

**Town of Bethlehem  
Balance Sheet  
December 31, 2006**

	General Fund	Special Revenue Funds:				Section 8 Program	Total Special Revenue	Capital Projects	Trust & Agency
		Highway Fund	Water Fund	Sewer Fund					
Cash and investments	1,252,658	1,380,073	1,925,790	606,451	24,465	3,936,779	241,380	144,601	
Cash -- special reserves	0					0		59,297	
Restricted Cash	25,350				3,546	3,546	5,940,749		
Deposits held in trust	0		146,380			146,380			
Accounts Receivable	225,004		1,419,778	668,464	4,500	2,092,742			
Due from state and federal governments	171,115	2,784	491			3,275	0		
Due from other funds	0		0			0		82,205	
Due from other governments	3,291,390		158,184	81,128		239,312			
Inventory	23,456	308,116	7,110			315,226			
Prepaid Retirement System Contribution	994,580	239,325	146,812	88,487		474,624			
<b>Total Assets</b>	<b>5,983,553</b>	<b>1,930,298</b>	<b>3,804,545</b>	<b>1,444,530</b>	<b>32,511</b>	<b>7,211,884</b>	<b>6,182,129</b>	<b>286,103</b>	
Accounts payable	465,393	53,474	88,872	92,854		235,200	27,305		
Accrued expenses	221,318	44,218	27,586	17,563		89,367		5,374	
Retainage payable						0	15,000		
Due to other funds	82,205					0	0		
Due to other governments	242,056					0			
Bonds and notes payable	0					0	2,860,750		
Deferred revenues	132,655	1,567	209,500	181,000	24,465	416,532	0		
Other liabilities -- FSS Program Escrow					8,046	8,046			
Performance Deposits & Parkland Fees						0		280,729	
<b>Total Liabilities</b>	<b>1,143,627</b>	<b>99,259</b>	<b>325,958</b>	<b>291,417</b>	<b>32,511</b>	<b>749,145</b>	<b>2,903,055</b>	<b>286,103</b>	
Reserve for encumbrances	74,656	21,852	369,692	123,388		514,932	245,553		
Reserve for inventory	23,456	308,116	7,110			315,226			
Capital projects						0	5,744,134		
Reserved for Drug Asset Forfeiture	8,878					0			
Unreserved:									
Designated for subs. Years' expend.	384,000	194,000	380,000	0		574,000			
Deficit						0	(2,756,421)		
Undesignated	4,348,936	1,307,071	2,721,785	1,029,725		5,058,581	45,808		
<b>Total Fund Equity</b>	<b>4,839,926</b>	<b>1,831,039</b>	<b>3,478,587</b>	<b>1,153,113</b>	<b>0</b>	<b>6,462,739</b>	<b>3,279,074</b>	<b>0</b>	
<b>Total Liabilities and Fund Equity</b>	<b>5,983,553</b>	<b>1,930,298</b>	<b>3,804,545</b>	<b>1,444,530</b>	<b>32,511</b>	<b>7,211,884</b>	<b>6,182,129</b>	<b>286,103</b>	

**Town of Bethlehem**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**December 31, 2006**

	General Fund	Special Revenue Funds:				Ambulance	Section 8 Program	Total Special Revenue	Capital Projects
		Highway Fund	Water Fund	Sewer Fund					
Real Property Taxes	951,300	3,590,000	1,890,100	1,667,000	885,435		8,032,535		
Real Property Tax Items (PILOT's)	373,791	1,372,515					1,372,515		
Non-property Tax Items	10,149,035	0	0	0			0		
Departmental Income	1,665,263	0	5,827,288	2,206,746			8,034,034		
Intergovernmental Charges	216,700	3,952	0	0			3,952		
Use of Money and Property	199,197	192,485	244,123	71,399		192	508,199	201,985	
Licenses & Permits	13,620	0	0	0			0		
Fines & Forfeitures	556,025	0	0	0			0		
Sale of Property & Comp. For Loss	127,306	7,771	5,390	26,378			39,539	0	
Miscellaneous	70,711	16,567	3,296	1,193			21,056	3,000	
Interfund Revenue	29,600	331,603	1,993	1,424			335,020		
State Aid	1,710,240	199,531	0	0			199,531	100,000	
Federal Aid	82,972	0	0	0		243,985	243,985	231,549	
<b>Total Revenues</b>	<b>16,145,760</b>	<b>5,714,424</b>	<b>7,972,190</b>	<b>3,974,140</b>	<b>885,435</b>	<b>244,177</b>	<b>18,790,366</b>	<b>536,534</b>	
General Government Support	3,903,387		0	0			0	78,490	
Education	20,368						0		
Public Safety	7,031,139						0	0	
Health	1,934				885,435		885,435		
Transportation	671,624	5,451,095					5,451,095	116,622	
Culture and Recreation	1,543,744						0	497,510	
Economic Assistance & Opportunity	470,974						0		
Home and Community Services	1,980,034		5,477,533	2,824,003		244,177	8,545,713	277,465	
Post Retirement Benefits	341,819	203,035	53,347	22,775			279,157		
Debt Service	180,209	9,392	1,234,921	703,249			1,947,562		
<b>Total Expenditures</b>	<b>16,145,232</b>	<b>5,663,522</b>	<b>6,765,801</b>	<b>3,550,027</b>	<b>885,435</b>	<b>244,177</b>	<b>17,108,962</b>	<b>970,087</b>	
Capital Lease Financing								0	
BAN's Redeemed from Appropriations								137,250	
Transfers In	0	0	0	0	0	0	0	2,925,000	
Transfers Out	(200,000)	(250,000)	(1,600,000)	(875,000)	0	0	(2,725,000)	0	
<b>Excess (Deficiency)</b>	<b>(199,472)</b>	<b>(199,098)</b>	<b>(393,611)</b>	<b>(450,887)</b>	<b>0</b>	<b>0</b>	<b>(1,043,596)</b>	<b>2,628,697</b>	
<b>Fund Balance, Beginning</b>	<b>5,039,398</b>	<b>2,030,137</b>	<b>3,872,198</b>	<b>1,604,000</b>	<b>0</b>	<b>0</b>	<b>7,506,335</b>	<b>650,377</b>	
<b>Fund Balance, Ending</b>	<b>4,839,926</b>	<b>1,831,039</b>	<b>3,478,587</b>	<b>1,153,113</b>	<b>0</b>	<b>0</b>	<b>6,462,739</b>	<b>3,279,074</b>	

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Office of the State Comptroller's (OSC) Annual Financial Report Update Document (AFRUD) for the Town of Bethlehem has been prepared in conformity with OSC guidelines. The more significant of the government's accounting policies are described below.

**A. Financial Reporting Entity**

The Town of Bethlehem, New York, primary government, was incorporated in 1793, and is governed by the Charter of the Town of Bethlehem, the Town Law and other general laws of the State of New York and various local laws and ordinances. The Town Board is the legislative body responsible for the overall operation of the Town and consists of the Supervisor and four council members. The Supervisor serves as the chief executive officer and the chief fiscal officer of the Town.

The Town provides the following basic services: public safety, police protection, parks and recreation, sewer, water and highway maintenance.

The AFRUD includes all funds and account groups over which the Town Officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

**B. Basis of Presentation**

The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specified regulations, restrictions or limitations. The various funds are summarized by type in the AFRUD. Certain funds of the Town are utilized to account for resources derived from and/or expenditures applicable to an area less than the entire Town. The following fund types and account groups are used:

1. Governmental Funds Types - are those through which most governmental functions are financed. They account for the acquisition, use and balances of the government's expendable financial resources according to the purposes for which they may or must be used. The measurement focus is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources).

a. General Fund – To account for all unrestricted resources except those required to be accounted for in another fund. The General Fund consists of the General-Townwide Fund. It operates within the financial limits of an annual budget adopted by the Town Board.

b. Special Revenue Funds - To account for the proceeds of specific revenue sources other than major capital projects or to finance specified activities as required by law or administrative regulations. Funds operate within the financial limits of an annual budget adopted by the Town Board and consist of the following:

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Water District Fund – the Town has an operating water district. Water District #1 supplies water to residents in part of the Town. Revenues are obtained from property taxes, special assessments and metered water sales.
  2. Ambulance District Funds – There are three ambulance districts throughout the Town. Each district levies taxes on property owners within the District. Expenditures are made for providing ambulance service and advanced life support.
  3. Sewer District Funds – The Town has three operating sewer districts. Their revenues are obtained primarily from property taxes.
  4. Highway Fund – Is used to account for the revenues and expenditures of repairs and improvements to town highways, purchase, repair, maintenance, and storage of highway machinery, tools and equipment, pursuant to Section 133 of the Highway Law, controlling weeds and brush along highways and snow removal from highways.
  5. Special Grant Fund – Used to account for funds received from the Federal government to operate a public housing program for eligible low-income families and the elderly through an authorized public housing agency.
- c. Capital Projects Funds – To account for financial resources segregated for the acquisition of major capital facilities. Financing is generally provided from the proceeds of bond and note sales, transfers from other funds, and/or Federal and State grants.
2. Fiduciary Funds - Fiduciary Funds are used to account for assets held by the Town in a trustee or custodial capacity.
    - a. Trust and Agency Funds - To account for assets held by the Town as trustee or agent for individuals, private organizations and other governmental units.
  3. Account Groups -- Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt. The account group is not a “fund”. It is concerned with measurement of financial position and not results of operations.
    - a. The Non-current Governmental Liability Account Group - used to account for all long-term debt.
    - b. The Non-current Governmental Assets Account Group - used to account for land, buildings, improvements other than buildings, certain infrastructure assets, and equipment utilized for general government purposes. However, the Town has not had a physical inventory recently to determine the completeness of the account group.

**C. *Basis of Accounting/Measurement Focus***

Basis of accounting refers to when revenues and expenditures/expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**C. *Basis of Accounting/Measurement Focus***

1. Governmental Funds -- The modified accrual basis of accounting is followed by the governmental funds. Using this basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter, within 60 days, to be used to pay liabilities of the current period.

Material revenue sources considered susceptible to accrual include real property taxes, State and Federal aid, sales tax, and certain user charges in the special revenue funds. For those types of revenue sources, such as grants, where expenditures are the prime factor for determining eligibility, revenues are recognized when the expenditure is made unless it has not been received within 60 days after the fiscal year has ended.

Expenditures are recorded when the fund liability is incurred except that:

- a. Expenditures for prepaid expenses and some inventory-type items are recognized at the time of the disbursements. The Town has chosen to recognize an inventory value for gasoline, fleet maintenance items, yard stock (such as pipes and manholes) and for computer-related supplies. Inventory is valued at cost using a weighted average.
- b. Principal and interest on indebtedness are not recognized as an expenditure until due.
- c. Compensated absences, such as vacation and sick leave which vests or accumulates, are charged as an expenditure when paid. See Note 3.
- d. Pension costs are recognized as an expenditure when due. See Note 3.

**D. *Property Taxes and Collections***

Town real property taxes are levied together with Albany County property taxes annually no later than January 1<sup>st</sup> and become a lien on January 1<sup>st</sup>. Taxes for County purposes are levied together with taxes for Town and special district purposes as a single bill.

The Town is responsible for collecting Town and County taxes; however, the Town is authorized to satisfy its entire tax roll from the first taxes collected. The balance and subsequent collections are remitted to the County and the County is responsible for the collection of delinquent taxes.

**E. *General Budget Policies***

1. The Town employs the following budgetary procedures:
  - a. No later than September 30, the Budget Officer submits a tentative budget to the Town Board for the fiscal year commencing the following January 1<sup>st</sup>. The tentative budget includes proposed expenditures and the proposed means of financing for all funds of the Town. Capital projects are budgeted for at the start of each project.
  - b. After public hearings are conducted to obtain taxpayer comments, but no later than November 20, the Town Board adopts the budget.
  - c. All revisions that alter an appropriation of any department or fund must be approved by the Town Board.

**TOWN OF BETHLEHEM, NEW YORK**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**E. *General Budget Policies***

2. Encumbrances

Encumbrances are reservations of fund balance for outstanding purchase commitments. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with OSC guidelines. Appropriations authorized for the current year are increased by the amount of encumbrances, if any, carried forward from the prior year.

**F. *Vacation and Compensatory Time***

Town employees are granted vacation and compensatory time in varying amounts. In the event of termination or upon retirement, certain employees are entitled to payment for accumulated vacation and compensatory time at various rates subject to certain maximum limitations.

Payment of vacation and compensatory time recorded in the general long-term debt account group is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and compensatory time.

Estimated vacation and compensatory time accumulated by governmental fund type employees and additional salary related payment have been recorded in the general long-term debt account group.

**G. *Post-Retirement Health Insurance Benefits***

In addition to providing pension benefits, the Town provides certain health care benefits for retired employees and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits, for 96 retirees, by expensing the annual insurance premiums, which were approximately \$620,977 for 2006.

**H. *Retirement Plans***

The Town provides retirement benefits for its employees through contributions to the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement Systems. The systems provide various plans and options, some of which require employee contributions.

**I. *Deferred Compensation Plan***

Employees of the Town may elect to participate in the Town's Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement. Under the terms of the amended Plan agreement, these monies are not subject to the claims of the Town's general creditors after they are paid to the Plan's Trustee.

**TOWN OF BETHLEHEM, NEW YORK**  
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**FOR THE YEAR ENDED DECEMBER 31, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**J. Estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

The Town has not provided for a complete estimate of sales tax revenue because the available information does not report the final adjustments, if any, that may be imposed by the State as a result of their tax enforcement procedures.

**K. Departures from OSC Guidelines**

General Fixed Assets – The Town does not maintain adequate subsidiary records of general fixed assets to substantiate the balances. Therefore, fixed assets are not accounted for at cost or at an estimate of historical cost as required by OSC.

**L. Self-Insurance**

1. Workers' Compensation Section 207-C

The Town has retained a portion of the liability to cover losses under Section 207-C of the General Municipal Law for police officers. Certain employees are entitled to their full pay when out on leave. The Town is required to cover any amount of losses not reimbursed by Workers' Compensation.

The Town establishes a liability for reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Town:

Unpaid claims and claim adjustment expenses at January 1, 2006	<u>\$1,044,000</u>
Incurring claims and claim adjustment expenses:	
Provision for incurred claims expenditures for 2006 events	0
Increase in provision for incurred events of prior years	<u>364,922</u>
Total incurred claims and claim adjustment expenses	<u>364,922</u>
Payments made of claims	<u>(196,922)</u>
Unpaid claims and claim adjustment expenses at December 31, 2006	\$1,212,000
	=====
Unpaid claims and claim adjustment expenses at January 1, 2005	<u>\$1,111,000</u>
Incurring claims and claim adjustment expenses:	
Provision for incurred claims expenditures for 2005 events	0
Increase in provision for incurred events of prior years	<u>108,609</u>
Total incurred claims and claim adjustment expenses	<u>108,609</u>
Payments made of claims	<u>(175,609)</u>
Unpaid claims and claim adjustment expenses at December 31, 2005	\$1,044,000
	=====

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***M. Property Plant and Equipment - General***

Fixed assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain infrastructure type improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the Town. Therefore, the purposes of stewardship for capital expenditures can be satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest on general fixed assets construction in progress been capitalized.

See Note 1.K regarding the completeness of the records supporting the non-current governmental assets account group.

**2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY**

***Deficit Fund Balances***

The Capital Projects Fund had a deficit fund balance of \$2,756,421 (See note 3.E.2.a for reconciliation to AFRUD). The deficit is caused by temporarily financing project costs through the issuance of bond anticipation notes (BAN's). The deficit will be offset when permanent financing is issued and/or principal payments are budgeted and paid in the governmental funds responsible for the debt.

**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

***A. Assets***

**1. Cash and Investments**

The Town's investment policies are governed by State statutes. In addition, the Town has its own written investment policy. Town moneys must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Comptroller is authorized to use demand accounts and certificates of deposits. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, certificates of participation, and obligations of New York State, or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral include obligations of the United States and its agencies and obligations of the State of New York, its municipalities and school districts.

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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Assets**

1. Cash and Investments (continued)

At year-end, the book amount of the Town's (the primary government) deposits was \$11,607,110 (excluding \$2,250 in petty cash) and the bank balance was \$11,932,318. The insured and collateral status of the year-end bank balance was as follows:

Covered by federal deposit insurance	\$ 583,975
Collateralized with securities held by a third party custodian for the benefit of the Town pursuant to a three-party custody agreement	<u>11,348,343</u>
Total	<u>\$11,932,318</u> =====

Investments at December 31, 2006 consist of money market accounts.

2. Restricted Cash

Restricted cash consists of:

General Fund and Water Fund – Restricted cash of \$25,350 in the General Fund and \$146,380 in the Water Fund consists of deposits held by New York State as the Town's required share of grants and betterment agreements.

Capital Projects Funds – Restricted cash of \$5,940,749 consists of \$5,923,870 for various capital reserves and \$16,879 for construction of a water source as part of a legal settlement.

Special Grant Fund – Restricted cash of \$3,546 is held for recipients of the program.

Agency – Restricted cash of \$59,297 consists of cash held to ensure performance by contractors.

3. Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	BALANCE <u>12/31/05</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE <u>12/31/06</u>
Land	1,641,390	0	0	1,641,390
Buildings	23,964,661	0	0	23,964,661
Improvements Other than Buildings	6,929,896	616,106	0	7,546,002
Machinery & Equipment	13,514,513	1,214,414	252,829	14,476,098
Infrastructure	<u>4,908,308</u>	<u>770,733</u>	<u>0</u>	<u>5,679,041</u>
TOTAL	<u>50,958,768</u> =====	<u>2,601,253</u> =====	<u>252,829</u> =====	<u>53,307,192</u> =====

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Assets**

4. Prepaid Expenses

The Town elected to prepay its required contributions to the New York State and Local Employees' Retirement System, the New York State Local Police and Fire Retirement Systems, and the Public Employees' Group Life Insurance Plan. The prepayment is equal to \$1,469,204 as of December 31, 2006 (see Note 3.B.1). The balance at December 31, 2006 consists of:

<u>Fund</u>	<u>Amount</u>
General	\$ 994,580
Highway – Town-Wide	239,325
Sewer	88,487
Water	<u>146,812</u>
Total	<u>\$1,469,204</u> =====

**B. Liabilities**

1. Pension Plans

General Information

The Town of Bethlehem participates in the New York State and Local Employees' Retirement System (ERS), the New York State Local Police and Fire Retirement Systems (PFRS), and the Public Employees' Group Life Insurance Plan (the Systems). The Systems are a cost-sharing multiple-employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Plan Description

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 its 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 12208.

Funding Policies

The Systems are noncontributory except for employees who joined the Systems after July 27, 1976, who contribute 3% of their salary, until such time as they achieve ten years of service credit. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates used in computing the employers' contributions.

**TOWN OF BETHLEHEM, NEW YORK  
NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT  
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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**B. Liabilities**

1. Pension Plans (continued)

Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Requires minimum contributions by employers of 4.5% of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1<sup>st</sup> (billings due February 2006 would be based on the pension value as of March 31, 2005).

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the Systems. The December 15 payment due date changed to February 1. The covered salary period (April 1 – March 31) will not change for the calculation.

The required contributions for 2006 were \$1,481,930 (the December 2005 prepayment, for the ultimate Systems' payment due date of February 14, 2006). The Town elected to pay the February 2007 contributions on December 15, 2006 in order to receive the discount offered by the Systems, resulting in a prepaid expense of \$1,469,204 as of December 31, 2006. The Town's contributions made to the Systems were equal to 100 percent of the contributions required for each year. The contributions in the current and two preceding years were:

	ERS	PFRS
2006	1,011,819	470,111
2005	1,042,248	441,749
2004	--	--

2. Short-Term Debt

a. Bond Anticipation Notes

Liabilities for bond anticipation notes (BAN'S) for construction are accounted for in the capital projects fund. Principal payments must be made annually on BANs that the Town has outstanding. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

<u>Fund</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Amount</u>
Water	No. Bethlehem Transmission Main	3.79	240,000
Water	Various Improvements	3.57	1,859,500
Sewer	Pump Station Improvements	3.57	<u>761,250</u>
	Total		\$2,860,750 =====

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**B. Liabilities**

3. Long-Term Debt

a. At December 31, 2006 the total outstanding debt of serial bonds and BAN's of the Town aggregated \$15,345,750. Of this amount, \$984,000 was subject to the constitutional debt limit and represented approximately 0.55% of its debt limit.

b. Serial Bonds - The Town borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are guaranteed by the full faith and credit of the Town, are recorded in the Non-current Governmental Liability Account Group. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

c. Other Long Term Debt - In addition to the above long-term debt, the Town had the following noncurrent liabilities:

- Compensated Absences. Represents the value of the earned and unused portion of the liability for compensated absences.
- Judgments and Claims. Represents the non-current portion of the estimated liability for various legal actions taken against the Town – See Note 4.E.
- Installment Purchase Debt. Represents the total of future installments due on capital lease obligations.
- Workers' Compensation. See Note 4.D.

d. Summary Long-Term Debt - The following is a summary of long-term liabilities outstanding at December 31, 2006. All liabilities are within the General Long-Term Debt Account Group.

Serial Bonds	\$12,485,000
Installment Purchase Debt	294,007
Compensated Absences	164,000
Workers' Compensation	1,212,000
Judgments and Claims	<u>25,000</u>
Total Long-Term Debt	<u>\$14,180,007</u>
	=====

e. The following is a summary of changes in long-term liabilities outstanding in the Non-current Governmental Liability Account Group at December 31, 2006:

	<u>Serial Bonds</u>	<u>Workers Comp.</u>	<u>Compens'd Absences</u>	<u>Judgmt &amp; Clms</u>	<u>Install. Purchase</u>
Balance 12/05	\$13,425,000	\$1,044,000	\$130,000	\$ 25,000	\$513,653
Issued	0	0	0	0	0
Redeemed	( 940,000)	0	0	0	(219,646)
Other Net Change	<u>0</u>	<u>(168,000)</u>	<u>34,000</u>	<u>0</u>	<u>0</u>
Balance 12/06	\$12,485,000	\$1,212,000	\$164,000	\$ 25,000	\$294,007

**TOWN OF BETHLEHEM, NEW YORK**  
**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**B. Liabilities**

3. Long-Term Debt

A summary of serial bonds outstanding at December 31, 2006:

Description by Fund(s)	Original Date Issued	Original Amount	Rate (%)	Date Final Maturity	Outstanding at 12/31/06
Sewer	1976	8,900,000	6.875	2007	\$ 300,000
Water, Sewer	1991	4,126,000	6.20	2011	1,075,000
Water	2004	12,105,000	5.00	2022	<u>11,110,000</u>
<b>TOTAL OUTSTANDING</b>					<u>\$12,485,000</u>

The payments for future debt service requirements as of 12/31/06 are as follows:

	Principal	Interest
2007	\$965,000	\$664,025
2008	685,000	616,744
2009	715,000	578,025
2010	745,000	536,887
2011	780,000	493,613
2012-2016	3,295,000	1,896,693
2017-2021	4,295,000	882,844
2022	<u>1,005,000</u>	<u>27,637</u>
	<u>\$12,485,000</u>	<u>\$5,696,468</u>

The Town has entered into non-cancelable capital leases used to purchase equipment. Future minimum lease payments due on the leases are:

2007	\$112,072
2008	108,064
2009	<u>88,024</u>
Total Payments	308,160
Less interest	<u>14,153</u>
PV Min Lease Pymt	<u>\$294,007</u>

f. Serial bonds have been authorized for water improvements, but have not been issued as of December 31, 2006, in the amount of \$11,776,000.

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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**C. *Interfund Receivables and Payables***

Balances of receivables and (payables) at December 31, 2006 are as follows:

General Fund	(82,205)	Trust and Agency	82,205
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**D. *Deferred Revenue***

The General Fund – Townwide has deferred revenue recorded in the amount of \$132,655 as of December 31, 2006 related to:

NYS Grants	\$78,948
Parks Programs	30,380
Prepaid Inspection & Review Fees	<u>23,327</u>
Total	<u>\$132,655</u>
	=====

The Sewer District had deferred revenue recorded in the amount of \$181,000 as of December 31, 2006, consisting of sewer rents.

The Water District #1 had deferred revenue recorded in the amount of \$209,500 as of December 31, 2006 consisting of water rents.

The Highway Fund-Townwide has deferred revenue recorded in the amount of \$1,567 as of December 31, 2006 related to advance health insurance premium payments from retirees.

The Special Grant Fund has deferred revenue recorded in the amount of \$24,465 as of December 31, 2006 related to rental assistance.

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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**E. Fund Equity**

1. Allocation of Fund Balance

Certain funds of the Town apply to areas less than the entire Town. The fund equity at the balance sheet date is allocated as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Government Wide	\$4,839,926	\$1,831,039
Special Districts	<u>0</u>	<u>4,631,700</u>
Totals	<u>\$4,839,926</u>	<u>\$6,462,739</u>
	=====	=====

2. Reserves

a. Capital Reserves

Established pursuant to General Municipal Law (GML), Section 6-C, to establish a capital reserve fund for:

Capital Projects Funds:

Improvements and equipment	\$ 949,435
Recreational facilities	760,633
Fire tower and additions and improvement	120,278
Highway equipment	789,977
Reconstruction of water facilities	1,524,880
Reconstruction of sewer facilities	<u>1,347,159</u>
Total GML Section 6-C	<u>\$5,492,362</u>
	=====

Established pursuant to GML, Section 6-O, to establish a solid waste management facility reserve fund for the purpose of paying for closure or post-closure care costs for the general fund – Townwide. At December 31, 2006, the balance of the reserve was \$251,772.

Total Capital Reserves under GML Sections 6-C and 6-O	\$5,744,134
	=====

Unreserved fund balance, unappropriated in the deficit amount of \$2,710,613 as of December 31, 2006 related to:

Total deficits (see note 2)	\$(2,756,421)
Total unreserved fund balances	<u>45,808</u>
Net Unreserved Fund Balance, Unappropriated	<u>\$(2,710,613)</u>
	=====

b. Inventory Reserves

The General Fund, Highway Fund, and Water Fund have reserves for inventory in the amounts of \$23,456, \$308,116, and \$7,110 respectively, as of December 31, 2006.

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**3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

***E. Fund Equity***

c. Drug Asset Forfeiture Reserve

The General Fund has a Drug Asset Forfeiture Reserve of \$8,878 as of December 31, 2006.

**4. CONTINGENCIES AND COMMITMENTS**

A. The Town has received significant amounts of Federal and State grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

B. The Town of Bethlehem entered into an Order of Consent (the Order) with the Department of Environmental Conservation (DEC) on November 18, 1993 for the purpose of ensuring the proper maintenance and future closure of the Town's North Street landfill. This Order includes specific requirements and deadlines for the Town to follow and meet, or they could be subject to penalties. The Town has ceased accepting refuse and has completed closure in accordance with the Order. The status of compliance with the Order is subject to review by DEC. The current estimated liability for post closure care costs of the landfill is \$51,834. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The liability has been funded in a capital reserve fund. See Note 3.E.2.a.

C. The Town operates the Rupert Road landfill which accepts construction and demolition waste. The Town is not subject to a consent order for this site. However, when the site has reached capacity (presently about 99% has been used), the Town will be required to complete closure of the site and monitor the site for thirty years. At this time a reasonable estimate for the remaining useful life is one to two years. The current estimate for closure, which is based on capacity used to date, and post closure monitoring costs is \$167,260. However, the actual cost of post closure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The liability has been funded in a capital reserve fund. See Note 3.E.2.a.

D. As described in Note 1.L the Town is self-insured for workers' compensation for police employees for the difference between the State's payment and the full salary of the officers. The Town has determined the estimated value of this potential loss and has recorded the liability in the non-current governmental liability account group.

E. The Town has been named defendant in various actions. A review of these actions with the Town's Attorney indicates that the risk of loss to the Town is reasonably possible for certain cases. The estimated range of loss for the cases that have as reasonably possible risk of loss is \$5,000 to \$25,000. Provision for losses for those cases that have a reasonably possible risk of loss for which a range of loss has been estimated is recorded in the non-current governmental liability group of accounts. See Note 3.B.3.c.

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**NOTES TO THE ANNUAL FINANCIAL REPORT UPDATE DOCUMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**4. CONTINGENCIES AND COMMITMENTS**

F. The Town has an Order on Consent issued by the New York State Department of Environmental Conservation (DEC), which requires completion of reconstruction and repairs to the wastewater collection system for an area in South Bethlehem. The terms of the order have been completed as of April 2006; however, the sand filter treatment system has exhibited an inability to effectively treat the waste to the new permit standards. The Town is pursuing engineering alternatives to remediate this part of the system. It is likely that DEC will not close out the consent order until the sand filter has been repaired or replaced.

G. In April 2006, the Town entered into a Municipal Betterments and Maintenance Agreement with the New York State Department of Transportation, to incorporate municipal betterments in the design and construction of the Slingerlands Bypass project, adding water mains and related improvements to existing mains in the project area. The Town has paid a deposit of \$146,380, which is reported within the Water Fund's Restricted Cash at December 31, 2006. Project construction has commenced in 2007.

**5. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has purchased commercial insurance for all risk above minimal deductible amounts except for Workers' Compensation (see Note 1.L) and environmental hazards. Settled claims have not exceeded the commercial coverage, or the amounts provided for in the non-current governmental liability group of accounts by any material amounts during 2006. There was no reduction in insurance coverage during 2006. An estimate of liability is recorded at December 31, 2006 for outstanding claims or for any potential claims incurred but not reported as of that date in the non-current governmental liability group of accounts (see Note 3.B.3.c).

## Town of Bethlehem, New York Management's Discussion and Analysis For the Year Ended December 31, 2006

The following discussion and analysis of the Town of Bethlehem's financial performance provides an overview of the Town's financial activities for the year ended December 31, 2006. This document should be read in conjunction with the Town's financial statements.

### Financial Highlights

Prompted by potential budgetary deficits over the longer term, as discussed at length during the 2006 and 2007 budget review and adoption process, and given a desire to maintain structural balance, and to maintain control over tax levies, departments were urged to reign in expenditures to the fullest extent possible. With cooperative external conditions, including favorable weather and fewer major incidents requiring staff overtime, the Highway, Water and Sewer Funds ("Special Revenue Funds") were able to generate surpluses in 2006. The General Fund had a deficit, but one that was about \$500,000 less than budgeted.

Recognizing the need to maintain a sufficient net asset position to allow stable tax levies, and recognizing the need to fund capital reserves to allow for completion of infrastructure improvements which had not had the benefit of a systematic maintenance program, it is anticipated that the 2006 surpluses in the Special Revenue Funds will help the Town to achieve these two goals.

Refer to the following chart, which compares the budgeted revenue and expenditures with actual figures for 2006:

	General	Highway	Water	Sewer
Budgeted Revenue	15,930,000	5,687,000	8,660,000	4,050,000
Budgeted Expenses	16,680,000	6,182,000	9,160,000	4,050,000
Surplus (Deficit)	(750,000)	(495,000)	(500,000)	0
Actual Revenue	16,145,759	5,714,424	7,972,189	3,974,140
Operating Expenses	16,145,230	5,663,522	6,765,801	3,550,028
Operating surplus	529	50,902	1,206,388	424,112
Transfer to Reserve	(200,000)	(250,000)	(1,600,000)	(875,000)
Surplus (Deficit)	(199,471)	(199,098)	(393,612)	(450,888)
Fund Bal, 12/31/05	5,039,398	2,030,136	3,872,199	1,604,001
Fund Bal, 12/31/06	4,839,927	1,831,038	3,478,587	1,153,113
Avail. for Reserves	0	0	(1,000,000)	(300,000)
Approp. '07 Budget	(384,000)	(194,000)	(380,000)	0
Est. Fund Bal, 12/31/07	4,455,927	1,637,038	2,098,587	853,113
Percent of Approp.	26.5%	26.7%	23.2%	20.2%

The following chart shows the projected balances within the Capital Reserve Funds:

	General	Highway	Water	Sewer
Bal, 12/31/06	1,003,832	789,977	1,588,685	1,374,320
Proposed Transfer	0	0	1,000,000	300,000
Prev. Approved Exp.	(536,000)	(137,000)	(130,000)	(600,000)
Pending Approval	0	0	0	(1,000,000)
Avail for Projects	467,832	652,977	2,458,685	74,320

The Water and Sewer Funds are largely funded with user charges, and are somewhat easier to bring to a self-sustaining financial position, even considering the longer-term and sizeable infrastructure construction and maintenance costs for these funds. The surpluses will be kept in the fund to the extent they are needed to maintain sufficient cash flow, and the balance will be recommended for transfer into the capital reserves.

The Highway Fund is largely funded with property taxes. Given the desire to maintain stability in the tax rates, the fund is at a greater risk for imbalance due to the trend for operating costs to rise at a faster rate than the tax base. The fund is trying to achieve structural balance from savings due to attrition and from a slightly less aggressive paving program. However, the growth in roads and sidewalks from new development places service and cost pressures on the department.

The General Fund was once again the greatest concern during the 2006 budget review, due to the switchover from an historical surplus position, to one in which operating expenses exceeded revenues. 2005 marked the first year in recent history in which revenues were significantly lower than budgetary estimates (by about \$415,000), and in which an almost \$750,000 deficit was realized. 2006 produced another deficit of about \$200,000, which is positive in that it is less than the 2005 deficit. However, a deficit is projected for 2007 as well, possibly exceeding \$500,000, so caution is still in order. Although the fund balance is currently at a healthy level despite these deficits, recurring deficits of this magnitude cannot be sustained on a long-term basis.

#### General Items of Note for All Funds

##### *Fringe Benefits*

Overall fringe benefits increased by 3.2%, up to \$4,630,000. Health insurance continues to be the driver of increases in fringe benefits, comprising \$1,588,000 of the total (increased 9.4% from 2005). The retirement system contributions and workers' compensation costs were stable.

### *Post Retirement Benefits*

In addition to providing pension benefits, the Town provides certain health care benefits for retired employees and their spouses. Those benefits are provided through payments to an insurance company. The Town recognizes the cost of providing these benefits, for 96 retirees, by expensing the annual insurance premiums, which were approximately \$621,000 for 2006. The current prescribed method for local governments to report these expenditures is on a cash basis, where the cost equals amounts paid to the insurance carrier. However, GASB 45 is applicable to governments who prepare their financial statements in accordance with Generally Accepted Accounting Principles (GAAP), and is effective in 2008. This standard would require the future value of retiree benefits to be recognized as a liability in the period in which the benefits are earned, which has the potential to significantly increase the reported obligations for the Town.

### *Interest Income*

Due to a rising interest rate environment, and due to generally increasing levels of funds available for investment, all funds are showing sizeable increases in earnings.

### *Summary of Long-term Liabilities*

The following table presents a comparative overview of long-term obligations, which are reported in the General Long-Term Debt Account Group, and are more fully described within the footnotes to the financial statement.

	2005	2006
Serial Bonds	13,425,000	12,485,000
Installment Loans	513,653	294,007
Compensated Absences	130,000	164,000
GML 207-c Obligation	1,044,000	1,212,000
Allowance for Insurance Claims	25,000	25,000
Total Long-Term Debt	15,137,653	14,180,007

### Items of Note for the General Fund

Total revenues increased 6.0%; however, if adjusted for nonrecurring revenues, the increase would have been closer to 4.0% (adjusted for a 1% increase from the IDA service agreement and 1% from grants). Operating expenditures increased 5.1% (overall expenditures increased 2.6%, which reflects the reduction of \$365,000 in transfers to reserves). In order to restore structural balance to the General Fund, one of the Town's financial goals is to have the revenues increase at a rate in excess of the rate of expenditure increase. This recognizes that deficits will be gradually shrinking, and that the strength of the

fund balance enables this to occur without compromising the overall financial health of the fund. Through management of nonrecurring items, this goal has been met in 2006.

Sales tax revenues were up 4.7%, to \$9,706,000 (page 5 of the OSC report). Mortgage tax revenues were relatively flat, only increasing by \$10,000, to \$1,397,000 (page 6 of the OSC report), despite the rising interest rate environment of 2006. Expenditures for the year were relatively stable in 2006, reflecting normal inflationary increases.

#### Items of Note for the Highway Fund

The Highway Fund achieved an operating surplus of about \$51,000, largely from favorable weather conditions, and the resulting ability to leave four positions vacant. With a transfer of \$250,000 into the Highway Capital Reserve, the deficit was \$199,000, which was well below the budgeted deficit of \$495,000. Operating revenue increased 6.9%, reflecting strong growth in most revenue categories. Operating expenditures only grew 3.6%. Similar to the General Fund, revenue growth in excess of the rate of growth on expenditures will allow structural balance to be restored.

#### Items of Note for the Water Fund

The Water Fund continues its strong performance. Although revenues were essentially flat, operating expenditures dropped by \$361,000 from cost-containment efforts from DPW. Given the significant need to fund deferred capital projects, the surpluses will be used to help fund these projects, without noticeably increasing the taxes or fees paid by residents.

#### Items of Note for the Sewer Fund

The operations of the wastewater treatment plant produced continued stability in expenditures. Revenues were relatively flat, but greater than expenditures, thus the generation of a \$424,000 operating surplus. Transfers of prior year surpluses were made into the Capital Reserve Fund, thus the fund had a "deficit" of \$451,000. Surpluses within the Sewer Fund will be recommended for transfer to the Capital Reserve, to fund deferred capital projects.

### Analysis of Fund Balances

The following chart summarizes the projected fund balance activity through the end of 2007, along with the OSC rule of thumb showing a fund balance calculated at 15% of the subsequent year's budgeted appropriations, along with a recommended level of fund balance that would be necessary to maintain cash flow:

	General	Highway	Water	Sewer
Fund Balance, 12/31/06	4,839,927	1,831,038	3,478,587	1,153,113
2007 Planned Deficit	(384,000)	( 194,000)	( 380,000)	0
Proposed Transfer to Reserve	0	0	(1,000,000)	( 300,000)
Projected Balance, 12/31/07	4,455,927	1,637,038	2,098,587	853,113
2007 Budgeted Appropriations	16,829,000	6,138,000	9,050,000	4,225,000
15% OSC Rule of Thumb	2,524,000	921,000	1,358,000	634,000
Current Recommended Floor	2,500,000	1,000,000	1,400,000	600,000

### Contacting 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 annual audit report, including the related footnotes. Questions concerning any of the information provided in this report may be addressed to John H. Cunningham, Supervisor, or to Judith E. Kehoe, CPA, Comptroller, at 445 Delaware Avenue, Delmar, NY 12054.