	3,781,092
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Total net assets reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		37,807,547
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Investment in joint venture is not reported in the funds		19,662,768
--	--	------------

Revenues are recorded when earned in the net assets of governmental activities.		227,737
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Long-term liabilities, including bonds payable, compensated absence, capital lease and landfill remediation liabilities, which are not due and payable in the current period, therefore are not reported in the funds.		(36,703,347)
--	--	--------------

Bond issuance costs are not reported in the funds		136,955
---	--	---------

Inventory is not reported in the funds		28,056
--	--	--------

Accrued interest payable is not reported in the funds.		(471,214)
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Total net assets of governmental activities	\$	<u><u>24,469,594</u></u>
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**TOWN OF POUGHKEEPSIE**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	GENERAL FUND	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>							
Real property taxes	\$ 11,483,530	\$ 4,556,592	\$3,011,039	\$ 2,463,151	\$ -	\$ 1,068,049	\$ 22,582,361
Real property taxes items	599,099	-	-	-	-	-	599,099
Non property taxes items	2,724,019	-	-	-	-	-	2,724,019
Departmental income	442,070	-	3,153,705	2,427,652	-	-	6,023,427
Intergovernmental charges	25,627	-	-	-	-	-	25,627
Use of money and property	703,146	150,341	335,247	117,719	-	280,177	1,586,630
Licenses and permits	732,568	-	-	-	-	-	732,568
Fines and forfeitures	578,574	-	-	-	-	-	578,574
Sale of property and compensation for loss	124,936	48,892	976	45,594	-	13,296	233,694
Miscellaneous local sources	200,641	49,792	15,926	8,263	322,479	1,909	599,010
State aid	2,985,652	188,830	-	-	-	-	3,174,482
Federal aid	-	-	-	-	-	760,832	760,832
<b>Total revenues</b>	<b>20,599,862</b>	<b>4,994,447</b>	<b>6,516,893</b>	<b>5,062,379</b>	<b>322,479</b>	<b>2,124,263</b>	<b>39,620,323</b>
<b>EXPENDITURES</b>							
General government support	4,780,047	72,318	90,000	90,000	303,536	-	5,335,901
Public safety	12,232,897	-	-	-	-	-	12,232,897
Health	-	-	-	-	-	20,269	20,269
Transportation	269,646	3,685,462	-	-	2,605,752	704,500	7,265,360
Economic assistance & opportunity	77,771	-	-	-	-	-	77,771
Culture and recreation	658,311	-	-	-	-	-	658,311
Home and community services	1,087,175	-	4,410,407	4,428,351	1,100,103	795,941	11,821,977
Employee benefits	1,061,093	159,967	63,640	85,230	-	-	1,369,930
Debt service	1,496,656	962,379	1,891,902	479,075	-	366,011	5,196,023
<b>Total expenditures</b>	<b>21,663,596</b>	<b>4,880,126</b>	<b>6,455,949</b>	<b>5,082,656</b>	<b>4,009,391</b>	<b>1,886,721</b>	<b>43,978,439</b>
<b>Excess of revenues over expenditures</b>	<b>(1,063,734)</b>	<b>114,321</b>	<b>60,944</b>	<b>(20,277)</b>	<b>(3,686,912)</b>	<b>237,542</b>	<b>(4,358,116)</b>
<b>Other financing sources:</b>							
Proceeds from serial bonds	-	-	-	-	901,057	-	901,057
BAN's redeemed from appropriations	-	-	-	-	210,000	-	210,000
Operating transfers in	579,512	-	142,340	3,528,988	1,167,300	35,109	5,453,249
Operating transfers out	(86,197)	-	(500,000)	(4,645,200)	(142,340)	(79,512)	(5,453,249)
<b>Total other financing sources</b>	<b>493,315</b>	<b>-</b>	<b>(357,660)</b>	<b>(1,116,212)</b>	<b>2,136,017</b>	<b>(44,403)</b>	<b>1,111,057</b>
<b>Excess (deficiency) of revenue and other sources over expenditures and other uses</b>	<b>(570,419)</b>	<b>114,321</b>	<b>(296,716)</b>	<b>(1,136,489)</b>	<b>(1,550,895)</b>	<b>193,139</b>	<b>(3,247,059)</b>
<b>Fund Balance, December 31, 2005</b>	<b>3,964,204</b>	<b>736,219</b>	<b>2,546,220</b>	<b>1,542,295</b>	<b>(2,255,204)</b>	<b>494,417</b>	<b>7,028,151</b>
<b>Fund Balance, December 31, 2006</b>	<b>\$ 3,393,785</b>	<b>\$ 850,540</b>	<b>\$2,249,504</b>	<b>\$ 405,806</b>	<b>\$ (3,806,099)</b>	<b>\$ 687,556</b>	<b>\$ 3,781,092</b>

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.

**TOWN OF POUGHKEEPSIE, NEW YORK  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund equities - total government funds \$ (3,247,059)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,283,516

Proceeds from all types of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Proceeds:			
Serial Bond		(901,057)	
Repayments:			
Capital Leases		360,709	
Serial Bond note principal		<u>3,435,000</u>	
			2,894,652

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (48,619)

Bond issuance costs amortized (13,695)

Change in inventory is not reported in governmental funds 9,352

Governmental funds report payments to joint ventures as expenditures, whether or not there is an ownership interest. In the statement of activities, expenditures related to an ownership interest are considered an capital investment. 715,870

Some expenses reported in the statement of activities, such as compensated absences and landfill liabilities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences		(507,831)	
Joint landfill		<u>214,628</u>	
			(293,203)

Revenues reported in the governmental funds that are not allocable to the current period are not reported in the statement of activities. (13,562)

Net change in net assets of governmental activities \$ 1,287,252

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**DECEMBER 31, 2006**

	<u>AGENCY FUNDS</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,096,836</u>
<b>Total assets</b>	<u><u>\$ 1,096,836</u></u>
<b>LIABILITIES</b>	
Escrow funds returnable and other liabilities	<u>\$ 1,096,836</u>
<b>Total liabilities</b>	<u>1,096,836</u>
<b>Total net assets</b>	<u>-</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 1,096,836</u></u>

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

**NOTE A - Summary of Significant Accounting Policies**

The Town of Poughkeepsie, New York ("the Town") was incorporated in 1854, under the provisions of the State of New York. The Town operates under a Town Board form of government, consisting of a Supervisor and six Councilmen/women. The Supervisor serves as the Chief Executive Officer and as the Chief Fiscal Officer of the Town.

The Town provides the following services: highway maintenance, police, water, sewer, planning, zoning, building and safety inspection, lighting, and culture and recreation.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Town is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements in preparing its government-wide financial statements. The more significant accounting policies established by GAAP and used by the Town in preparing its government-wide and fund financial statements are discussed below.

**1. The Reporting Entity**

The Town, for financial purposes, includes all of the funds and relevant to the operations of the Town of Poughkeepsie, New York. The financial statements include organizations, functions and activities that are controlled by or dependent upon the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Excluded from the reporting entity and described in **Note H - Joint Ventures**, are the Tri-Municipal Sewer Commission and the Poughkeepsie Joint Water Project; also excluded from the reporting entity is the City/Town of Poughkeepsie Regional Sewer Project. The Town of Poughkeepsie is not financially accountable for any of these joint entities under criteria established by GASB Statement No. 14 and, therefore no other entity is included in the reporting entity, "Town of Poughkeepsie." The City/Town of Poughkeepsie Regional Sewer Project is included in the reporting entity, the "City of Poughkeepsie."

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**2. Basic Financial Statements – Government-Wide Statements**

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type activities. The Town's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The Town's water and sewer services are also classified as governmental activities since user fees are not intended to cover all costs including depreciation.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions or activities. The functions are also supported by general government revenues (property and sales taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs are normally covered by general revenue (property, sales or mortgage taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

**3. Basic Financial Statements – Fund Financial Statements**

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The following fund types are used by the Town:

**A. Governmental Funds**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the governmental funds of the Town:

1. **General fund** is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund and is presented separately.
2. **Highway fund** is used to record the revenues and expenditures related to the maintenance of Town roadways. The Highway Fund is considered a major fund and is presented separately.
3. **Water Fund** is used to record the revenues and expenditures related to the delivery of water services to the Town's customers. The Water Fund is considered a major fund and is presented separately.
4. **Sewer Fund** is used to record the revenues and expenditures related to the delivery of sewer services to the Town's customers. The Sewer Fund is considered a major fund and is presented separately.
5. **Capital projects funds** are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The Capital Projects Fund is considered a major fund and is presented separately. However, no budgetary comparison schedule is presented as required supplemental information, as the Town is not legally required to adopt an annual budget for the Capital Projects Fund.
6. **Non-major funds** include those that are used for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**B. Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

**4. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**A. Accrual**

The governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**B. Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**5. Financial Statement Amounts**

**A. Cash and Investments**

Cash includes amounts in demand and time deposits, as well as, short-term investments. State statutes and the Town's own investment policy govern the investment policies of the Town. The Town may invest its funds in banks or trust companies authorized to do business in the State of New York, as well as investing in obligations of the U.S. Treasury, U.S. Agencies, and obligations of the State of New York and its political subdivisions.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

Short-term investments consist of investments in U.S. Treasury Bills and in repurchase agreements. The 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 Town can invest its excess cash balances at competitive interest rates. Market value of the repurchase agreements approximates cost plus accrued interest.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. While the Town does not have a specific policy for custodial credit risk, New York State statutes govern the Town's investment policies, as discussed previously in these Notes. Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosure*, directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, or collateralized by securities held by the Town or its agent in the Town's name. As of December 31, 2006, the Town's bank balance not was exposed to custodial credit risk.

The cash and investments of the Town at December 31, 2006, are as follows:

	<b>GENERAL</b>	<b>HIGHWAY</b>	<b>WATER</b>	<b>SEWER</b>	<b>CAPITAL</b>	<b>NON-</b>	
	<b>FUND</b>	<b>FUND</b>	<b>FUND</b>	<b>FUND</b>	<b>PROJECTS</b>	<b>MAJOR</b>	
					<b>FUND</b>	<b>FUND</b>	<b>TOTAL</b>
Non-Interest							
Bearing Accounts	\$ 1,075	\$ -	\$ 50	\$ 75	\$ -	\$ 50	\$ 1,250
Interest Bearing							
Accounts	<u>4,278,057</u>	<u>1,194,117</u>	<u>2,147,806</u>	<u>731,738</u>	<u>6,338,105</u>	<u>973,387</u>	<u>15,663,210</u>
Subtotal	4,279,132	1,194,117	2,147,856	731,813	6,338,105	973,437	15,664,460
Restricted							
US Treasury Bills	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	660,315	-	660,315
<b>TOTAL</b>	<b><u>\$ 4,279,132</u></b>	<b><u>\$ 1,194,117</u></b>	<b><u>\$ 2,147,856</u></b>	<b><u>\$ 731,813</u></b>	<b><u>\$ 6,998,420</u></b>	<b><u>\$ 973,437</u></b>	<b><u>\$ 16,324,775</u></b>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

The restricted cash invested in U.S. Treasury bills represents unspent bond proceeds whose use is limited to funding construction commitments related to improvements to the Joint Water Facility and is more fully described in **Note H.2**. Disclosures relating to risk and type of investments as presented are indicative of activity and positions held during the year.

**B. Inventories**

Inventories consist of significant expendable supplies primarily sand and road salt and are carried at cost in the government-wide financial statements.

**C. Capital Assets**

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs associated with capital projects which are not complete, are capitalized as Construction In Progress. No depreciation is recorded until the project is complete and the asset is placed in service. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 years
Infrastructure	15-40 years
Machinery and equipment	3-40 years
Improvements	15 years

**D. Accumulated Compensated Absences**

It is the Town's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the Town's service.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

The Town calculates its sick leave liability based on the assumption that most employees would continue to be employed by the Town until retirement. In governmental and fiduciary funds, the cost of vacation and sick leave is generally recognized when payments are made to employees. In prior years the Town has partially funded its liability for compensated absences through budgetary appropriations in the General Fund, amounting to \$402,086, with the balance of \$1,914,619 remaining un-funded. In the statement of net assets the liability of \$2,316,705 for accrued sick pay is recognized according to an estimate of payments in the following year and all future years.

Current portion	\$ 231,675
Long-term liability	<u>2,085,030</u>
<b>TOTAL</b>	<b><u>\$ 2,316,705</u></b>

**E. Interfund Activity**

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**F. Budgets**

The Town employs a formal budgetary accounting system as required by law. During the year, a budget was adopted and modified by the Town Board for the General Fund, Water Fund, Sewer Fund and Non-Major Funds. However, for the Capital Projects Fund, budgets are established at the project level and continue until the project is completed. Any budgets, which include appropriations of fund balance, show expenditures exceeding revenues. Unused appropriations of the annually budgeted funds lapse at the end of the year.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

**G. Pension Plans**

**Plan Description**

The Town of Poughkeepsie participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

**Funding Policy**

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. 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 Town of Poughkeepsie is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2006	\$ 757,147	\$ 1,630,424
2005	\$ 757,285	\$ 1,398,332
2004	\$ 742,564	\$ 1,274,234

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

The Town's contributions made to the Systems were equal to or in excess of 100 percent of the contributions required for each year.

**H. Post Employment Benefits**

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Town employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. Employees contribute approximately 75% of the premiums. For the year of 2006, approximately \$495,000 was paid on behalf of one hundred four retirees and/or dependents and recorded as expenditures in the General, Water, Sewer and Non-Major Funds.

**I. Property Taxes**

The Town submits an approved budget to the Dutchess County Commissioner of Finance by December 5th of the previous year. The County then establishes the warrant for the year which is due and payable on or about January 1 of each year. The Town collects the taxes on behalf of the Town and County without penalty through February 28th and with penalties and interest through August 31st. The Town's portion of the taxes is recognized and transferred prior to the County's portion. Therefore, the Town receives its entire tax, leaving the un-paid balances to be collected by Dutchess County.

**J. Insurance**

The Town of Poughkeepsie 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 date of workers in similar occupations.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

**K. Long-Term Liabilities**

Long-Term Debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other Long-Term Obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Long-Term Liabilities.

**L. Reserves of Fund Equity**

The Town records indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amounts of the reserves used by the Town:

	<b>BALANCE AT <u>DECEMBER 31, 2006</u></b>
<b>GENERAL FUND</b>	
Reserved for Encumbrances	\$ 96,246
Reserved for Miscellaneous	<u>8,726</u>
Total General Fund Reserves	<u>104,972</u>
<b>HIGHWAY FUND</b>	
Reserved for Encumbrances	<u>280,681</u>
<b>WATER FUND</b>	
Reserved for Encumbrances	<u>57,773</u>
<b>SEWER FUND</b>	
Reserved for Encumbrances	589,438
Reserved for Bonded Debt	<u>413,558</u>
Total Sewer Fund Reserves	<u>1,002,996</u>
<b>CAPITAL PROJECTS FUND</b>	
Reserved for Encumbrances	<u>1,032</u>
<b>NON-MAJOR FUNDS</b>	
Reserved for Bonded Debt	<u>171,621</u>
<b>TOTAL FUND EQUITY RESERVES</b>	<b><u><u>\$ 1,619,075</u></u></b>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note A - Summary of Significant Accounting Policies, (Continued)**

**5. Financial Statement Amounts (Continued)**

**M. Use of Estimates**

The preparation of basic 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 amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

**Note B – Other Receivables**

Other Receivables at December 31, 2006 consist of the following:

	<u>GENERAL</u> <u>FUND</u>	<u>HIGHWAY</u> <u>FUND</u>	<u>WATER</u> <u>FUND</u>	<u>SEWER</u> <u>FUND</u>	<u>CAPITAL</u> <u>PROJECTS</u> <u>FUND</u>	<u>NON-MAJOR</u> <u>FUNDS</u>	<u>TOTAL</u>
Accounts Receivable	\$ 426,717	\$ 45,862	\$ -	\$ -	\$ 51,788	\$ 4,872	\$ 529,239
Water Rents Receivable	-	-	753,290	-	-	-	753,290
Sewer Rents Receivable	-	-	-	479,172	-	-	479,172
Totals	<u>\$ 426,717</u>	<u>\$ 45,862</u>	<u>\$ 753,290</u>	<u>\$479,172</u>	<u>\$ 51,788</u>	<u>\$ 4,872</u>	<u>\$ 1,761,701</u>

**Note C – Interfund Receivables, Payables and Transfers**

The following is a summary of amounts due from and due to other funds as of December 31, 2006. These inter-fund balances have been eliminated as part of the aggregation of fund balances. Such balances arise through the use of a pooled cash disbursement account, district transfers for sewer operations and the temporary funding of capital projects.

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 99,997	\$ 211,541
Highway	44,426	112,620
Water	548,102	29,337
Sewer	-	432,637
Non-Major	112,320	14,667
Capital Projects Fund	29,337	33,380
Total	<u>\$ 834,182</u>	<u>\$ 834,182</u>
	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General	\$ 579,512	\$ 86,197
Sewer	3,528,988	4,645,200
Water	142,340	500,000
Capital Projects	1,167,300	142,340
Non-Major	35,109	79,512
Total	<u>\$ 5,453,249</u>	<u>\$ 5,453,249</u>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note D – Capital Assets**

The following is a summary of changes and adjustments in the Capital Assets, for the year ended December 31, 2006:

	<b>BALANCE</b>			<b>BALANCE</b>
	<b>JANUARY 1,</b>			<b>DECEMBER 31,</b>
<b>Governmental activities:</b>	<b><u>2006</u></b>	<b><u>ADDITIONS</u></b>	<b><u>(DISPOSALS)</u></b>	<b><u>2006</u></b>
Land	\$ 10,686,296	\$ -	\$ -	\$ 10,686,296
Buildings	12,396,736	1,897,156	-	14,293,892
Town Roads and Other Infrastructure	68,517,324	2,996,004	-	71,513,328
Improvements other than buildings	1,853,800	-	-	1,853,800
Construction-in-progress	1,563,871	-	(1,563,871)	-
Machinery & equipment	<u>6,267,659</u>	<u>1,606,431</u>	<u>(179,800)</u>	<u>7,694,290</u>
<b>Total</b>	<u>101,285,686</u>	<u>6,499,591</u>	<u>(1,743,671)</u>	<u>106,041,606</u>
Less accumulated depreciation				
Buildings	(5,894,394)	(298,516)	-	(6,192,910)
Town Roads and Other Infrastructure	(55,370,804)	(1,220,016)	-	(56,590,820)
Improvements	(1,286,485)	(74,800)	-	(1,361,285)
Machinery & equipment	<u>(3,481,388)</u>	<u>(735,206)</u>	<u>127,550</u>	<u>(4,089,044)</u>
<b>Total accumulated depreciation</b>	<u>(66,033,071)</u>	<u>(2,328,538)</u>	<u>127,550</u>	<u>(68,234,059)</u>
<b>Governmental activities</b>				
<b>capital assets, net</b>	<u>\$ 35,252,615</u>	<u>\$ 4,171,053</u>	<u>\$ (1,616,121)</u>	<u>\$ 37,807,547</u>

\*Depreciation was charged to governmental activities as follows:

General government support	\$ 155,193
Public Safety	521,005
Transportation	1,441,720
Home & community	177,364
Culture & recreation	<u>33,256</u>
<b>Total depreciation expense</b>	<u>\$ 2,328,538</u>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note E - Bond Anticipation Notes Payable**

Bond Anticipation Notes Payable are renewed annually and are not to exceed five renewals, except for water and sewer improvements which may be renewed for the life of the improvement not to exceed twenty years.

The changes in Bond Anticipation Notes Payable are:

<u>PURPOSE</u>	<u>BALANCE JANUARY 1, 2006</u>	<u>NEW ISSUES</u>	<u>PAYMENTS</u>	<u>BALANCE DECEMBER 31, 2006</u>
Joint Landfill	\$ 5,365,000	\$ 4,545,000	\$ (210,000)	\$ 9,700,000

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**NOTE F - Long Term Debt**

**1. Serial Bonds Outstanding**

The Serial Bonds Payable, as of December 31, 2006, are as follows:

<u>PURPOSE</u>	<u>ORIGINAL ISSUE DATE</u>	<u>FINAL MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>ORIGINAL AMOUNT OF ISSUE</u>	<u>AMOUNT OUTSTANDING DECEMBER 31, 2006</u>
Sewer	09/01/69	03/01/09	7.50%	\$ 2,369,000	\$ 150,000
Water	03/15/77	05/15/08	5.875%	3,814,800	250,000
Water	07/01/78	04/01/08	6.00%	2,135,000	150,000
Town-Wide Drainage Public Improvements	04/15/97	04/15/17	Various	1,700,000	1,145,000
Police/Court Facility Public Improvements	02/15/98	08/15/17	6.74%	1,400,000	845,000
Police/Court Facility Water Improvements	02/15/98	08/15/17	4.52%	5,600,000	3,375,000
Water Improvements	07/29/99	04/15/19	3.48%	4,526,668	3,140,000
Water Improvements	02/14/02	10/15/23	1.51%	7,194,417	6,115,000
Various Purpose Public Improvements	6/1/2003	6/1/2018	2.98%	6,445,000	4,570,000
Public Improvements Public Improvements	9/15/2004	3/15/2019	3.529%	5,555,000	4,905,000
Refunding Public Improvements	9/15/2004	12/15/2016	Various	3,025,000	2,465,000
Refunding Water Improvements	9/15/2004	12/15/2016	Various	6,415,000	4,570,000
	07/15/06	12/15/2016	4.600%	901,057	901,057
<b>TOTALS</b>				<b><u>\$ 51,080,942</u></b>	<b><u>\$ 32,581,057</u></b>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**NOTE F - Long Term Debt, (Continued)**

**2. In-Substance Defeasance of Debt**

In September 2004, the Town issued \$9,440,000 in General Obligation Bonds with an average interest rate of 3.38 percent to advance refund \$8,825,000 of outstanding 1993 and 1996 Series bonds with rates ranging from 4.15 to 5.10 %. The net proceeds of \$9,308,515 (including bond premium of \$32,860 and less payment of \$164,345 in underwriting fees, insurance, and other insurance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1993 and 1996 Series bonds. As a result, these Series bonds are considered to be defeased and the liability for the bonds has been removed from the Town's accounts. As of December 31, 2006, \$6,345,000 in bonds considered defeased were outstanding. The Town recorded a net loss on refunding of \$526,360 in 2004 in the government-wide financial statements but expects a net economic gain of \$79,875 in present value savings.

**3. Capital Lease Program**

The Town has entered into capital leases for certain police and highway vehicles with a total asset cost of \$1,756,303 with accumulated amortization of \$418,985. These leases are considered to be capital leases for accounting purposes, wherein, at the end of the lease the Town may purchase the asset for a nominal amount. Payments for 2006 amounted to \$369,256 including interest of \$8,547. At December 31, 2006, the annual capital lease payments are as follows:

<b><u>YEAR ENDING</u></b> <b><u>DECEMBER 31,</u></b>	<b><u>CAPITAL</u></b> <b><u>LEASES</u></b>
2007	\$279,831
2008	203,871
2009	180,223
2010	180,223
2011	180,223
Thereafter	<u>180,223</u>
	1,204,594
Less: Interest portion	<u>(136,537)</u>
Total minimum lease payments	<u><u>\$1,068,057</u></u>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**4. Changes in Long Term Debt:**

The changes in the Town's indebtedness during the year ended December 31, 2006, are summarized as follows:

	<b>BALANCE</b>			<b>BALANCE</b>		<b>AMOUNTS DUE</b>
	<b>JANUARY 1,</b>			<b>DECEMBER 31,</b>		<b>WITHIN</b>
	<b>2006</b>	<b>INCREASE</b>	<b>(DECREASE)</b>	<b>2006</b>		<b>ONE YEAR</b>
Serial Bonds	\$ 35,115,000	\$ 901,057	\$ (3,435,000)	\$ 32,581,057		\$ 3,090,000
Capital Lease	157,350	1,271,416	(360,709)	1,068,057		239,978
Landfill Closure and Post Closure	1,354,242	-	(214,628)	1,139,614		-
Compensated Absences	1,808,874	507,831	-	2,316,705		231,675
<b>TOTAL</b>	<b>\$ 38,435,466</b>	<b>\$ 2,680,304</b>	<b>\$ (4,010,337)</b>	<b>\$ 37,105,433</b>		<b>\$ 3,561,653</b>

The Compensated Absence liability includes a funded and an un-funded portion, as described in Note 5E.

**5. Amortization of Bonded Debt**

The annual requirements to amortize bonded debt, as of December 31, 2006, are as follows:

<b>YEAR ENDING</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>
<b><u>DECEMBER 31,</u></b>			
2007	3,090,000	1,310,475	4,400,475
2008	2,760,000	1,202,291	3,962,291
2009	2,461,057	1,099,536	3,560,593
2010	2,460,000	997,410	3,457,410
2011	2,435,000	896,876	3,331,876
2012-2016	12,990,000	2,993,402	15,983,402
2017-2021	5,220,000	771,477	5,991,477
2022-2026	1,165,000	101,340	1,266,340
<b>Total</b>	<b>\$ 32,581,057</b>	<b>\$ 9,372,807</b>	<b>\$ 41,953,864</b>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note G - Operating Leases**

The Town is committed under various leases for office space, repair facilities and office and communication equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2006 amounted to \$133,898.

At December 31, 2006, the approximate annual operating lease commitments, subject to appropriation of funds, were as follows:

<u>YEAR ENDING</u> <u>DECEMBER 31,</u>	<u>OPERATING</u> <u>LEASES</u>
2007	92,474
2008	47,354
2009	43,632
2010	<u>897</u>
Total minimum lease payments	<u>\$ 184,357</u>

**Note H - Joint Ventures**

The following activities have been undertaken by the Town jointly with other municipalities. These activities are excluded from the financial statements of the Town. Separate financial statements are issued for these joint ventures.

**1. Tri-Municipal Sewer Commission**

In 1975, the Town joined with the Village of Wappingers Falls and the Towns of Wappinger and LaGrange to construct and operate an inter-municipal sewer treatment system. In 1982, the Towns of Wappinger and LaGrange elected to discontinue participation in the system, and the Town of Poughkeepsie and the Village of Wappingers Falls continued joint construction and operation of the system under the name, Tri-Municipal Sewer Commission.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**A. Operation and Maintenance Costs (Continued)**

Operation and maintenance costs are allocated between the parties based on waste flow. For the year ended December 31, 2006, the Town incurred a cost of approximately \$201,438 for its share of operation and maintenance costs.

The following is a summary of unaudited financial information at December 31, 2006 included in the financial statements issued for this joint venture. A copy of the Commission's financial statements can be obtained from the Tri-Municipal Sewer Commission.

	<b>Unaudited Balances at <u>December 31, 2006</u></b>
Total Assets (excluding fixed assets)	<u>\$ 966,613</u>
Total Liabilities	<u>\$ 276,268</u>
Joint Venture Equity	<u>\$ 690,345</u>
Total Revenues - 2006	<u>\$1,583,409</u>
Total Expenditures - 2006	<u>\$1,359,569</u>
Total Fixed Assets	<u>\$39,096,057</u>

**2. Poughkeepsie Joint Water Project**

In August 1995, the Town entered into an inter-municipal agreement with the City of Poughkeepsie to provide for the planning, design, technological enhancement, construction or expansion, and operation and maintenance of the above named water treatment facility. This agreement amends and supersedes an agreement dated October 11, 1991 covering a joint water project. Under the terms of the 1995 agreement, the Town obtained an one-half interest in the City's Water treatment plant; the Town would finance studies for and upgrades and/or expansions to the plant to increase capacity; the Town would pay 50% of the cost to design and build an alum sludge treatment plant; and the Town would pay for administrative costs related to obtaining approvals to enable the project to proceed. The agreement also provided for the creation of a joint board to administer planning, design, construction, as well as operations and maintenance of the facility. It is made up of three members from each municipality. Water rates for each municipality are also described in the agreement. Operations as a joint venture began in 1996.

The Town financed the purchase of its interest in the water plant and payment of certain capital improvements by issuing serial bonds in December 1996 in the amount of \$6,425,000, which is recorded as Long-Term Debt. The bond was refinanced during 2004 and is included as Refunding Improvement Bonds for 2004.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**2. Poughkeepsie Joint Water Project (Continued)**

The following is an un-audited summary of financial information included in financial statements issued for the joint venture. These financial statements are issued separately and can be obtained from the Joint Water Project at 62 Civic Center Plaza, Poughkeepsie, NY 12601.

	<b>Unaudited Balances at <u>December 31, 2006</u></b>
Total Assets	<u>\$ 647,055</u>
Total Liabilities	<u>\$ 304,997</u>
Joint Venture Equity	<u>\$ 342,588</u>
Total Revenues – 2006	<u>\$ 3,862,761</u>
Total Expenditures - 2006	<u>\$ 3,638,042</u>
Long Term Debt	<u>\$ 376,430</u>
Investment in Fixed Assets	<u>\$26,344,903</u>

The Town's net share of operating expenditures amounted to \$2,453,126, which is recorded in the Water Fund - Home and Community Service. Included in Due to Related Party is \$936,102 representing the balance due on the Town's share of operating costs. The Town owed a total of \$51,410 for capital expenses to the Joint Venture as of December 31, 2006, recorded as Due to Related Party.

As part of the Joint Project agreement described above, the Town has committed to financing studies and a portion of construction costs related to the expansion of the Joint Water treatment facility. The Town estimated total construction costs to approximate \$19,363,000 with \$11,232,000 being financed by the Town and \$8,131,000 being financed by the City of Poughkeepsie. The Town issued debt totaling \$11,721,085 to fund this commitment. As of December 31, 2006 the outstanding balance is \$9,255,000. The Town's share of construction costs incurred by the Joint Venture related to plant improvements amounted to \$715,870 for 2005.

The Town has presented its equity interest in the Joint Venture in the Statement of Net Assets as \$19,662,768, representing the Town's capital expenditures to date and the amount of net assets invested in the Joint Venture, net of outstanding debt as \$5,837,768..

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**3. Poughkeepsie-Wappingers-LaGrange Joint Landfill**

The Town has shared in the monitoring costs of a closed landfill, the Poughkeepsie-Wappinger-LaGrange Joint Landfill. This joint activity includes the City and Town of Poughkeepsie, New York, the Village of Wappingers Falls, New York, the Town of LaGrange, New York and the Town of Wappinger, New York. All costs associated with monitoring are recognized as incurred. The Town's share of monitoring costs, for the year ended December 31, 2006, amounted to \$4,435.

The following is a summary of unaudited financial information at December 31, 2006, which is included in the separate financial statements available from the Joint Landfill Board of Governors c/o Town of Poughkeepsie, Poughkeepsie, New York, 12603.

	<b>Un-audited</b>
	<b>Balances at</b>
	<b><u>December 31, 2006</u></b>
Total Assets	<u>\$ 977,747</u>
Total Liabilities	<u>\$ -0-</u>
Total Venture Equity	<u>\$ 977,747</u>
Total Revenues	<u>\$ 245,448</u>
Total Expenditures	<u>\$ 8,527,825</u>

During 2003, an Order of Consent was issued through the New York State Department of Environmental Conservation to remediate Environmental Conservation Law and New York Codes Rule and Regulations violations. To comply with this order, the member municipalities must complete final closure of the landfill under current regulations by December 31, 2005 and perform post closure care and monitoring for a minimum of thirty years thereafter. The estimated cost of final closure is \$10,000,000. All costs will be borne proportionately by each municipality; the Town of Poughkeepsie's share being 42.4208%, or \$4,242,074. Post closure and monitoring costs, which will commence in 2008 and continue for 30 years, are estimated to amount to \$2,686,450, with the Town's share being \$1,139,614.

To finance this project the member municipalities have applied for a grant through the NYSDEC's LCSAP program to the extent of \$2,000,000. Additional funding will come from the issuance of debt by each municipality.

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**NOTE I - Legal Compliance**

**1. Deficit Fund Balances**

The following special districts and funds have material deficit fund balances at year-end as shown. The Town intends to increase revenues to fund these deficits.

	<b>Fund Balance (Deficit)</b>
<b><u>Sewer Fund</u></b> - undesignated combined	<u>\$ (597,190)</u>
<b><u>Water District</u></b>	
1st Ward	<u>\$ (33,205)</u>
<b><u>Street Lighting Fund</u></b>	
	<u>\$ (40,800)</u>

**2. Overdrawn Appropriations**

Expenditures in the following fund/categories materially exceeded appropriations:

<b><u>FUND/CATEGORY</u></b>	<b><u>APPROPRIATION</u></b>	<b><u>EXPENDITURE</u></b>	<b><u>VARIANCE (UNFAVORABLE)</u></b>
General Fund/ Public Safety	\$ 12,136,126	\$ 12,278,573	\$ (142,447)
General Fund/ Home and community	\$ 893,011	\$ 1,088,519	\$ (195,508)
General Fund/ Employee Benefits	\$ 678,125	\$ 1,061,093	\$ (382,968)
General Fund/ Debt Service	\$ 1,072,720	\$ 1,496,656	\$ (423,936)
Water Fund/ Home and community	\$ 4,354,410	\$ 4,468,180	\$ (113,770)
Sewer Fund/ Interfund Transfers	\$ 3,237,956	\$ 4,645,200	\$ (1,407,244)

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note J - Economic Dependency**

The Town receives approximately 10% of its real property taxes from a single corporate taxpayer. A significant reduction in this corporate taxpayers real property taxes could have a significant impact on the Town's programs and services.

**Note K - Commitments and Contingent Liabilities**

**1. Lawsuits and Claims**

The Town is a defendant in various lawsuits and tax certiorari cases. The ultimate outcome of these cases and lawsuits is not determinable as of report date. However, in the opinion of the Town's counsel, while the ultimate resolution of these proceedings will not have a material effect on the Town's financial position, although they could have a material effect on operating results when finally resolved in a future period.

**2. Grants**

The Town has received amounts from grantor agencies, principally the Department of Housing and Urban Development. Any allowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time.

**3. Authorized Debt**

As of December 31, 2006, the Town Board had authorized debt which was not issued:

<u>PURPOSE</u>	<u>AUTHORIZED</u>
Tri-Municipal Sewer System	\$ 1,755,000
Town-Wide Drainage	395,197
Additions & Reconstruction of Buildings	2,786,000
Assessment Update - 2001	125,000
Water Improvement	1,448,332
Arlington Sewer Improvement Area 1 - 2002	5,200,000
<b>TOTAL</b>	<b>\$ 11,709,529</b>

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)**  
**DECEMBER 31, 2006**

**Note L - Commitments and Contingent Liabilities (Continued)**

Most of the above projects have been completed, so that, with the exception of the Town-Wide Drainage, Water Improvement, and Sewer Improvement Projects, the Town does not expect to exercise these authorizations.

**Note M – Subsequent Events**

The Town has issued or authorized the following new debt:

Reconstruction of Library	February-07	<u>\$ 8,465,148</u>
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**Note N – New Reporting Standard**

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45 *Accounting and Financial Reporting by Employers for Postemployment 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 Town is required to implement this standard for the year ending December 31, 2008. The Town is in the process of implementing the provisions of GASB Statement 45. The implementation of GASB Statement 45 will have a substantive effect on the Town's government wide financial position. However, the Town does not believe that it will have a significant effect on its governmental (fund) financial position, upon which the Town's budgets are based and taxes are raised.

**REQUIRED SUPPLEMENTAL INFORMATION**

**TOWN OF POUGHKEEPSIE, NEW YORK**  
**BUDGETARY COMPARISON SCHEDULE**  
December 31, 2006

	<b>GENERAL FUND</b>			<b>VARIANCE</b>
	<b>ORIGINAL BUDGET</b>	<b>FINAL BUDGET</b>	<b>ACTUAL</b>	<b>FAVORABLE (UNFAVORABLE)</b>
<b>REVENUES</b>				
Real property taxes	\$ 11,483,530	\$ 11,483,530	11,483,530	\$ -
Real property tax items	520,000	520,000	599,099	79,099
Non property tax items	2,525,000	2,525,000	2,724,019	199,019
Departmental income	19,000	19,000	442,070	423,070
Intergovernmental charges	408,625	481,797	25,627	(456,170)
Use of money and property	500,050	563,850	703,146	139,296
Licenses and permits	775,000	775,145	732,568	(42,577)
Fines and forfeitures	455,000	457,500	578,574	121,074
Sale of property and compensation for loss	20,500	89,706	48,892	(40,814)
Miscellaneous local sources	86,946	128,432	49,792	(78,640)
Interfund revenues	-	-	-	-
State aid	2,531,500	2,787,173	2,985,652	198,479
Federal aid	5,000	5,000	-	(5,000)
<b>Total revenues</b>	<u>19,330,151</u>	<u>19,836,133</u>	<u>20,372,969</u>	<u>536,836</u>
Appropriation of prior's year's fund balance	850,000	946,547	893,559	(52,988)
<b>Total revenues and appropriation of prior year's fund balance</b>	<u>20,180,151</u>	<u>20,782,680</u>	<u>21,266,528</u>	<u>483,848</u>
<b>EXPENDITURES AND ENCUMBRANCES</b>				
General Government Support	4,692,054	4,997,204	4,805,706	191,498
Public safety	11,848,790	12,136,126	12,278,573	(142,447)
Transportation	270,475	270,475	273,097	(2,622)
Economic assistance & opportunity	82,555	82,555	77,771	4,784
Culture and recreation	675,749	679,964	678,428	1,536
Home and community service	857,183	893,011	1,088,519	(195,508)
Employee benefits	678,125	678,125	1,061,093	(382,968)
Debt service	1,072,720	1,072,720	1,496,656	(423,936)
<b>Total expenditures and encumbrances</b>	<u>20,177,651</u>	<u>20,810,180</u>	<u>21,759,843</u>	<u>(949,663)</u>
<b>Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances</b>	2,500	(27,500)	(493,315)	(465,815)
<b>Other financing sources (uses):</b>				
Operating transfers in	-	30,000	579,512	549,512
Operating transfers out	(2,500)	(2,500)	(86,197)	(83,697)
<b>Total other financing sources (uses)</b>	<u>(2,500)</u>	<u>27,500</u>	<u>493,315</u>	<u>465,815</u>
<b>Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances and other uses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying Notes to the Financial Statements  
should be read in conjunction with these Financial Statements.





EXHIBIT I

SEWER FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 2,462,991	\$ 2,462,991	\$ 2,463,151	\$ 160
-	-	-	-
2,500,092	2,500,092	2,427,652	(72,440)
-	-	-	-
32,911	32,911	-	(32,911)
-	-	117,719	117,719
-	-	-	-
-	-	45,594	45,594
-	-	8,263	8,263
-	-	-	-
-	-	-	-
-	-	-	-
4,995,994	4,995,994	5,062,379	66,385
325,000	396,374	396,374	-
5,320,994	5,392,368	5,458,753	66,385
90,000	90,000	90,000	-
-	-	-	-
-	-	-	-
-	-	-	-
5,244,428	5,315,802	5,017,789	298,013
54,000	54,000	85,230	(31,230)
479,109	479,109	479,075	34
5,867,537	5,938,911	5,672,094	266,817
(546,543)	(546,543)	(213,341)	333,202
3,784,499	3,784,499	3,528,988	(255,511)
(3,237,956)	(3,237,956)	(4,645,200)	(1,407,244)
546,543	546,543	(1,116,212)	(1,662,755)
\$ -	\$ -	\$ (1,329,553)	\$ (1,329,553)

**OTHER SUPPLEMENTAL INFORMATION**

**TOWN OF POUGHKEEPSIE  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS EXHIBIT II  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>EXPENDITURES - DECEMBER 31 2006</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Rental Assistance - Section 8 Housing	14.856	\$ 725,911*
Community Development Block Grants – Entitlement Grant	14.218	<u>34,921</u>
<b>Total</b>		<b><u>\$760,832</u></b>

\*Major Program

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

**TOWN OF POUGHKEEPSIE, NEW YORK  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE A - BASIS OF PRESENTATION**

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

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statement**

Type of Auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material Weakness identified:	<u>None Noted</u>
• Reportable conditions identified that are not considered to be material weaknesses:	<u>None Noted</u>
Noncompliance material to financial statements noted:	<u>None Noted</u>

**Federal Awards**

Internal Control over major programs:	
Material weakness identified:	<u>None Noted</u>
• Reportable conditions identified that are not considered to be material weaknesses:	<u>None Noted</u>
Type of report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	<u>None Noted</u>

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**SECTION I - SUMMARY OF AUDITORS' RESULTS, (Continued)**

**Identification of major programs:**

<b><u>CFDA NUMBER</u></b>	<b><u>PROGRAM</u></b>	<b><u>NAME OF FEDERAL</u></b>
14.856	Housing Assistance Payments Program for Low-Income Families - Section 8 programs	
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000	
Auditee classified as a low-risk auditee:	Yes	

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**Current Year Findings:**

**Other Matters:**

**Finding 1 – Procurement Procedures**

During our Audit we sampled cash disbursements to determine that the Town's procurement procedures were being followed. Two exceptions were noted in regard to not having proper quotes on file based on the Town's adopted procurement policy.

**Effect:**

The Town may have not received the best price for the procured goods or services.

**Cause:**

The Town did not follow its procurement policy in maintaining written quotes on file.

**Recommendation:**

The Town carefully monitors its procurement procedures to ensure that all purchases that exceed the policy thresholds are followed and proper documentation is kept on file.

**Response:** All current and future cash disbursements will be required to follow established procurement policy. Current policy requires all purchases over \$500 (for materials & equipment) provide three documented quotations if purchased outside of the New York State contract.

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Finding 2 – Minutes**

During our review of the Town Clerk's records, we noted that the Town Board was not approving minutes of prior meetings and that the Town was not up-to-date in the keeping of minutes.

**Effect:**

Minutes provided may not always be complete.

**Cause:**

The Town Board has not approved minutes from prior meetings.

**Recommendation:**

We commend the Town Board approve minutes from prior meetings in a timely manner ensuring that the recording of minutes are accurate.

**Response:** Town Clerk Miller continues to work on the timeliness and accuracy of the Town Board minutes. Planned new secretarial typing scheduling will help us toward our goal of 100% compliance.

**Status of Prior Year Findings:**

**Continuing Findings - Other Matters:**

**Finding 3 – Encumbrances**

During our audit we noted that the Town does not track its encumbrances throughout the year on its general ledger. In addition, the Town provided a year-end report from its accounting software that did not agree to the Annual Updated Document.

**Effect:**

The encumbrances per the open purchase order report did not agree to the Annual Updated Document.

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Cause:**

The Town did not generate an open purchase order report at year-end and agree that report to the general ledger.

**Recommendation:**

We recommend that the Town print an open purchase order report at year-end and agree this report to the general ledger.

**Response:** A year- end open purchase order report will be printed and reconciled to the general ledger at year end. Periodic reviews during the year are also performed.

**Finding 4 – Recreation Department Revenue Collection:**

During our examination of the Recreation Department revenue collection procedures, we noted the following items:

- Crowne Heights Park sign-up sheets were not available.
- One person appears to have been charged for one session even though he enrolled in two.
- One cash receipt was \$227 higher

**Effect:**

The Town does not have the use of revenues collected in a timely fashion.

**Cause:**

Funds collected are not being deposited in a timely manner. For example, there was one instance which a cash receipt was not deposited until six months after it was collected.

**Recommendation:**

The Town should establish a policy for the timely deposit of recreation revenues, preferably weekly.

**Response:** All recreation department revenues are now traceable. Deposits are made weekly during the busy summer months. All program registrations are now computerized and fully accountable. All program registrations are now reconciled to the bank deposits.

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Finding 5 - Over-expended Appropriations:**

Certain appropriations were over-expended during the year.

**Effect:**

The Town has not provided for revenues sufficient to cover all expenditures since appropriations, i.e., planned expenditures, have been exceeded. The Town is also in violation of its legally adopted budget.

**Cause:**

The following appropriations were over-expended:

<u>FUND/CATEGORY</u>	<u>APPROPRIATION</u>	<u>EXPENDITURE</u>	<u>VARIANCE (UNFAVORABLE)</u>
General Fund/ Public Safety	\$ 12,136,126	\$ 12,278,573	\$ (142,447)
General Fund/ Home and community	\$ 893,011	\$ 1,088,519	\$ (195,508)
General Fund/ Employee Benefits	\$ 678,125	\$ 1,061,093	\$ (382,968)
General Fund/ Debt Service	\$ 1,072,720	\$ 1,496,656	\$ (423,936)
Water Fund/ Home and community	\$ 4,354,410	\$ 4,468,180	\$ (113,770)
Sewer Fund/ Interfund Transfers	\$ 3,237,956	\$ 4,645,200	\$ (1,407,244)

**Recommendation:**

The Town should periodically review comparisons of budgeted and actual expenditures and provide for budget modifications as needed.

**Response:** All departments will now be receiving a budget to actual expenditure report to review on a monthly basis. All current and future appropriations will be made within budget or by extreme exception only. Town comptroller will ensure all budget modifications are prepared timely and accurately.

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Finding 6 - Decentralized Revenues:**

Various fees are assessed and collected by Town departments other than the Comptroller's office. Examples of these fees are building permits, contractor licenses, subdivision inspection and zoning fees, which are assessed and collected by the Building, Planning and Zoning departments. Fees are only recorded in the accounting system when and if received and without supporting documentation.

**Effect:**

Fee revenues may not be received timely and/or computed accurately since there is no independent verification and follow-up of fees assessed.

**Cause:**

The respective departments do not provide information to the accounting department as to when and how fees are assessed. The fees are collected by those departments and the outstanding receivable records are also maintained by those departments. The accounting department only becomes aware of the fee revenue when the cash is received.

**Recommendation:**

The Town should implement procedures so that supporting documentation, i.e., calculation of fee assessments, along with the bill, are submitted to the accounting department for verification and collection. All permits and licenses should be issued in pre-numbered order which corresponds to the billing control numbers facilitating reconciliations. The Building Department has changed its procedures and now uses the Town's accounting software for recording permits and recalculating amounts. The Zoning and Planning departments would then be relieved of the duty of collecting receipts and only be responsible for the initial assessment of fees.

**Response:** All decentralized revenues throughout Town Hall departments will be reviewed for proper internal control procedures. Our goal will be to bring all departments under our town's Munis accounting software.

**Finding 7 - Debt Service Fund**

The Town has established a Debt Service Fund, but is not using the fund for the purpose of debt service. Rather, it is being used to accumulate interest revenue.

**Effect:**

Funds set aside for debt service are not being used for that purpose.

**Cause:**

Debt Service expenditures are being recorded in the operating funds instead of the Debt Service Fund.

**TOWN OF POUGHKEEPSIE, NEW YORK  
SCHEDULE OF FINDINGS, QUESTIONED COSTS  
AND RECOMMENDATIONS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Recommendation:**

The Town should modify its budgets for its operating funds and the Debt Service Fund to reflect debt service expenditures in the Debt Service Fund and the use of Debt Service reserve to fund those expenditures.

**Response:** All aspects of the current debt service fund will be reviewed by new town Comptroller. Goal will be to begin implementation in year 2008.

**Finding 8 - Deficit Fund Balance:**

Several special districts have incurred or increased a deficit fund balance during 2006.

**Effect:**

Future rate payers will be funding past expenditures.

**Cause:**

Deficit fund balances have occurred as follows:

	<b>Fund Balance (Deficit)</b>
<b><u>Sewer Fund</u></b> - undesignated combined	\$ <u>(597,190)</u>
<b><u>Water District</u></b>	
1st Ward	\$ <u>(33,205)</u>
<b><u>Street Lighting Fund</u></b>	
	\$ <u>(40,800)</u>

**Recommendation:**

The Town should establish plans to provide for funding these deficits as well as improving budgeting procedures to prevent deficits from occurring and accumulating in the future.

**Response:** All deficit fund balances were reviewed during the 2008 Budget process cycle. Our plan is to bring all special district balances into positive/ surplus positions without drastic impacts to our residents. Presently a three year plan is in place in efforts to smooth out the impact of said fund deficit correction.

**OTHER MATTERS:**

**Status of Prior Year Findings:**

**Satisfied/No Longer Applicable: - Prior Year Findings #1, #2, #5, #6**