

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

As management of the Town of Hyde Park, (the Town) we offer the readers of the Town of Hyde Park's financial statements this narrative overview and analysis of the financial activities of the Town of Hyde Park for the fiscal year ended December 31, 2006. The Town of Hyde Park is a local municipality located in the Mid Hudson Valley area of New York State. Its purpose is to provide services to the residents of the Township such as police and fire protection, highways, and home and community services.

Financial Highlights

- Operating assets exceeded operating liabilities at the close of 2006 by \$5,729,014.
- Reported capital assets, net of accumulated depreciation, at December 31 are \$20,769,271. Related bond obligations outstanding at December 31 are \$12,000,930. These represent the amount invested in capital assets net of related debt which is \$8,768,341.
- The Town's total net assets increased by \$2,368,007.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$877,348, a decrease of \$4,737,308 in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$3,084,579, or 64 percent of total general fund expenditures.
- The Town of Hyde Park's total debt increased by \$15,972 during the current fiscal year. There was a new bond anticipation note payable issued in the amount of \$500,000 to finance road improvements. Principal payments totaling \$506,006 were made on existing long term bonds, and the remainder was the change in the liability for compensated absences.

Overview of the Financial Statements and Financial Analysis

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

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

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2006

The Town maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, highway and capital projects, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements at the end of this report.

The Town adopts an annual appropriated budget for its general fund and for its major special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 12 and 14 - 15 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town of Hyde Park's own programs.

The basic fiduciary financial statements can be found on page 19 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 20 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Hyde Park, assets exceeded liabilities by \$5,277,310 at the close of the most recent fiscal year, exclusive of capital assets and related debt.

The largest portion of the Town of Hyde Park's assets is its investment in capital assets and infrastructure. All of the outstanding debt related to capital assets is included in the financial statements. The Town of Hyde Park uses these capital assets to provide services to citizens; consequently, the assets are not available for future spending. Although the Town of Hyde Park's investment in its capital assets, reported in the net assets section of the balance sheet, is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2006

Town of Hyde Park's Net Assets

CONDENSED STATEMENT OF NET ASSETS

	2006
ASSETS	
Current and other assets	\$ 7,036,132
Capital assets	<u>20,769,271</u>
Total assets	<u>\$ 27,805,403</u>
 LIABILITIES & NET ASSETS	
LIABILITIES	
Current liabilities	\$ 6,158,784
Non current liabilities	<u>7,600,968</u>
Total Liabilities	<u>13,759,752</u>
 NET ASSET	
Investment in capital assets, net of related debt	8,768,341
Restricted	-
Unrestricted	<u>5,277,310</u>
Total Net Assets	<u>14,045,651</u>
Total Liabilities & Net Assets	<u>\$ 27,805,403</u>

An additional portion of the Town's unrestricted net assets represents resources that are subject to internal restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Hyde Park is able to report a positive balance in unrestricted net assets.

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2006

Governmental Activities

Governmental activities increased the Town of Hyde Park's net assets in 2006. A summary of this increase follows.

Town of Hyde Park's Changes in Net Assets

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

	2006
Revenues:	
Program Revenues:	
Charges for services	\$ 833,226
Operating grants and contributions	30,295
General Revenues:	
Property Taxes	6,250,306
Other Tax items	99,933
Non property tax items	1,339,693
Other	3,820,482
Total Revenues	12,373,935
Expenses:	
General government	1,699,424
Public health	2,525
Public Safety	4,180,302
Transportation	1,987,603
Economic assistance & opportunity	22,387
Culture & recreation	778,679
Home & community services	635,594
Employee benefits	222,081
Interest on long term debt	477,333
Total Expenses	10,005,928
Increase in net assets	2,368,007
Net assets - beginning	11,998,099
Adjustment to beginning net assets	(320,455)
Net assets - ending	\$ 14,045,651

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2006

A comparative presentation of net assets and changes in net assets will be provided in future years when prior year information is available.

Financial Analysis of the Government's Funds

As noted earlier, the Town of Hyde Park uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$3,084,579.

The fund balance of the Town's general fund decreased by \$22,034 during the current fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$877,348, a decrease of \$4,737,308 in comparison with the prior year. Of this total amount, \$877,348 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion.

The decrease in fund balance from 2005 to 2006 can be attributed to several factors.

During the year ended December 31, 2006, the Town experienced a significant decrease in the general tax rate which generated decreases in the property tax revenue received.

In addition to the factor noted above, the Town's Capital Project fund balance decreased by \$4,917,930. This significant decrease accounts for the majority of the decrease in the combined fund balance. The decrease of the fund balance in the Capital Projects fund was attributable to the fact that in 2005 the Town received approximately \$4.4 million in debt proceeds which they did not receive in 2006. In addition, expenses related to sewer and highway improvements increased.

Capital Asset and Debt Administration

Projects to improve the roadways in the Town have generated additional monies, in the form of a bond anticipation note payable, borrowed by the Town of \$500,000 to cover the expenditures.

Infrastructure

Infrastructure consists primarily of streets, curbing and catch basins. The Town of Hyde Park uses an ongoing five year projection to plan for improvements to infrastructure.

TOWN OF HYDE PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2006

Economic Factors

The financial position of the Town of Hyde Park is generally good. Bonded indebtedness remains low when compared to the debt limit.

Employee benefits have shown significant increases in recent years due to significant increases in retirement and health insurance costs. The retirement costs are affected by the investment performance in the state retirement fund. Health insurance increases are in line with increases being experienced on a national level.

The water and sewer funds both have facilities that are in good condition. No major improvements are expected in the next few years.

The Town of Hyde Park had a significant tax levy decrease from 2005 to 2006. The tax rate per 1,000 decreased from 4.20 in 2005, to 3.67 in 2006.

TOWN OF HYDE PARK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Hyde Park, New York, have been prepared in conformity with generally accepted accounting principles (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The Town of Hyde Park, New York ("the Town") which was established in 1821 is governed by its Charter, the Town local law and other general laws of the State of New York and various local laws. The Town Board is the legislative body responsible for overall operations and consists of four councilmen and the Town Supervisor. The Supervisor serves as chief executive officer and as the chief fiscal officer of the Town.

The following basic services are provided: highway maintenance, water, sewer, planning, police and courts, fire, zoning, building and safety inspection, lighting, and culture and recreation.

All governmental activities and functions performed for the Town of Hyde Park are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is the Town of Hyde Park, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

The decision to include a potential component unit in the Town's reporting entity is based on several criteria set forth in GASB 14 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, there are no component units included in the Town of Hyde Park's reporting.

See independent auditors' report

TOWN OF HYDE PARK
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE III - CONTINGENCIES

A. Grants

The Town has received amounts in prior years from grantor agencies, principally the Department of Housing and Urban Development. If the grantor agency conducts an audit, any disallowed 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 grant agency cannot be determined at this time.

B. Landfill Closure and Post Closure Care Costs.

State and federal laws and regulations require the Town to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Town is required to report a portion of these closure and post closure care costs as a liability in each period based on landfill capacity used as of each balance sheet date. The dollar amount that should be reported as landfill closure and post closure care liability was not determined as of December 31, 2006.

NOTE IV - ADJUSTMENT TO BEGINNING NET ASSETS

An adjustment in the amount of \$320,455 was made to beginning net assets on the Statement of Activities. The adjustment was required in order to reflect prior year's liabilities which were not recorded in the prior period, as well as, adjustments to beginning balances for capital assets.

TOWN OF HYDE PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2006

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Qualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable condition identified not considered to be material weakness?	Yes
Noncompliance material to financial statements noted?	No

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year

06-1 FINDING – INTERNAL CONTROLS OVER PAYROLL

Internal controls are stronger when procedures include a review process for significant transactions. Payroll records and checks are not being reviewed by a second person.

Existing procedures do not require this review. Controls would be improved if a review procedure was added for payroll processing.

Town Response: This procedure has now been implemented.

06-2 FINDING – VOUCHER PRODECURES

Policy calls for a vendor signature on vouchers submitted for payment. We noted that in certain instances payments are processed without the vender signature.

We have been informed that the Town does not want to delay processing for a signature if the other required documentation is present.

The vendor signature is one additional control feature built into the system. If the Town is not going to follow this procedure, it should develop an alternative procedure to compensate.

Town Response: - The Town has modified the voucher procedures to allow alternative verification procedures.

TOWN OF HYDE PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2006

06-3 FINDING – PURCHASE ORDER PROCEDURES

Purchase orders are a budgetary control. Completing a purchase order prior to making a purchase helps to make sure budgeted expenses are not exceeded. The Town uses a purchase order system. Instances were noted where the purchase order was completed after the purchase had been made.

The reasons for not following this procedure were not determined. Failure to follow this procedure may result in over expenditures and budget shortages. Also, the Board has no opportunity to consider budget increases before the money is spent.

Town Response: - The Town has requested department heads to complete quarterly blanket purchase orders for items that may require last minute purchases.

06-4 FINDING – CONTROLS OVER FINANCIAL REPORTING

Internal controls help to insure the accuracy of financial reporting. This includes reports for management, the board, and third parties. The accuracy of underlying records affects these reports. Account reconciliations (i.e. banks) are examples of these underlying records. The reconciliations are being prepared by the bookkeeper but there is no review by a second person.

Town procedures do not currently require this review. Review of these reconciliations would protect against errors and verify that the ledger balance agreed with the reconciled balance. The final result is more reliable financial reporting.

Town Response: Management agrees with the need for a review of account reconciliations and has implemented a policy which requires the bookkeeper to review reconciliations with the Town Supervisor.

06-5 FINDING – HIGHWAY DEPARTMENT VOUCHERS AND INVOICES

Town policy requires a vendor to submit a signed voucher along with their invoice when billing the Town. This policy applies to services received and goods purchased.

Audit testing disclosed vouchers that were signed and dated by the vendor prior to the date (or dates) on the attached invoices. There was no additional documentation found to indicate any subsequent follow-up with the vendor.

Vendors appear to be submitting vouchers for payment prior to full delivery of the goods or services. This is not being corrected with the vendor by the Highway Department.

Verification that the vendor has completed everything claimed on a voucher protects the Town against payments for services not performed or for goods not received. Processing vouchers for only completed claims is part of the controls over expenditures.

Town Response: This will be pursued with the Highway Department.