

**CITY OF POUGHKEEPSIE, NEW YORK
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012**

CITY OF POUGHKEEPSIE, NEW YORK
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INDEPENDENT AUDITORS' REPORT

To the Mayor
and Members of the Common Council
City of Poughkeepsie
Poughkeepsie, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Poughkeepsie Housing Authority, a component unit of the City of Poughkeepsie, which represents 100% of the assets, net assets and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Poughkeepsie Housing Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Governmental Activities

Management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Governmental Activities” paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the City of Poughkeepsie, New York, as of December 31, 2012, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, New York, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, Budgetary Comparison Information, and Other Post-employment Benefit Plan Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poughkeepsie's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the Schedule of Expenditures of New York State Transportation Assistance, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of New York State Transportation Assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of New York State Transportation Assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013, on our consideration of the City of Poughkeepsie's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Poughkeepsie's internal control over financial reporting and compliance.

Sedau & Company, CPAs

Poughkeepsie, New York
August 29, 2013



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

To the Mayor
and Members of the Common Council
City of Poughkeepsie
Poughkeepsie, New York

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Poughkeepsie's basic financial statements, and have issued our report thereon dated August 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Poughkeepsie's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Poughkeepsie's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Poughkeepsie's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses, Finding One, that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Poughkeepsie's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses, Finding Two.

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

We noted certain other matters which we reported to management of the City of Poughkeepsie, New York, and are described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses as Findings Three - Six.

City of Poughkeepsie, New York's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses. We did not audit the City of Poughkeepsie, New York's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Poughkeepsie's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Poughkeepsie's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sidore & Company, CPAs

Poughkeepsie, New York
August 29, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

To the Mayor
and Members of the Common Council
City of Poughkeepsie
Poughkeepsie, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Poughkeepsie's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Poughkeepsie's major federal programs for the year ended December 31, 2012. The City of Poughkeepsie's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Poughkeepsie's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to 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 City of Poughkeepsie's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Poughkeepsie's compliance.

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Opinion on Each Major Federal Program

In our opinion, the City of Poughkeepsie complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City of Poughkeepsie is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Poughkeepsie's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Poughkeepsie's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of City of Poughkeepsie as of and for the year ended December 31, 2012, and have issued our report thereon dated August 29, 2013, which contained an adverse and unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Sedore & Company, CPA's

Poughkeepsie, New York
August 29, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND CONTROLS
OVER STATE TRANSPORTATION ASSISTANCE EXPENDED
BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Mayor
and Members of the Common Council
City of Poughkeepsie
Poughkeepsie, New York

Report on Compliance for Each State Transportation Assistance Program

We have audited the City of Poughkeepsie's compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations ("NYCRR") that are applicable to each state transportation assistance program tested for the year ended December 31, 2012. The programs tested are identified in Exhibit IV, Schedule of Expenditures of New York State Transportation Assistance.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state transportation assistance programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the City of Poughkeepsie's state transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 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 state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the City 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 on compliance for each state transportation assistance program. However, our audit does not provide a legal determination of the City of Poughkeepsie's compliance.

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Opinion on Each State Transportation Assistance Program

In our opinion, the City of Poughkeepsie complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City of Poughkeepsie is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Poughkeepsie's internal control over compliance with the types of requirements that could have a direct and material effect on each state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR, 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 City of Poughkeepsie's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of New York State Transportation Assistance

We have audited the financial statements of City of Poughkeepsie as of and for the year ended December 31, 2012, and have issued our report thereon dated August 29, 2013, which contained an adverse and unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of New York state transportation assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the schedule of expenditures of New York state transportation assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Sedon & Company, CPAs

Poughkeepsie, New York
August 29, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplemental Information
For the Year Ended December 31, 2012
(Un-audited)

Management of the City of Poughkeepsie offers readers of the City's financial statements this narrative overview and analysis of the financial position and activities of the City as of the year ended December 31, 2012.

Financial Perspective:

The City of Poughkeepsie's financial challenges are consistent with those of many municipalities across New York State. Property tax collections were short \$432,032 which followed the 2010 and 2011 property tax deficits of \$787,827 and \$365,638. Fiscal problems caused by unfunded mandates, skyrocketing health care and retirement system costs continue to adversely affect the City of Poughkeepsie as our community continues to deal with a slow recovery from the economic downturn experienced in the region over the past several years.

In 2012, the City's employee benefits contributed greatly to its expenses. Workmen's Compensation expenses were more than \$400,000 over the 2012 budget and almost \$200,000 more than the 2011 actual with no end in sight. The City's retirement contribution rose by over \$516,000 compared to 2011. That is a 17% increase in a year. The health insurance expenses were over \$4.8 million which is now over 10% of the General Fund expenditures. Employee benefits are over 22% of the General Fund appropriations. The City of Poughkeepsie must find answers and compromises for its employee benefits before they completely take over the General Fund appropriations.

Corporation Counsel continues to be challenged by many legal challenges. In 2012, the department continued to settle many lawsuits some going back many years. The cost of handling these cases has cost the City over \$380,000 in legal contractual services. This is more than \$300,000 over the 2012 budget and \$26,000 over 2011. Corporation Counsel has continued to address lingering legal challenges to the City.

The City has more than 300 abandoned or vacant properties. Assessment values have steadily dropped by more than \$580 million from the original "revaluation" assessment of 2006 with the most dramatic decreases from 2008 of over \$573 million. This is a direct result of the housing crisis accompanied by a sluggish recovery from the recession in recent years.

The City's debt in the years 2008-2012, (Serial Bonds, Bond Anticipation Notes and Installment Purchase Debt) had climbed to an astronomical amount of over \$76 million in 2009, with a debt service of over \$9 million in 2010. This trend has been reversed. The first step in reversing the increasing debt was to review the City's Capital Plan and reducing it to only necessary projects. The second step taken to address the debt was to prioritize the purchase of vehicles and equipment and force all departments to shoulder the cost of vehicles and equipment rather than

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd (Un-audited)

using BANs and Bonds. Finally, an aggressive approach was taken to paying down the debt. Additional principal payments in the amount of \$5.4 million were made on BANs to decrease the amounts to be bonded. The goal was to reduce the debt service from the \$9 million level down to a more manageable \$6 million. This process has continued through the present. The City's debt level and debt service was costing the City funds that could be used for direct service to its tax payers and residents.

The City put together a budget for 2013 that has the objective of restoring year end surpluses and fund balances. In an attempt to develop a more conservative 2013 budget, the Mayor proposed the elimination of the sanitation department. The Common Council came up with an alternative solution to the 2013 budget by creating a self supporting sanitation fund that is completely independent of the General Fund. The sanitation fund is supported by sanitation fees accompanied by recycling revenues and reduction of tipping costs. The sanitation fund will be assessed throughout the year and make the appropriate proposals for the 2014 budget.

The departments have responded to the challenges of expense reductions. The manpower has been reduced to an all time low of 346. To reverse the current trend, the City has to look for other avenues of revenues. The City of Poughkeepsie has implemented programs that are intended to raise significant revenues. The replacement of all commercial and residential water meters throughout the City and the public auction of City owned properties are expected to increase revenues. The City is hoping to pilot an on street parking meter program in its central business district. This is a significant source of revenue for many municipalities.

The cost of energy has been on the rise. With hundreds of old light fixtures for streets and parks, the City has opportunity to improve its expenses. Discussions have begun with vendors to replace the current street lights with LED lights as a measure to reduce energy costs.

The City of Poughkeepsie will be facing three major expenses in 2013 and 2014. In the fall of 2013, the EPA will be implementing higher drinking water standards that the Joint Water Plant has to comply with. The City's share of the ozone implementation will be over \$10 Million. This will be funded through a financing and rate increase in the Water Fund. The City will also finance \$5 Million for water meter upgrades. The City's water meters are over 25 years old and need to be replaced for more accurate and equitable billing of water usage. This project will be self sufficient and bring in additional revenue for the Water Fund.

The City of Poughkeepsie and the Town of Poughkeepsie are obligated to finance any Poughkeepsie Library debt for capital improvements that have been approved by referendum. The City of Poughkeepsie will be undertaking the library financing in 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplemental Information
For the Year Ended December 31, 2012, Cont'd.
(Un-audited)

Financial Highlights of 2012:

- The City's real property tax collection was \$16,937,054. This was \$432,032 less than the 2012 budget of \$17,369,086. Although the City had collected close to 100% of its tax levy over the past, 2011 and 2012 were quite challenging. A key contributing factor in its high rate of tax collection was the annual tax lien sale conducted for any unpaid property taxes. The last couple years have not been as productive with many liens unsold. PILOT (payments in lieu of taxes) revenue has decreased due to legal decisions that have been handed down. The 2012 PILOT collection was \$571,396 compared to 2011 of \$659,262.
- Our Sales tax revenue as distributed by Dutchess County increased in the year 2012 compared to 2011 by \$104,969 (2012 receipts were \$11,725,631 vs. 2011 receipts of \$11,620,662). We continue to receive (by formula) 7.0557% of the county's overall sales tax receipts. The 2013 budget saw the county's reduction of sales tax distribution to the City capped at \$9.56 million. The City will also participate in the county's growth receipts based on a population formula.
- In 2008 the City received an additional \$223,763 for committing to the State's multi-year Plan reporting requirements – AIM. In 2009, we maintained the same level of State Aid at \$4,613,607. The continuing pressures on the New York State budget forced the state to reduce the City of Poughkeepsie aid in 2010 to \$4,334,715 and again in 2011 down to \$4,248,021. In 2012 the City received the same amount as 2011, \$4,248,021.
- In April 2010 Moody's Investors Service reviewed the City's bond holdings and maintained its A3 rating. In a designed recalibration of municipal bond ratings, the City of Poughkeepsie was upgraded to A1 in the fall of 2010. In a review of its debt holdings in 2011, the City's rating was held to an A2 rating. The City's rating remained at A2 for 2012. In 2013, Moody's reduced the City's rating down to Baa2. Moody's identified the City's high debt and continuing deficits as the main reason for the rating reduction.
- In year 2006 our City completed and implemented a Full Market Value Assessment for the first time in over thirty years. This successful "Revaluation" ensures tax fairness to all our residents and commercial property owners. The July 1, 2010 assessment roll (used to produce the 2011 tax rate) reflected the value of \$2,041,9631,923 which was a 14.00% decrease from the record valuation of 2007 or a loss in value of \$332,523,326. The July 1, 2011 assessment value was \$1,954,424,460 which was an additional loss in value of

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

- \$87,537,463 or a decrease of 4.29%. We are very cognizant of the continuing softening of the housing market values and realize that it will dramatically impact the future tax assessment rolls.
- The City's mortgage tax collection for 2012 was \$326,773 compared to \$251,536 in 2011. The City's mortgage tax revenue has begun to rebound with this increase of \$75,237 or 30%. The mortgage tax has always accounted for less than 1% of the General Fund revenue, which is far less than most of the suburban municipalities.
- In these challenging times of continued declining revenue collections, the City has continued to implement tighter controls on its expenses. The 2012 General Fund expenditures were cut to \$44,657,941 from \$45,356,848 in 2011, a decrease of 1.54%. The total full time funded employees decreased from the all time high of 417 in 2008 down to 368 in 2012. It is the goal of the City to continue reducing the personnel level through attrition and restructuring / consolidation.

1. Overview of the Financial Statements

These audited financial statements consist of six parts:

- 1) The Independent Auditor's report on our Financial Statements
- 2) Management's Discussion and Analysis
- 3) Government- Wide Financial statements
- 4) Fund Financial statements
- 5) Notes to the Financial statements
- 6) Supplemental Information

The basic financial statements present two different views of the City through the use of Government-wide statements and Fund financial statements. The Government-wide Financial Statements provide both short and long-term information about our City's financial status. The Fund financial statements focus on the activities of the individual components of the City government. These statements provide more detail than the government-wide statements.

The Notes to the financial statements and supplemental information provide additional information that is essential to a full understanding of the data provided in the government-wide and Fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

2. Financial Analysis of our City as a whole

Governmental Funds:

Assets	2012	2011	Change
Non-Capital	\$ 25,978,814	\$ 29,929,183	\$ (3,950,369)
Capital	<u>67,971,855</u>	<u>64,339,531</u>	<u>3,632,324</u>
Total Assets	<u>\$ 93,950,669</u>	<u>\$ 94,268,714</u>	<u>\$ (318,045)</u>
Liabilities			
Current	\$ 35,776,137	\$ 36,327,797	\$ (551,660)
Non-Current	<u>57,222,620</u>	<u>54,661,299</u>	<u>2,561,321</u>
Total Liabilities	<u>92,998,757</u>	<u>90,989,096</u>	<u>2,009,661</u>
Net Position			
Capital	13,499,059	8,561,908	4,937,151
Unrestricted	<u>(12,547,147)</u>	<u>(5,282,290)</u>	<u>(7,264,857)</u>
Total Net Position	<u>951,912</u>	<u>3,279,618</u>	<u>(2,327,706)</u>
Total Liabilities and Net Position	<u>\$ 93,950,669</u>	<u>\$ 94,268,714</u>	<u>\$ (318,045)</u>

Revenues	2012	2011	Change
Program			
Fines, Fees & Charges	\$ 4,402,866	\$ 4,088,589	\$ 314,277
Operating Grants	11,231,173	7,625,133	3,606,040
Capital Grants	6,271,217	5,231,350	1,039,867
General Revenues			
Property Taxes	17,863,074	17,634,428	228,646
Other Taxes	12,814,278	12,706,645	107,633
State Aid	475,394	4,254,011	(3,778,617)
Other Revenues	<u>2,038,279</u>	<u>3,017,842</u>	<u>(979,563)</u>
Total Revenues	<u>55,096,281</u>	<u>54,557,998</u>	<u>538,283</u>
Expenses			
General Government Support	7,951,040	8,957,173	(1,006,133)
Public Safety	27,176,412	29,947,160	(2,770,748)
Transportation	4,948,633	6,277,353	(1,328,720)
Economic Assistance	136,206	359,242	(223,036)
Culture and Recreation	703,238	892,016	(188,778)
Home and Community Service	14,444,929	9,408,891	5,036,038
Other	<u>2,063,529</u>	<u>1,361,775</u>	<u>701,754</u>
Total Expenses	<u>57,423,987</u>	<u>57,203,610</u>	<u>220,377</u>
Change in Net Position	(2,327,706)	(2,645,612)	317,906
Net Position, January 1, 2012	<u>3,279,618</u>	<u>5,925,230</u>	<u>(2,645,612)</u>
Net Position, December 31, 2012	<u>\$ 951,912</u>	<u>\$ 3,279,618</u>	<u>\$ (2,327,706)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

Proprietary Funds:

Assets	2012	2011	Change
Non-Capital	\$ 15,566,328	\$ 14,169,885	\$ 1,396,443
Capital	<u>46,292,269</u>	<u>48,179,549</u>	<u>(1,887,280)</u>
Total Assets	<u>\$ 61,858,597</u>	<u>\$ 62,349,434</u>	<u>\$ (490,837)</u>
Liabilities			
Current	\$ 1,934,593	\$ 2,112,254	\$ (177,661)
Non-Current	<u>17,590,956</u>	<u>17,579,544</u>	<u>11,412</u>
Total Liabilities	19,525,549	19,691,798	(166,249)
Net Position			
Capital	38,641,973	39,185,137	(543,164)
Unrestricted	<u>3,691,075</u>	<u>3,472,499</u>	<u>218,576</u>
Total Net Position	42,333,048	42,657,636	(324,588)
Total Liabilities and Net Position	<u>\$ 61,858,597</u>	<u>\$ 62,349,434</u>	<u>\$ (490,837)</u>

Revenues	2012	2011	Change
Program			
Charges For Services	\$ 7,587,515	\$ 7,701,445	\$ (113,930)
General Revenues			
Investment Earnings	<u>34,534</u>	<u>34,598</u>	<u>(64)</u>
Total Revenues	<u>7,622,049</u>	<u>7,736,043</u>	<u>(113,994)</u>
Expenses			
Home and Community Service	7,755,142	8,666,011	(910,869)
Transfers	<u>191,495</u>	<u>208,623</u>	<u>(17,128)</u>
Total Expenses	<u>7,946,637</u>	<u>8,874,634</u>	<u>(927,997)</u>
Change in Net Position	(324,588)	(1,138,591)	814,003
Net Position, January 1, 2012	<u>42,657,636</u>	<u>43,796,227</u>	<u>(1,138,591)</u>
Net Position, December 31, 2012	<u>\$ 42,333,048</u>	<u>\$ 42,657,636</u>	<u>\$ (324,588)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

General Fund

The General Fund is the primary operating fund of the City. The fund balance has experienced serious declines beginning with the years prior to 2012. Revenues continue to be impacted by the economic downturn further deteriorating the fund balance. Spending controls have been put in place since the second half of 2008 to help reverse the fund balance trend, however we have not been successful in reversing this downward trend.

The attached tables reflect the City's significant General fund revenues and expenditures (as a percentage).

City Revenues –General Fund (%)

Real Property taxes	16,937,054	40.23%
State Aid	5,517,093	13.10%
Real Property Tax Items	890,627	2.12%
Sales & Franchise Taxes	12,487,506	29.66%
Departmental Income	2,611,694	6.20%
Fines and Forfeitures	952,847	2.26%
All Other Revenues	2,703,450	6.42%
Total	42,100,271	100.00%

City Expenditures-General Fund (%)

Public Safety	18,639,029	41.74%
Transportation	2,617,583	5.86%
General Govt Support	5,614,562	12.57%
Culture & Recreation	559,687	1.25%
Employee Benefits	10,103,364	22.62%
Home & Community Services	2,021,984	4.53%
Transfers to Other Funds - net	4,847,500	10.85%
All other expenses	254,247	0.57%
Total	44,657,956	100.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

Water Fund

Our Water Fund reflected the positive impact of our 2011 rate increase from \$2.42 per 100cf. (748 gallons) of water usage as measured through the meter to \$2.59. This rate increase was instrumental in allowing our City to maintain all levels of service in 2011 and 2012, and continues to provide good quality water to our residents and businesses. The total revenue for 2012 was \$3,273,872. Unfortunately, the water billing revenue collections have been less due to residents' inability to pay. All unpaid utility bills are rolled over to the tax bills. Our City continues to pursue opportunities to sell water to third-party customers. Anticipated sales to neighboring communities remain a key part of our City's strategy for the long-term good water quality for our City's residents as well as stabilized water rates. The City's contribution to the Joint Water plant for 2012 was \$375,560. The City is looking to address upgrades to its water transmission infrastructure. The City will have to increase its water rates in the future. The Water Fund fund balance continues its steady improvement towards a positive position.

Sewer / Joint Sewer Fund

Our Sewer / Joint Sewer Fund also reflected the positive impact of a rate increase in 2007 from \$2.38 per 100cf. of water usage to \$2.59. Increasing fund balance is crucial to addressing the challenges of aging sewer infrastructures.

Transit Fund

Our transit system decreased ridership, however, increased in ridership revenue, with the bus fare rate of \$1.50. We continue to work with our traveling public to reach fair compromises between route efficiencies and use of taxpayer dollars that subsidize our transit system. In 2010 two hybrid-electric buses were ordered and received in 2011. These new hybrids were acquired through the Federal Transit ARRA grants. These new vehicles will help reduce repair and fuel costs. Operating costs other than personnel were reduced in 2012 to \$241,680 from \$267,970 in 2011, a 10% saving. Our ongoing goal is to ensure our traveling public gets quality service at the best possible price.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

Budgetary Highlights for the Year Ended December 31, 2012

In December 2011 our City adopted the 2012 tax rates of \$8.09 per \$1,000 of FMV assessed valuation (Homestead rate) and \$10.56 per \$1,000 of FMV (Non- Homestead Rate). These tax rates do not compare to 2005 as these new rates are properly adjusted for Full market valuation. Our 2012 General Fund tax levy increased over 2011 by \$362,120 or 2.12%. This budget reflected the enhancement and continuation of all city services. All variances in budgetary revenues and appropriations are identified and compared to actual results for analysis purposes. Our City is committed to and adheres to an adopted purchasing policy. Our purchase order system ensures price quotations as well as budget adherence.

3. Activities regarding Capital assets and Long-term debt

Capital Assets

Each year, our City prepares a Five-Year Capital Asset Plan that is adopted by our Legislative branch by August 31. The 2012-2016 Capital Plan was adopted in August of 2011 with an original spending plan of under \$3.65 million. Formal funding decisions are normally made in the spring of the subsequent year (as the adopted capital plan is a non-binding plan). Our Capital Program is funded by budgeted operating funds, grants and financing proceeds. The City has maintained a very conservative approach towards any capital projects and has used financing primarily from grants and CDBG. The City's main objective was the completion of the ongoing waterfront developments with the construction phase II started sometime in 2012.

Long-Term Debt

Total City Long term debt principal on December 31, 2012 equated to \$53,400,001 (over 75% directly related to the General Fund and the remaining debt directly related to exempt water and sewer projects). The actual 2012 expenditures for total long term debt principal and interest were \$3,565,000 and \$2,703,775 respectively. In view of the current economic pressures, all future debt decisions are carefully investigated and weighed against budgetary impacts before final recommendations are proposed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2012, Cont'd. (Un-audited)

Maintaining the Condition of the City's Infrastructure

The City of Poughkeepsie maintains 67.39 miles of roads and approximately 47 miles of sidewalks and curbing. Monies are allocated each year in both the operating budget and Capital Plan to allow for said required maintenance and upkeep. In 2012 the City expended over \$1.3 million (\$698,812 from CHIPS in the General Funds) on the upkeep and improvement of its roads and sidewalks.

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
Current assets:				
Cash and cash equivalents	\$ 5,851,685	\$ 362,224	\$ 6,213,909	\$ 1,660,009
Investments	1,170,104	-	1,170,104	315,908
Restricted cash	367,151	-	367,151	471,935
Receivables (net)	11,572,252	3,258,495	14,830,747	250,124
Internal balances	(2,170,275)	2,170,275	-	-
Due from related parties	445,251	-	445,251	-
Due from other governments	8,652,398	63,919	8,716,317	-
Inventories - net of allowance	-	-	-	76,026
Prepaid expenses	90,248	-	90,248	105,604
Total current assets	<u>25,978,814</u>	<u>5,854,913</u>	<u>31,833,727</u>	<u>2,879,606</u>
Non-current assets:				
Restricted cash & cash equivalents	-	-	-	98
Other assets	-	-	-	10,773,493
Investment in Joint Water Project	-	9,711,415	9,711,415	-
Capital assets:				
Land	3,823,617	34,384	3,858,001	337,280
Improvements and Infrastructure net of depreciation	12,692,118	45,634,116	58,326,234	-
Buildings, machinery and equipment, net of depreciation	22,502,352	19,757	22,522,109	7,120,149
Construction in progress	28,953,768	604,012	29,557,780	-
Total capital assets	<u>67,971,855</u>	<u>46,292,269</u>	<u>114,264,124</u>	<u>7,457,429</u>
Total assets	<u>\$ 93,950,669</u>	<u>\$ 61,858,597</u>	<u>\$ 155,809,266</u>	<u>\$ 21,110,626</u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION (Continued)
DECEMBER 31, 2012

LIABILITIES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
Current Liabilities:				
Accounts payable	\$ 4,338,280	\$ 433,902	\$ 4,772,182	\$ 66,961
Accrued liabilities and retainage payable	4,496,259	230,443	4,726,703	67,328
Tenant security deposits	-	-	-	140,443
Due to other governments	7,076,923	-	7,076,923	99,155
Deferred revenues and other liabilities	6,318,783	5,773	6,324,556	34,202
Due to related party	-	1,264,475	1,264,475	-
Notes payable	10,550,000	-	10,550,000	-
Current portion of long-term liabilities				
Capital lease	501,628	-	501,628	-
Compensated absence liability	61,000	-	61,000	-
Landfill remediation liability	8,815	-	8,815	-
Bonds payable	2,424,448	1,415,552	3,840,000	152,519
Total current liabilities	35,776,137	3,350,145	39,126,282	560,608
Non-current liabilities:				
Judgments and claims	500,000	-	500,000	-
Capital lease payable	1,377,428	-	1,377,428	-
Compensated absence liability	5,959,399	229,245	6,188,644	121,376
Landfill remediation liability	351,107	-	351,107	-
Bonds payable	33,613,842	15,946,159	49,560,001	1,784,721
Other post-employment benefits	15,420,844	-	15,420,844	-
Other long term liabilities	-	-	-	172,970
Total non-current liabilities	57,222,620	16,175,404	73,398,024	2,079,067
Total liabilities	92,998,757	19,525,549	112,524,305	2,639,675
NET POSITION				
Invested in Capital Assets and Joint Water				
Project net of related debt	15,378,115	38,641,973	54,020,088	7,457,429
Restricted	-	-	-	312,050
Unrestricted	(14,426,203)	3,691,075	(10,735,128)	10,701,472
Total net position	951,912	42,333,048	43,284,960	18,470,951
Total liabilities and net position	\$ 93,950,669	\$ 61,858,597	\$ 155,809,265	\$ 21,110,626

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	CHANGES IN NET POSITION PRIMARY GOVERNMENT			COMPONENT UNITS
					GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	
Governmental Activities:								
General government support	\$ 7,951,040	\$ 543,351	\$ -	\$ 1,177	\$ (7,406,513)	\$ -	\$ (7,406,513)	\$ -
Public safety	27,176,412	1,769,696	700,292	348,500	(24,357,924)	-	(24,357,924)	-
Health	185,285	105,409	-	-	(79,876)	-	(79,876)	-
Transportation	4,948,633	1,763,091	639,604	5,921,541	3,375,602	-	3,375,602	-
Economic assistance & opportunity	136,206	75	40,000	-	(96,131)	-	(96,131)	-
Culture and recreation	703,238	50,610	14,556	-	(638,072)	-	(638,072)	-
Home and community services	14,444,929	170,634	9,836,721	-	(4,437,574)	-	(4,437,574)	-
Interest on long-term debt	1,878,243	-	-	-	(1,878,243)	-	(1,878,243)	-
Total governmental activities	57,423,987	4,402,866	11,231,173	6,271,217	(35,518,731)	-	(35,518,731)	-
Business-type activities:								
Water Fund	3,379,029	3,241,110	-	-	-	(137,919)	(137,919)	-
Sewer Fund	4,375,871	4,348,172	-	-	-	(27,699)	(27,699)	-
Total business-type activities	7,754,900	7,589,282	-	-	-	(165,618)	(165,618)	-
Total primary government	\$ 65,178,887	\$ 11,992,148	\$ 11,231,173	\$ 6,271,217	(35,518,731)	(165,618)	(35,684,349)	-
Component Units:								
Poughkeepsie Housing Authority	\$ 5,648,653	\$ 1,779,823	\$ 5,325,933	\$ 823,225	-	-	-	2,280,328
City of Poughkeepsie IDA	9,327	-	-	-	-	-	-	(9,327)
Total component units	\$ 5,657,980	\$ 1,779,823	\$ 5,325,933	\$ 823,225	-	-	-	2,271,001
General revenues								
Taxes:								
Real property taxes					17,863,074	-	17,863,074	-
Sales taxes					11,725,631	-	11,725,631	-
Mortgage taxes					326,773	-	326,773	-
Utility taxes					323,404	-	323,404	-
Franchise taxes					438,470	-	438,470	-
Payments from other governments					475,394	-	475,394	-
Grants and contributions not restricted to specific programs					4,218	-	4,218	-
Unrestricted investment earnings					142,207	34,534	176,741	11,853
Special item-Gain on sale of property and compensation for loss					152,449	-	152,449	-
Miscellaneous					1,547,910	(2,010)	1,545,900	564,965
Transfers					191,495	(191,495)	-	-
Total general revenues, special items and transfers					33,191,025	(158,971)	33,032,054	576,818
Change in net position					(2,327,706)	(324,589)	(2,652,295)	2,847,819
Net position - beginning					3,279,618	42,657,636	45,937,254	15,623,132
Net position - ending					\$ 951,912	\$ 42,333,047	\$ 43,284,959	\$ 18,470,951

CITY OF POUGHKEEPSIE, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

ASSETS	GENERAL FUND	CAPITAL PROJECTS FUND	SPECIAL GRANT FUND	DEBT SERVICE FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$ -	\$ 1,249,992	\$ 4,094,667	\$ 288,850	\$ 218,176	\$ 5,851,685
Investments	710,318	-	459,785	-	-	1,170,104
Restricted cash	55,000	312,151	-	-	-	367,151
Receivables:						
Taxes	7,212,800	-	-	-	-	7,212,800
Other	295,598	-	20,386	-	1,443	317,427
Mortgage loans receivable	-	-	528,035	-	-	528,035
Due from other funds	6,586,772	17,043,708	835,347	(15,443)	173,965	24,624,349
Due from related party	-	-	445,251	-	-	445,251
Due from other governments	3,421,895	-	-	5,230,000	503	8,652,398
State and federal receivable	174,655	2,147,278	64,960	-	1,127,099	3,513,989
Prepaid expenses	58,373	-	9,322	2,901	19,652	90,248
Total assets	\$ 18,515,412	\$ 20,753,129	\$ 6,457,753	\$ 5,506,308	\$ 1,540,838	\$ 52,773,438
 LIABILITIES AND FUND EQUITY						
LIABILITIES						
Accounts payable	\$ 2,575,467	\$ 1,489,639	\$ 84,238	\$ -	\$ 188,936	\$ 4,338,280
Accrued liabilities	3,429,725	-	57,399	-	118,051	3,605,174
Retainage payable	-	646,104	6,807	-	-	652,910
Bond anticipation notes payable	-	10,550,000	-	-	-	10,550,000
Due to other funds	12,198,586	11,952,674	71,497	41,137	2,530,729	26,794,624
Due to other governments	7,044,548	-	-	-	32,375	7,076,923
Deferred revenues	5,293,392	-	528,036	5,230,000	10,817	11,062,244
Other liabilities	8,054	-	3,370	-	3,283	14,707
Total liabilities	30,549,771	24,638,417	751,346	5,271,137	2,884,191	64,094,863
FUND EQUITY						
Fund balance (deficit):						
Committed:						
Encumbrances	59,496	9,356,759	574,161	-	-	9,990,416
Assigned:						
Self-insurance	1,500,000	-	-	-	-	1,500,000
Unassigned	(13,593,856)	(13,242,047)	5,132,246	235,170	(1,343,354)	(22,811,840)
Total fund equity	(12,034,360)	(3,885,288)	5,706,407	235,170	(1,343,354)	(11,321,424)
Total liabilities and fund equity	\$ 18,515,412	\$ 20,753,129	\$ 6,457,753	\$ 5,506,308	\$ 1,540,838	\$ 52,773,438

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total fund balance for governmental funds	\$ (11,321,424)
Total net position reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	67,971,855
Long-term liabilities, including bonds payable, compensated absences, judgement and claims, post-employment benefits and landfill remediation liabilities and capital leases are not due and payable in the current period and therefore are not reported in the funds.	(60,191,846)
Certain deferred revenues are recorded when billed.	4,758,168
Accrued interest is not reported in the funds.	<u>(264,841)</u>
Total net position of governmental activities	<u><u>\$ 951,912</u></u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>SPECIAL GRANT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON- MAJOR FUNDS</u>	<u>TOTAL FUNDS</u>
REVENUES						
Real property taxes	\$ 16,937,054	\$ -	\$ -	\$ -	\$ -	\$ 16,937,054
Real property taxes items	890,627	-	-	-	-	890,627
Non property taxes items	12,487,506	-	-	-	-	12,487,506
Departmental income	2,611,694	-	42,488	-	369,737	3,023,920
Intergovernmental charges	83,397	-	-	391,997	-	475,394
Use of money and property	2,020	52	2,895	137,237	3	142,207
Licenses and permits	588,817	-	-	-	-	588,817
Fines and forfeitures	952,847	-	-	-	3,291	956,137
Sale of property and compensation for loss	811,008	-	-	-	-	811,008
Miscellaneous local sources	198,769	280,592	9,622	-	2,468	491,450
Interfund revenues	1,018,264	-	-	-	-	1,018,264
State aid	5,517,093	-	-	-	987,371	6,504,464
Federal aid	1,177	4,845,451	5,628,700	-	725,777	11,201,105
Total revenues	<u>42,100,271</u>	<u>5,126,094</u>	<u>5,683,706</u>	<u>529,234</u>	<u>2,088,647</u>	<u>55,527,952</u>
EXPENDITURES						
General government support	5,614,562	5,570	22,750	23,210	244,582	5,910,674
Public safety	18,639,029	125,590	-	-	656,772	19,421,391
Health	165,166	-	-	-	-	165,166
Transportation	2,617,583	5,692,688	-	-	863,861	9,174,132
Economic assistance & opportunity	89,082	325,407	-	-	-	414,488
Culture and recreation	559,687	-	-	-	-	559,687
Home and community services	2,021,984	498,875	6,585,881	-	44,716	9,151,456
Employee benefits	10,103,364	-	177,554	-	273,146	10,554,064
Debt service	-	-	-	5,421,620	-	5,421,620
Total expenditures	<u>39,810,456</u>	<u>6,648,130</u>	<u>6,786,185</u>	<u>5,444,830</u>	<u>2,083,078</u>	<u>60,772,679</u>
Excess of revenues over expenditures	<u>2,289,815</u>	<u>(1,522,036)</u>	<u>(1,102,479)</u>	<u>(4,915,596)</u>	<u>5,569</u>	<u>(5,244,727)</u>
Other financing sources:						
Proceeds of debt	-	1,005,973	-	-	-	1,005,973
Bans redeemed from appropriations	-	963,000	-	-	-	963,000
Operating transfers in	575,000	-	-	7,556,689	-	8,131,689
Operating transfers out	(5,422,500)	(5,000)	(25,000)	(2,146,650)	(341,044)	(7,940,194)
Total other financing sources	<u>(4,847,500)</u>	<u>1,963,973</u>	<u>(25,000)</u>	<u>5,410,039</u>	<u>(341,044)</u>	<u>2,160,468</u>
Excess (deficiency) of revenue and other sources over expenditures and other uses	<u>(2,557,685)</u>	<u>441,938</u>	<u>(1,127,479)</u>	<u>494,442</u>	<u>(335,476)</u>	<u>(3,084,259)</u>
Fund Balance, December 31, 2011	<u>(9,476,675)</u>	<u>(4,327,226)</u>	<u>6,833,886</u>	<u>(259,272)</u>	<u>(1,007,878)</u>	<u>(8,237,165)</u>
Fund Balance, December 31, 2012	<u>\$(12,034,360)</u>	<u>\$ (3,885,288)</u>	<u>\$5,706,407</u>	<u>\$ 235,170</u>	<u>\$ (1,343,354)</u>	<u>\$(11,321,424)</u>

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

Net change in fund balance - total government funds \$ (3,084,259)

The change in net position 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.	4,284,774
Governmental funds report sales of depreciable assets as proceeds less expenses of sale while in the statement of activities cost less accumulated depreciation is included which is the City's basis.	(652,450)
Bond proceeds are reported on the financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, 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 position.	
Debt issued:	
Capital leases	(1,005,973)
Repayments:	
Bond principal	2,209,787
Capital lease payment	347,922
Net	1,551,736
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	22,668
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.	(4,485,568)
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.	35,393
Net change in net position of governmental activities	\$ (2,327,706)

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 362,224	\$ -	\$ 362,224	\$ 1,660,009	\$ 2,022,233
Investments	-	-	-	315,908	315,908
Restricted cash and cash equivalents	-	-	-	471,935	471,935
Receivables:					
Charges for Services	1,240,986	1,225,201	2,466,187	250,124	2,716,311
Other	60,215	732,093	792,308	-	792,308
Internal balances	(544,342)	2,714,617	2,170,275	-	2,170,275
Due from related party	-	-	-	-	-
Due from other governments	-	63,919	63,919	-	63,919
Inventories - net of allowance	-	-	-	76,026	76,026
Prepaid expenses	-	-	-	105,604	105,604
Total current assets	<u>1,119,083</u>	<u>4,735,830</u>	<u>5,854,913</u>	<u>2,879,606</u>	<u>8,734,519</u>
Non current assets:					
Restricted cash and cash equivalents	-	-	-	98	98
Due from related party	-	-	-	-	-
Other assets	-	-	-	10,773,493	10,773,493
Investment in Joint Water Project	9,711,415	-	9,711,415	-	9,711,415
Capital assets:					
Land	-	34,384	34,384	337,280	371,664
Buildings, net of depreciation	-	-	-	7,120,149	7,120,149
Improvements and Infrastructure, net of depreciation	28,379,086	17,255,030	45,634,116	-	45,634,116
Machinery and equipment, net of depreciation	11,036	8,721	19,757	-	19,757
Construction in progress	-	604,012	604,012	-	604,012
Total capital assets	<u>28,390,122</u>	<u>17,902,147</u>	<u>46,292,269</u>	<u>7,457,429</u>	<u>53,749,698</u>
Total non current assets	<u>38,101,537</u>	<u>17,902,147</u>	<u>56,003,684</u>	<u>18,231,020</u>	<u>74,234,704</u>
Total Assets	<u><u>\$ 39,220,620</u></u>	<u><u>\$ 22,637,977</u></u>	<u><u>\$ 61,858,597</u></u>	<u><u>\$ 21,110,626</u></u>	<u><u>\$ 82,969,223</u></u>

	PRIMARY GOVERNMENT				
	WATER FUND	SEWER FUND	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
LIABILITIES AND NET POSITION					
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 10,266	\$ 423,636	\$ 433,902	\$ 66,961	\$ 500,863
Accrued liabilities	154,253	76,190	230,443	67,328	297,771
Tenant security deposits	-	-	-	140,443	140,443
Due to other governments	-	-	-	99,155	99,155
Other liabilities	4,961	812	5,773	-	5,773
Deferred credits and other liabilities	-	-	-	34,202	34,202
Due to related party	1,264,475	-	1,264,475	-	1,264,475
Current portion of bonds payable	676,314	739,238	1,415,552	152,519	1,568,071
Total current liabilities	<u>2,110,269</u>	<u>1,239,876</u>	<u>3,350,145</u>	<u>560,608</u>	<u>3,910,753</u>
Non-current liabilities:					
Compensated absence liability	215,931	13,314	229,245	121,376	350,621
Bonds, notes, and loans payable	7,422,946	8,523,213	15,946,159	1,784,721	17,730,880
Other long term liabilities	-	-	-	172,970	172,970
Total non-current liabilities	<u>7,638,877</u>	<u>8,536,527</u>	<u>16,175,404</u>	<u>2,079,067</u>	<u>18,254,471</u>
Total liabilities	<u>9,749,146</u>	<u>9,776,403</u>	<u>19,525,549</u>	<u>2,639,675</u>	<u>22,165,224</u>
NET POSITION					
Invested in Capital Assets and Joint					
Water Project net of related debt	30,002,277	8,639,696	38,641,973	7,457,429	46,099,402
Restricted	-	-	-	312,050	312,050
Unrestricted (deficit)	(530,803)	4,221,878	3,691,075	10,701,472	14,392,547
Total net position	<u>29,471,474</u>	<u>12,861,573</u>	<u>42,333,048</u>	<u>18,470,951</u>	<u>60,803,999</u>
Total liabilities and net position	<u>\$ 39,220,620</u>	<u>\$ 22,637,977</u>	<u>\$ 61,858,597</u>	<u>\$ 21,110,626</u>	<u>\$ 82,969,223</u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
OPERATING REVENUES					
Charges for services	\$ 3,239,343	\$ 4,348,172	\$ 7,587,515	\$ 1,779,823	\$ 9,367,338
Program grants and subsidies	-	-	-	5,325,933	5,325,933
Other revenue	-	-	-	564,965	564,965
Total operating revenues	<u>3,239,343</u>	<u>4,348,172</u>	<u>7,587,515</u>	<u>7,670,721</u>	<u>15,258,236</u>
OPERATING EXPENSES					
Personal services	575,464	274,548	850,012	-	850,012
Administrative expense	514,796	461,799	976,594	1,006,191	1,982,785
Tenant services	-	-	-	89,278	89,278
Utilities	-	-	-	704,011	704,011
Maintenance, operations and contractual services	188,211	1,857,897	2,046,108	1,575,824	3,621,932
Protective services	-	-	-	39,976	39,976
General	-	-	-	375,457	375,457
Housing assistance payments	-	-	-	928,258	928,258
Employee benefits	290,980	234,482	525,462	-	525,462
Depreciation	1,130,296	1,054,605	2,184,901	882,279	3,067,180
Total operating expenses	<u>2,699,746</u>	<u>3,883,331</u>	<u>6,583,077</u>	<u>5,601,274</u>	<u>12,184,351</u>
NET OPERATING INCOME (LOSS)	539,598	464,841	1,004,438	2,069,447	3,073,885
NON-OPERATING REVENUES (EXPENSES)					
Interest income	34,528	6	34,534	11,853	46,387
Interest on bonds and notes	(679,283)	(492,783)	(1,172,066)	(54,504)	(1,226,570)
Miscellaneous expenses	-	-	-	(2,202)	(2,202)
Total non-operating revenues (expenses)	<u>(644,755)</u>	<u>(492,777)</u>	<u>(1,137,532)</u>	<u>(44,853)</u>	<u>(1,182,385)</u>
Transfers	(662,045)	470,551	(191,495)	-	(191,495)
Capital grants	-	-	-	823,225	823,225
NET INCOME (LOSS)	(767,203)	442,614	(324,588)	2,847,819	2,523,231
Net Position, December 31, 2011	<u>30,238,677</u>	<u>12,418,959</u>	<u>42,657,636</u>	<u>15,623,132</u>	<u>58,280,768</u>
Net Position, December 31, 2012	<u>\$29,471,474</u>	<u>\$ 12,861,573</u>	<u>\$ 42,333,048</u>	<u>\$18,470,951</u>	<u>\$ 60,803,999</u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNIT	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
Cash Flows From Operating Activities:					
Cash received from users	\$ 3,263,890	\$ 4,432,213	\$ 7,696,103	\$ 2,321,470	\$ 10,017,573
Cash paid to employees	(575,464)	(274,548)	(850,012)	(1,528,196)	(2,378,208)
Cash paid for employees benefits	(286,402)	(233,638)	(520,040)	-	(520,040)
Cash paid for operating expenses	(704,916)	(2,372,434)	(3,077,350)	(3,346,749)	(6,424,099)
Cash received from operating grants	-	-	-	5,300,625	5,300,625
Net Cash Provided by Operating Activities	1,697,108	1,551,593	3,248,701	2,747,150	5,995,851
Cash Flows From Noncapital Financing Activities:					
Payments from (to) related party	1,264,475	-	1,264,475	-	1,264,475
Payments from (to) other funds	(1,650,743)	279,061	(1,371,683)	-	(1,371,683)
Net Cash Provided (Used) by Noncapital Financing Activities	(386,269)	279,061	(107,208)	-	(107,208)
Cash Flows From Capital and Related Financing Activities:					
Purchase of Fixed Assets	6,906	(304,526)	(297,620)	(3,043,531)	(3,341,151)
Federal capital grant	-	-	-	823,225	823,225
Interest payments of bonded indebtedness	(679,283)	(492,783)	(1,172,066)	(54,504)	(1,226,570)
Principal payments for bonded indebtedness	(310,766)	(1,033,350)	(1,344,116)	(152,519)	(1,496,635)
Loans provided/paid, net	-	-	-	(281,205)	(281,205)
Net Cash (Used) by Capital and Related Financing Activities	(983,143)	(1,830,659)	(2,813,802)	(2,708,534)	(5,522,336)
Cash Flows From Investing Activities:					
Transfers to/from investments	-	-	-	(2,962)	(2,962)
Interest received	34,528	6	34,534	12,537	47,071
Net Cash Provided by Investing Activities	34,528	6	34,534	9,575	44,109
Net Increase (Decrease) in Cash and Cash Equivalents	362,224	-	362,225	48,191	410,416
Cash and Cash Equivalents at January 1, 2012	-	-	-	2,083,851	2,083,851
Cash and Cash Equivalents at December 31, 2012	\$ 362,224	\$ -	\$ 362,225	\$ 2,132,042	\$ 2,494,267
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	\$ 539,598	\$ 464,841	\$ 1,004,438	\$ 2,069,447	\$ 3,073,885
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	1,130,296	1,054,605	2,184,901	882,279	3,067,180
Changes in assets and liabilities:					
Decrease (Increase) in accounts receivable	24,547	84,041	108,588	(19,383)	89,205
Decrease (Increase) in inventories	-	-	-	20,251	20,251
Decrease (Increase) in prepaid items	(1,925)	39,306	37,381	(95,916)	(58,535)
Increase (Decrease) in accounts payable	(12,181)	(74,024)	(86,205)	(11,138)	(97,343)
Increase (Decrease) in deferred revenues	-	-	-	(28,441)	(28,441)
Increase(Decrease) in accrued expenses and other liabilities	16,774	(17,176)	(402)	(69,949)	(70,351)
Net Cash Provided by Operating Activities	\$ 1,697,108	\$ 1,551,593	\$ 3,248,701	\$ 2,747,150	\$ 5,995,851

**CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012**

	AGENCY FUNDS
ASSETS	
Cash and cash equivalents	\$ 525,748
Due from other governments	100,465
Total assets	\$ 626,213
LIABILITIES	
Escrow funds returnable and other liabilities	\$ 626,213
Total liabilities	626,213
NET POSITION	
Total liabilities and net position	\$ 626,213

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies

The City of Poughkeepsie, New York (the "City"), a municipal corporation, was incorporated in 1854, under the provisions of the State of New York. The City operates under a Council-Mayor form of government, which performs legal government functions, within its jurisdiction, including public safety, health and economic assistance and opportunity.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are 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. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

1. The Reporting Entity

The basic financial statements of the City of Poughkeepsie include all funds of the primary government, which is the City, as well as the component unit and other organizational entities determined to be included in the City's financial reporting entity in accordance with GASB Statement No. 14. The decision to include a component unit in the City's reporting entity is based on several criteria set forth in GASB Statement No. 14 including legal standing, fiscal dependency, financial accountability, selection of governing authority and ability to significantly influence operations. Based on the application of these criteria, the following is a brief review of significant entities considered in determining the City's reporting entity. Complete financial statements of the individual entities can be obtained from their respective administrative offices.

The following entities are included in the reporting entity:

Poughkeepsie Sewer Fund Joint Activity

The Town and the City of Poughkeepsie are involved in a joint activity for sewage treatment facility operations (Joint Sewer). Each municipality's commitment is based upon its proportionate share of total sewage flow. Each municipality has financed its share separately. The joint activity is operated by Veolia Water, North America, Inc., an independent contractor hired by the City.

The City has the exclusive right to operate and maintain the joint facility. Beginning in 1993, the Joint Sewer is included as part of the primary government and its operations are presented as a special revenue fund, and its fixed assets are included in the City's general fixed assets account group.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

1. The Reporting Entity (Cont'd.)

Poughkeepsie Housing Authority

The Poughkeepsie Housing Authority (“Housing Authority”) was established by state statute. The Housing Authority administers federal, state funding and/or other financing for the provision of adequate housing for qualified low-income individuals in the City.

Of the seven members who serve as the governing board, five are appointed by the Mayor, which causes the Housing Authority to meet the criteria for inclusion as a component unit. The Housing Authority’s financial information is presented discretely of the City. See Notes A.3.D and J.

Poughkeepsie Industrial Development Agency

The City of Poughkeepsie Industrial Development Agency (“Agency”) is a public benefit corporation established under Section 856 of the New York State Industrial Development Agency Act of the State of New York and Chapter 73 of the Laws of 1970 of the State. The Agency was established to encourage economic growth within the City of Poughkeepsie, New York. Financial statements are available from the City of Poughkeepsie Commissioner of Finance, Poughkeepsie, NY. See Note J.

Entities excluded from the reporting entity are:

The City has determined that the following entities are not component units for the purposes of the financial statements of the City of Poughkeepsie: the Poughkeepsie Joint Water Project, Poughkeepsie City School District and the Greater Poughkeepsie Library District.

The Poughkeepsie Joint Water Project is a joint venture of the City and the Town of Poughkeepsie, and is further described in Note K.1.

2. Basic Financial Statements – Government-Wide Statements

The City’s basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City’s major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City’s police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The City’s water and sewer services are classified as business-type activities.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

2. Basic Financial Statements – Government-Wide Statements (Cont'd.)

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are 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 City's net position is reported in three parts—invested in capital assets, net of related debt; restricted assets; and unrestricted assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities and Changes in Net Position reports both the gross and net cost of each of the City's functions and business-type 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.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) 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 City as an entity and the change in the City's net position resulting from the current year's activities.

3. Basic Financial Statements – Fund Financial Statements

The financial transactions of the City 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 City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund is 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

3. Basic Financial Statements – Fund Financial Statements (Cont'd.)

The following fund types are used by the City:

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 City:

- 1. General fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- 2. Special Grant Fund** is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These revenue sources consist primarily of federal and state grants.
- 3. Capital Projects Fund** includes funds which are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).
- 4. Debt Service Fund** is used to account for the accumulation of resources for the payment of principal and interest on long-term debt.
- 5. Non-Major Governmental Funds** include other funds which are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

B. Proprietary Funds

Proprietary funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Enterprise Fund – Enterprise funds, in contrast with internal service funds which provide services to other City operations, are used to account for those operations which provide services to the general public. The City's enterprise funds account for the City's water and sewer services.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

3. Basic Financial Statements – Fund Financial Statements (Cont'd.)

C. 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 City programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The City'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

D. Component Unit Year End

As described above, the Poughkeepsie Housing Authority is not considered to be part of the primary government and is presented as a component unit of the City. The financial information for this component unit in the accompanying basic financial statements is derived from its most recently issued audited annual financial statements as of and for the year ended March 31, 2012, which are available from the Housing Authority's office in Poughkeepsie, New York.

E. Fund Balance

Fund balance is presented in five different classifications which focus on the constraints imposed on resources in governmental funds, rather than on availability for appropriation. The classifications include: non-spendable, restricted, committed, assigned, and unassigned.

Non-spendable consists of assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

3. Basic Financial Statements – Fund Financial Statements (Cont'd.)

E. Fund Balance (Cont'd.)

Committed consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The Common Council is the decision-making authority that can, by action taken prior to the end of the fiscal year, commit fund balance.

Assigned consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

Unassigned represents the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When resources are available from multiple classifications, the City spends funds in the following order: restricted, committed, assigned, unassigned.

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

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

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE A - Summary of Accounting Policies (Cont'd.)

4. Basis of Accounting (Cont'd.)

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, Cash Equivalents and Certificates of Deposit

Cash includes amounts in demand and interest-bearing deposits. State statutes and the City's own investment policy govern the investment policies of the City.

Demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance, must be collateralized by the banking institutions with investments governed under state statutes.

The cash of the City at December 31, 2012, is as follows:

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>SPECIAL GRANT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON- MAJOR FUNDS</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
Non-Interest							
Bearing Accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 362,224	\$ 362,224
Interest Bearing							
Accounts	-	1,249,992	4,094,667	288,850	218,176	-	5,851,685
Restricted Cash -							
Interest Bearing	55,000	312,151	-	-	-	-	367,151
TOTALS	\$ 55,000	\$ 1,562,143	\$ 4,094,667	\$ 288,850	\$ 218,176	\$ 362,224	\$ 6,581,060

All of the above deposits were either covered by Federal Deposit insurance or collateralized with securities held by a third party bank in the City's name.

Restricted cash in the General Fund represents cash reserved for specific purposes.

Restricted cash recorded in the Capital Projects represents unspent funds borrowed from the New York State Environmental Facilities Corporation.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

B. Investments

Short-term investments consist of investments in U.S. Treasury agency securities and repurchase agreements. Market value of the repurchase agreements approximates cost plus accrued interest. The following table presents the carrying amount and market value of investments held at December 31, 2012 by type and categorizes the carrying amounts as follows: **Category 1** are those which are issued or registered, or held by the City or its agent in the City's name. **Category 2** are those which are uninsured and unregistered, with securities held by the counter party's trust department or agent in the City's name. **Category 3** includes uninsured and unregistered investments held by the counter party or by its trust department or agent but not in the City's name.

	<u>CATEGORY</u> <u>1</u>	<u>CATEGORY</u> <u>2</u>	<u>CATEGORY</u> <u>3</u>	<u>MARKET</u> <u>VALUE</u>	<u>TOTAL</u>
Money Market Funds	\$ -	\$ 38,155	\$ -	\$ 38,155	\$ 38,155
U.S. Treasury Notes	-	1,131,949	-	1,131,949	1,131,949
TOTALS	\$ -	\$ 1,170,104	\$ -	\$ 1,170,104	\$ 1,170,104

Disclosures relating to risk and type of investments as presented are indicative of activity and positions held during the year.

C. Allowance for Un-collectible Accounts

During 2009, the allowance for un-collectible accounts was eliminated as the City generally collects past-due taxes through property sales. No provision has been made in the Proprietary Funds since utility billings past due after six months are placed on the property tax rolls.

D. Mortgage Loans Receivable

The Community Development Program lends monies received through federal grants to individuals and nonprofit agencies at low interest rates to fund the acquisition and rehabilitation of low-income housing and other community development projects in Poughkeepsie. Loan disbursements are recorded as grant expenditures and loan repayments are recorded as program income. Mortgage loans receivable and the related deferred revenue accounts consist of principal and interest to be collected in future periods. No valuation allowance has been recorded. Revenue is recognized as the principal portion of the loan is collected.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 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. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

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

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective December 31, 2003. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2007. The City elected to take advantage of the extended implementation period, however certain documentation was not readily available to support amounts reported in the financial statements.

F. Deferred Revenues

The City reports deferred revenues on its Governmental Funds Balance Sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when loans made by the City are funded by grants. In subsequent periods, when both recognition criteria are met, or when the City receives loan repayments, the liability for deferred revenue is removed and revenue is recognized.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

F. Deferred Revenues (Cont'd.)

Deferred revenues consisted of the following at December 31, 2012:

	<u>GENERAL FUND</u>	<u>SPECIAL GRANT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON- MAJOR FUNDS</u>	<u>TOTAL</u>
Property Taxes	\$ 5,293,392	\$ -	\$ -	\$ -	\$ 5,293,392
Rehabilitation Loans	-	528,036	-	-	528,036
Revenues paid in advance	-	-	5,230,000	-	5,230,000
Fees paid in advance	-	-	-	10,817	10,817
TOTALS	\$ 5,293,392	\$ 528,036	\$ 5,230,000	\$ 10,817	\$ 11,062,245

G. 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 as long-term debt in the statement of net assets.

H. Property Taxes

The City approves the budget for the current year on the last working day of the previous year. Property taxes are levied on January 15, and collected from February 1 through December 1. Penalties and interest are assessed after February 15. Unpaid taxes are converted to tax sale certificates for a period of two years and then sold at auction.

Taxes for Dutchess County and Greater Poughkeepsie Library District purposes apportioned to the area within the City are levied together with taxes for the City as a single bill. The City assumes enforcement responsibility for all taxes levied in the City.

Delinquent City school district taxes are turned over to the City for collection. The City collects payments on these unpaid school taxes until the following year's City tax sale. Any unpaid City school district taxes are included with unpaid City and county taxes on the tax sale certificates issued.

The City is permitted by the New York State Constitution - Article VIII - Local Finance, Section 10 to levy real property taxes up to a limit calculated in accordance with law.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

H. Property Taxes (Cont'd.)

This limit is based upon the most recent five-year average full valuation of taxable real property within the City. The City's maximum taxing power, as provided by the Constitution, is limited to two percent of this average full valuation. However, the City of Poughkeepsie, through its City Charter (Subpart AA), limits the amount to be raised by tax on real estate, in addition to providing for the interest on and the principal of all indebtedness, to an amount not to exceed one and one-half percent of average full valuation. The City's self-imposed tax limit as computed for real property taxes levied by the City during 2012 was \$37,706,205, of which the amount required for the tax levy was \$19,351,391, leaving a margin of \$18,354,814. Therefore, the 2012 City tax levy, which is based on the 2011 assessment roll, utilized approximately 51.32% of its self-imposed tax limit including provisions for debt service.

I. 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.

J. Budgets

Pursuant to Article 6 of the Second Class Cities Law of the State of New York and its own charter, the City legally adopts calendar year budgets for the General, Water, Sewer and certain non-major governmental funds. Certain amendments to the original budget made during the year require the approval of the Common Council. Budgetary comparison schedules are presented as required supplemental information for major funds only. Budgetary controls are established or adopted for the Capital Projects Fund on a project basis. Unused appropriation of the annually budgeted funds lapse at the end of the year.

K. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing over expenditure of established appropriations. Open encumbrances are reported as reservations of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

L. Accumulated Compensated Absences

Vacation and sick days are accumulated at an individual rate for employees of the City pursuant to contractual agreements. The City accrues a liability for compensated absences, which meet the following criteria:

1. The City's obligations relating to employees' rights to compensation for future absences are attributable to employee's services already rendered;
2. The obligation relates to rights that vest or accumulate;
3. Payment of the compensation is probable;
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation and sick pay, which has been earned and not taken by City employees. For governmental funds, the liability for compensated absences is recorded as a Long-Term Obligation, as it is anticipated that none of these liabilities will be liquidated with expendable available financial resources.

M. Pension Plans

Plan Description

The City 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, New York 12236.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

M. Pension Plans (Cont'd.)

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 City 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>
2012	\$ 1,368,197	\$ 2,782,613
2011	\$ 1,127,852	\$ 2,514,695
2010	\$ 1,218,602	\$ 1,950,959

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

N. Post-employment Benefits

The City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. The City has recognized the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. Retirees make varying contributions, according to their respective former collective bargaining agreements.

The cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid, which is the accrual accounting perspective. In adopting the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the City recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years. The Postemployment Benefits Liability as of December 31, 2012 is \$15,420,844.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

N. Post-employment Benefits (Cont'd.)

Plan Description

The City provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the City. This plan is a single employer plan, established by authority of the City Council and administered by the City. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at City Hall. A summary of benefits is as follows:

Contracts	% Paid by City	
	Retiree	Spouse
CSEA -		
Retirees hired prior to 1989	100%	100%
Retirees hired post 1989	100%	0%
IAFF -		
Retirees hired prior to 1995	100%	100%
Retirees hired post 1995	100%	0%
PBA -		
Retirees hired prior to 1993	100%	100%
Retirees hired post 1993	75%	75%

Funding Policy

The City provides funding on the pay-as-you-go method by payment of current insurance premiums. Currently, New York's General Municipal Laws do not permit funding of the OPEB obligation, therefore there are no plan assets.

Annual Other Post-employment Benefit Cost

The City's OPEB cost (expense) amounted to \$4,568,600 for the year ended December 31, 2012. The City's OPEB cost was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45 less the amount that the City paid in the current year for retirees. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs plus a past service cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

N. Post-employment Benefits (Cont'd.)

Net Other Post-employment Benefit Obligation

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the trend of health care costs. Amounts determined regarding the funding status of the plan and the required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Accrued Liability (AAL)	
All eligible employees	\$ 68,802,100
Total Actuarial Accrued Liability	<u>\$ 68,802,100</u>
Annual Required Contribution (ARC)	<u>\$ 6,003,500</u>
Net OPEB Obligation - beginning of the year	\$ 10,528,544
Annual Required Contribution (ARC)	6,003,500
Interest on Net OPEB obligation	315,900
Adjustment to Annual Required Contribution	<u>(356,200)</u>
Annual OPEB cost	5,963,200
Actual Employer Contributions*	<u>(1,070,900)</u>
Increase in Net OPEB Obligation	<u>4,892,300</u>
Net OPEB Obligation - end of the year	<u>\$ 15,420,844</u>
Percent of annual OPEB cost contributed	17.96%

*This contribution is the pay-as-you-go amount, as an actual plan has not been established, see Funding Policy.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

N. Post-employment Benefits (Cont'd.)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 3% baseline discount rate. The valuation assumes the following rates of increase in health care costs:

<u>Fiscal</u> <u>Year</u>	<u>Pre-65</u> <u>Medical</u>	<u>Post-65</u> <u>Medical</u>	<u>Prescription</u> <u>Drug*</u>
2012	7.30%	7.30%	-
2013	7.80%	7.80%	-
2014	6.40%	6.40%	-
2015	5.90%	5.90%	-
2016-2019	5.90%	5.90%	-
			-

*Information unavailable

	<u>Pre-65</u> <u>Medical</u>	<u>Post-65</u> <u>Medical</u>	<u>Prescription</u> <u>Drug*</u>
Healthcare cost trend rate assumed for next fiscal year	7.80%	7.80%	-
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	-
Fiscal year that the rate reaches the ultimate trend rate	2074	2074	-

*Information unavailable

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE A - Summary of Accounting Policies (Cont'd.)

5. Financial Statement Amounts (Cont'd.)

O. Insurance

The City of Poughkeepsie assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are generally covered by the purchase of commercial insurance for losses in excess of specified limits. The City is self-insured for risks below those limits.

Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred, the amount of loss can be reasonably estimated and which is not covered by the commercial insurance coverage described above. The City has prepared an estimate of losses based on the above criteria and recorded that liability in the statement of net assets, and described in Note D.1.b.

The self-funded reserve amounts as of December 31, 2012 are reported as Reserves of Fund Balance for Self-Insurance and for Employee Benefits in the General Fund, totaling \$1,500,000.

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Subsequent Events

Management has evaluated subsequent events through August 29, 2013, the date the financial statements were available to be issued.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE B - Interfund Receivables, Payables and Transfers

The following is a summary of amounts due from and due to other funds and transfers as of December 31, 2012. These inter-fund balances have been eliminated as part of the aggregation of balances in the statement of net assets. Such balances arise through the use of a pooled cash disbursement account and the temporary funding of capital projects. Transfers are recorded for the reimbursement of expenses and the permanent funding of capital projects.

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	\$ 6,586,772	\$ 12,198,586
Capital Projects	17,043,708	11,952,674
Special Grant	835,347	71,498
Debt Service	(15,443)	41,137
Non-Major	173,965	2,530,729
subtotal Governmental funds	<u>24,624,349</u>	<u>26,794,624</u>
Proprietary funds:		
Water	-	544,342
Sewer	2,714,617	-
subtotal Proprietary funds	<u>2,714,617</u>	<u>544,342</u>
TOTALS	<u>\$ 27,338,966</u>	<u>\$ 27,338,966</u>
	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General	\$ 575,000	\$ (5,422,500)
Capital Projects	-	(5,000)
Special Grant	-	(25,000)
Debt Service	7,556,689	(2,146,650)
Non-Major	-	(341,044)
subtotal Governmental funds	<u>8,131,689</u>	<u>(7,940,194)</u>
Proprietary funds:		
Water	-	(662,045) *
Sewer	470,551	- *
subtotal Proprietary funds	<u>470,551</u>	<u>(662,045)</u>
TOTALS	<u>\$ 8,602,239</u>	<u>\$ (8,602,239)</u>

* Proprietary Funds are shown net. Administrative and debt service costs are included in these amounts.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE C – Capital Assets

The following describes the City’s Capital Assets:

	BALANCE JANUARY 1, 2012	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2012
Governmental activities:				
Land	\$ 3,823,617	\$ -	\$ -	\$ 3,823,617
Buildings	36,699,398	-	(767,588)	35,931,810
Infrastructure & Improvements	31,752,752	988,982	-	32,741,734
Machinery & equipment	27,746,767	1,219,487	-	28,966,254
Construction in Progress	23,820,275	5,341,635	(208,142)	28,953,768
Totals at historical cost	123,842,809	7,550,104	(975,730)	130,417,183
Less accumulated depreciation				
Buildings	(19,035,186)	(951,852)	115,138	(19,871,900)
Infrastructure & Improvements	(18,641,378)	(1,408,238)	-	(20,049,616)
Machinery & equipment	(21,826,714)	(697,098)	-	(22,523,812)
Total accumulated depreciation	(59,503,278)	(3,057,188)	115,138	(62,445,328)
Governmental activities capital assets, net	\$ 64,339,531	\$ 4,492,916	\$ (860,592)	\$ 67,971,855

*Depreciation was charged to governmental activities as follows:

General government support	\$ 855,339
Public safety	141,049
Transportation	1,769,363
Economic assistance & opportunity	7,657
Culture & recreation	49,242
Home & community service	234,538
Total depreciation expense	\$ 3,057,188

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE C – Capital Assets (Cont'd.)

	BALANCE JANUARY 1, 2012	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2012
Business-type activities				
Land	\$ 34,384	\$ -	\$ -	\$ 34,384
Buildings	5,059,339	-	-	5,059,339
Infrastructure & Improvements	74,456,643	710,873	-	75,167,516
Machinery & equipment	5,425,028	-	-	5,425,028
Construction in Progress	1,017,264	61,317	(474,569)	604,012
Totals at historical cost	<u>85,992,658</u>	<u>772,190</u>	<u>(474,569)</u>	<u>86,290,279</u>
Less accumulated depreciation				
Buildings	(5,059,339)	-	-	(5,059,339)
Infrastructure & Improvements	(27,453,102)	(2,080,298)	-	(29,533,400)
Machinery & equipment	(5,300,668)	(104,603)	-	(5,405,271)
Total accumulated depreciation	<u>(37,813,109)</u>	<u>(2,184,901)</u>	<u>-</u>	<u>(39,998,010)</u>
Business-type capital assets, net	<u>\$ 48,179,549</u>	<u>\$ (1,412,711)</u>	<u>\$ (474,569)</u>	<u>\$ 46,292,269</u>

*Depreciation was charged to business-type activities as follows:

Home & community service	\$ 2,184,901
Total depreciation expense	<u>\$ 2,184,901</u>

NOTE D - Long-Term Liabilities

1. Types

a. Serial Bonds and Installment Purchase Debt

The City borrows money in order to acquire or construct buildings and public 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 are full faith and credit debt of the City. 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. Current principal and interest payments are included in the expenditures of the Debt Service Fund. The City has utilized 61% of its constitutional debt limit as of December 31, 2012 before adjustments for water and sewer debt.

b. Judgments and Claims

As described in Note A.5.O, the City has prepared an estimate of future loss liabilities based on historical trends and other factors.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE D - Long-Term Liabilities (Cont'd.)

c. Compensated Absence and Vacation Pay Obligations

The City has prepared an estimate of the value of earned but unused leave time which is payable from future resources.

2. Changes

The changes in the City's indebtedness during the year ended December 31, 2012, are summarized as follows:

	BALANCE JANUARY 1, 2012	INCREASE	(DECREASE)	BALANCE DECEMBER 31, 2012	AMOUNTS DUE WITHIN ONE YEAR
Long Term Liabilities:					
Serial Bonds	\$ 56,965,000	\$ -	\$ (3,565,000)	\$ 53,400,000	\$ 3,840,000
Capital Leases	1,221,005	1,005,973	(347,923)	1,879,056	501,628
Judgments and Claims	500,000	-	-	500,000	-
Landfill Costs	381,539	-	(21,617)	359,922	8,815
Compensated Absences	6,305,637		(55,993)	6,249,644	61,000
Totals	\$ 65,373,181	\$ 1,005,973	\$ (3,990,533)	\$ 62,388,622	\$ 4,411,443

Compensated absences and vacation pay are shown net, since it is impracticable to determine the changes separately.

3. Description

a. Serial Bonds

The City borrows money in order to acquire or construct buildings and public 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 full faith and credit debt of the City, are recorded in the long-term liabilities. 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 long-term liabilities.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE D - Long-Term Liabilities (Cont'd.)

a. Serial Bonds (Cont'd.)

The following is a schedule of the City's serial bonds as of December 31, 2012:

<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 AT DECEMBER 31, 2012</u>
Public Improvement	7/93	2013	4.88%	\$ 5,045,000	\$ 25,000
Public Improvement	5/94	2014	5.75%	2,000,000	30,000
Pine St. Refunding Bonds	3/96	2014	3.9-5.2%	1,450,000	205,000
Various Purposes	3/01	2013	3.48-5.13%	285,000	225,000
Water	3/02	2023	2.95%	5,116,460	3,095,000
Waste Water Treatment Plant	3/03	2025	2.58%	2,485,000	1,585,000
Waste Water Treatment Plant	3/03	2028	2.95%	670,000	490,000
Sewer	7/03	2030	.79-4.612%	1,200,044	875,000
Various Purposes	3/04	2019	3.56%	10,565,000	5,825,002
Water Treatment Plant	7/05	2025	2.505-4.015%	164,476	130,000
Public Improvement	9/05	2024	3.25-5.50%	4,830,000	3,315,000
Public Improvement	7/06	2024	4.00%	8,535,000	6,425,000
Public Improvement	9/06	2016	5.50%	2,319,610	1,075,000
Drinking Water	7/06	2026	3.607-4.775%	854,751	650,000
Various Purposes	7/07	2023	4.00-5.00%	5,907,930	4,544,998
Various Purposes	7/08	2030	3.00%	5,350,000	4,670,000
Library	4/09	2030	2.00-5.00%	6,049,852	5,230,000
Water Treatment Plant	6/10	2019	.93-3.36%	1,710,000	1,375,000
Public Improvement	06/10	2024	.38-3.68%	2,545,000	2,065,000
Public Improvement	04/11	2016	3.90-6.75%	675,000	565,000
Public Improvement	04/11	2031	4.00-5.25%	11,155,000	11,000,000
TOTAL SERIAL BONDS				<u>\$ 78,913,123</u>	<u>\$ 53,400,000</u>

b. 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.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE D - Long-Term Liabilities (Cont'd.)

b. Bond Anticipation Notes Payable (Cont'd.)

The Bond Anticipation Notes Payable as of December 31, 2012 are as follows:

<u>PURPOSE</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>ORIGINAL</u>	<u>AMOUNT</u>
				<u>AMOUNT OF ISSUE</u>	<u>OUTSTANDING AT DECEMBER 31, 2012</u>
Various	4/12	4/13	1.05%	\$ 26,921,089	\$ 10,550,000
Total Bond Anticipation Notes				<u>\$ 26,921,089</u>	<u>\$ 10,550,000</u>

Changes in Bond Anticipation Notes Payable for the year ended December 31, 2012 are as follows:

	<u>BALANCE</u>	<u>BOND CONVERSION</u>	<u>REFINANCED/ PAYMENTS</u>	<u>BALANCE</u>	<u>AMOUNTS</u>
	<u>JANUARY 1, 2012</u>			<u>DECEMBER 31, 2012</u>	<u>DUE WITHIN ONE YEAR</u>
Bond Anticipation Notes Payable:					
Capital Projects	\$ 11,513,000	\$ -	\$ (963,000)	\$ 10,550,000	\$ 10,550,000
Totals	<u>\$ 11,513,000</u>	<u>\$ -</u>	<u>\$ (963,000)</u>	<u>\$ 10,550,000</u>	<u>\$ 10,550,000</u>

c. Amortization

The annual requirements needed to amortize bonded debt as of December 31, 2012, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>December 31,</u>			
2013	\$ 3,840,000	\$ 2,225,009	\$ 6,065,009
2014	3,935,000	2,067,715	6,002,715
2015	4,000,000	1,903,794	5,903,794
2016	4,150,000	1,729,498	5,879,498
2017	3,850,000	1,560,918	5,410,918
2018-2022	17,785,000	5,436,767	23,221,767
2023-2027	10,840,000	2,285,568	13,125,568
2028-2032	5,000,000	473,478	5,473,478
	<u>\$ 53,400,000</u>	<u>\$ 17,682,746</u>	<u>\$ 71,082,746</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE E - Defeasement of Debt

1. Advance Refunding of Sewer Fund Debt

As of February 1, 1996, the City issued \$4,772,800 in General Obligation Bonds with an average interest rate of 4.77% through the New York State Environmental Facilities Corporation. The proceeds were used to fund improvements to the wastewater treatment plant, \$3,322,000, and refinance (advance refund) a portion of the 1994 Series bonds, \$1,450,000, with an average interest rate of 5.77%. The net proceeds of the refunding portion, \$1,377,914, after payment of \$72,085 in underwriting and other issuance costs, were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of 1994 Series bonds being refunded. Consequently, that portion of the 1994 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's accounts. At year-end, the balance defeased amounted to \$210,000.

2. Defeasement of Public Improvement Debt – 2003 B and C Series

The City, as a participant in the 2003 B and C Series of debt issued by the NYS Environmental Facilities Corporation, participated in the re-financing of that debt in 2012. The effect of that participation, was, while the principal payments remained the same, the interest rate decreased, resulting in a net cash flow savings of \$64,765, with a net present value savings of \$59,860.

NOTE F - Leases

1. Operating Leases

The City is committed under various leases for office and communication equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2012 amounted to \$239,326. These leases run for a maximum term of up to five years with renewal or purchase options available to the City.

At December 31, 2012, the approximate future 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>
2013	\$ 180,966
2014	140,399
2015	138,596
2016	137,268
2017	52,889
Total minimum lease commitments	\$ 650,118

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE F – Leases (Cont'd.)

2. Capital Leases

The City currently has four capital leases. The leases include an emergency communications system and those for various equipment and vehicles. Payments, including principal and interest, are made until the lease commitment is paid in full.

At December 31, 2012, the approximate future annual capital lease commitments, subject to appropriation of funds, were as follows:

Year Ending December 31,	Capital Leases
2013	\$ 501,626
2014	514,431
2015	291,024
2016	152,087
2017	156,502
Thereafter	263,386
Total minimum lease commitments	\$ 1,879,056

NOTE G - Related Party Transactions - Due to Other Governments

1. Poughkeepsie City School District

The City of Poughkeepsie acts as the tax enforcement agent for the collection of delinquent city school taxes. At December 31, 2012, the City had included \$3,736,070 in Due to Other Governments for delinquent school taxes due to the school district representing the current and prior two years' unpaid taxes.

The current year liability is paid to the school monthly, as taxes are collected by the City. Final settlement is generally made in the year following the end of two years.

2. Dutchess County

The City acts as the tax enforcement agent for the collection of delinquent County taxes for properties located within the City limits. At December 31, 2012, the City owed Dutchess County \$1,509,236 for delinquent county property taxes.

CITY OF POUGHKEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE H - Commitments and Contingencies

1. Litigation

There are various lawsuits, tax certiorari cases and claims pending against the City. However, in general, in the opinion of the City's Counsel, the resolution of these proceedings will not have a material effect on the City's financial position, although they could have a material effect on operating results of a given year when resolved in a future period.

The ultimate resolution of these matters cannot therefore presently be determined and the potential liability, if any, for these claims cannot be reasonably estimated on an individual basis. The City has made a provision for such matters in the aggregate, however. Such provision is included in the Judgment and Claims liability.

2. Grant Programs

The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The audits of these programs may be conducted, in accordance with grantor requirements, on a periodic basis. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the City believes, based upon its review of current activity and prior experience, the amount of such disallowances, if any, will be minimal.

3. Authorized Debt

The City's authorized but unissued debt as of December 31, 2012 is as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
September-03	Dutchess Ave. Pump Station	\$ 12,000
April-04	Water Volume Enhancement	700,000
August-04	Sanitary Sewers	50,000
January-05	Equipment Improvements WWTP	8,000
February-05	Sewer Treatment Plant Generator	495,524
March-05	Purchase of Equipment	21,620
June-05	Structural Assessment DPW Bldg.	100,000
June-05	Firebox System Upgrade	230,000
November-05	Sanitary Sewers Grand Avenue	68,000
November-05	Flushing Design & Water Program	5,249
June-06	Rinaldi Boulevard	2,000,000
May-07	Pine St. & Lincoln Ave Sewer	878,000
May-07	Sidewalks	650,000

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE H - Commitments and Contingencies (Cont'd.)

3. Authorized Debt (Cont'd.)

May-07	Street Paving	275,000
May-07	Technology (GIS)	50,000
May-07	Parking Improvements	425,000
May-07	Sanitary Sewer & TV condition assessment	460,000
August-07	Tunnel Liner	440,000
September-07	Recycling Trucks	300,000
May-08	Pine Street Repair	431,250
May-08	Sidewalks	604
March-09	Southern Waterfront local share	2,664,380
February-10	Hoffman Street Bridge Replacement	<u>11,115,683</u>
	Total	<u><u>\$ 21,380,310</u></u>

4. Capital Projects

Annually, the City revises its five year capital program which includes a total of \$68,573,000 in capital expenditures through the year 2017. This plan covers equipment purchases, and infrastructure improvements, including bridge replacements, street paving, sidewalk and curb replacement or reconstruction, water distribution and sanitary sewer improvements, as well as major repairs to city-owned properties.

In particular, the planned expenditures for years 2013 through 2017 amount to \$4,768,000 for equipment and \$63,805,000 for infrastructure improvements for a total of \$68,573,000.

The City intends to fund these improvements through a combination of budgetary appropriations, bonding, state and federal aid.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE I - Conduit Debt Obligations

From time to time, the City of Poughkeepsie Industrial Development Agency has issued Industrial Development Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there were two series of Industrial Development Bonds outstanding, with an aggregate principal amount payable of \$18,190,444.

NOTE J – Legal Compliance

1. General Fund – Deficit Fund Balance

The General Fund incurred a deficit during 2012 of (\$2,557,685), resulting in a deficit fund balance of (\$12,034,360). This is primarily due to expenditures being incurred in excess of budgeted amounts. The City is implementing cost-savings measures and revenue enhancements to fund this deficit in the future.

2. Capital Projects Fund - Deficit Fund Balances

The Capital Projects Fund has a deficit fund balance in the amount of (\$3,885,288) caused by expending proceeds of bond anticipation notes. As payments are made on the debt and/or when permanent financing is obtained for the projects, revenue will be recorded eliminating the deficit.

NOTE K - Component Units

Poughkeepsie Housing Authority

1. Description of Organization and Summary of Significant Accounting Policies

a. Organization

The Poughkeepsie Housing Authority (the Housing Authority) was organized pursuant to the Housing Statutes of the State of New York. The Housing Authority's purpose is to provide low rent housing to qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development, other Federal agencies, and the New York State Division of Housing and Community Renewal.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

1. Description of Organization and Summary of Significant Accounting Policies (Cont'd.)

b. Reporting Entity

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the Codification of Governmental Accounting and Financial Reporting Standards and Statement No. 14. of the Governmental Accounting Standards Board, The Financial Reporting Entity. These criteria include manifestation of oversight responsibility: including financial accountability; appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal dependency, potential for dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable.

Based upon the application of these criteria, the reporting entity is composed of the following programs which include all component units:

POUGHKEEPSIE HOUSING AUTHORITY

The financial statements of the Poughkeepsie Housing Authority include Low-Rent Public Housing under Annual Contributions Contract NY-540, Housing Choice Voucher (NY- 062), New York State Housing, Public Housing Capital Fund Program, Capital Fund Stimulus Grant, Veterans Affairs Supportive Housing, and Neighborhood Economic & Cultural Activity Program, Inc. (Note 20-Component Unit).

Blended Component Unit

Included in the reporting entity is Neighborhood Economic & Cultural Activity Program, Inc. (NECAP) (Note 20). NECAP was formed to generate monies to be used to support public housing activities not sufficiently funded elsewhere. Due to the composition of the Board of Directors being the same as the Board of Commissioners of Poughkeepsie Housing Authority this entity is being presented as a blended component unit.

The Authority's policy for defining operating activities in the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as the payment received for services and payment made for the purchase of goods and services. Certain other transactions are reported as non-operating activities. These non-operating activities include net investment income and interest expense.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

1. Description of Organization and Summary of Significant Accounting Policies (Cont'd.)

b. Reporting Entity (Cont'd.)

GASB Statement No. 34 requires that resources be classified for accounting and financial reporting purposes into the following four net asset categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair or improvement of those assets.

Restricted – nonexpendable: Net assets subject to externally imposed conditions that the Authority must maintain them in perpetuity.

Restricted – expendable: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Authority or by the passage of time.

Unrestricted: All other categories of net assets. Included in unrestricted net assets are amounts not available for other purposes.

The Authority has adopted a policy of generally utilizing restricted-expendable funds, when available, prior to unrestricted funds.

c. Basis of Accounting

Under GAAP methodology, operations of the Authority are recorded in the Proprietary Fund type. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The Authority applies all applicable FASB pronouncements in accounting and reporting for its proprietary operation. Specifically, all FASB's issued after November 30, 1989, have been reflected in these financial statements.

The authority has adopted GASB 33 and, as such, grant revenues for both hard and soft costs accounted for in the comprehensive grant programs and capital fund programs are treated as operating revenues and flow through the income statement.

The Authority's Proprietary Fund Type consists of the Enterprise fund. This fund is used to account for those operations that are financed and operated in a manner similar to private business, or where the board had decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

1. Description of Organization and Summary of Significant Accounting Policies (Cont'd.)

c. Basis of Accounting (Cont'd.)

The intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

1. Schedule of Expenditures of Federal Awards – The accompanying schedule of federal awards includes the federal grant activity of the Authority and is presented on the 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.

d. Budgets

Budgets are prepared on an annual basis for each major program and are used as a management tool throughout the accounting cycle. Budgets are not, however, legally adopted nor legally required for financial statements presentation.

e. Inventory

Inventory of supplies is recorded at the lower of cost (determined by using the "first-in-first-out" method) or market. All inventory on hand is expected to be consumed in the coming year(s).

f. Property and Equipment

Property and equipment are recorded at cost or estimated cost or, in the case of gifts, at market value at the date of the gift, and depreciated on the straight-line basis over the estimated useful lives of the respective assets. The Housing Authority's policy is to capitalize all expenditures over \$500 with an estimated useful life exceeding 1 year, buildings and improvements are being depreciated over 15-40 years and furniture, fixtures and equipment are being depreciated over 3-7 years.

g. Tenant Accounts Receivable

Tenant accounts receivable are reflected at the amount management deems to be collectible. An allowance for doubtful accounts has been provided for those amounts deemed uncollectible.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

1. Description of Organization and Summary of Significant Accounting Policies (Cont'd.)

h. Use of Estimates

Management of the Housing Authority has made estimates and assumptions relating to the reporting of the assets and liabilities and the disclosure of contingencies to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

i. Cash/Cash Equivalents

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

j. Investments

The authority is required to invest in Department of Housing and Urban Development approved investments. Those investments include certificates of deposits and savings accounts. Investments are reported at market value.

k. Revenue Recognition

Revenues are recognized in the accounting period when earned. State and local appropriations are recognized when they are legally available for expenditure. Revenues and expenses arising from non-exchange transactions are recognized when all eligibility requirements, including time requirements, are met.

l. Interfund Transfers

During the course of operations the Authority had numerous transactions between funds. This interfund activity had no effect on the basic financial statements as a whole and, therefore, was eliminated from the entity wide financial statements.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

2. Accounts Receivable

Accounts receivable at March 31, 2012, represents the following:

Accounts receivable - PHA projects	\$ 2,450
Accounts receivable - HUD	29,315
Accounts receivable - other governments	11,192
Tenant accounts receivable	107,697
Other receivables	160,705
Notes and mortgages receivable - current	2,594
Allowance for doubtful accounts	(65,163)
Accrued Interest receivable	<u>1,334</u>
	<u><u>\$ 250,124</u></u>

3. Property and Equipment

Property and equipment and the related depreciation as of March 31, 2012, are summarized as follows:

	Low Rent	Housing Choice Vouchers	NECAP	Accumulated Depreciation	Net Book Value
Land	\$ 337,280	\$ -	\$ -	\$ -	\$ 337,280
Buildings	32,677,165	-	-	26,627,274	6,049,891
Furniture, equipment & machinery - dwellings	692,968	-	-	448,303	244,665
Furniture, equipment & machinery - admin	920,894	2,071	3,088	802,371	123,682
Leasehold improvements	3,066,430	-	-	2,366,094	700,336
Construction in progress	1,575	-	-	-	1,575
	<u>\$ 37,696,312</u>	<u>\$ 2,071</u>	<u>\$ 3,088</u>	<u>\$ 30,244,042</u>	<u>\$ 7,457,429</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

3. Property and Equipment (Cont'd.)

Changes in land, buildings, furniture, equipment and machinery, and leasehold improvements are as follows:

<u>Cost</u>	Balance March 31, 2011	Additions	Deletions	Balance March 31, 2012
Land	\$ 337,280	\$ -	\$ -	\$ 337,280
Buildings	29,829,223	2,847,942	-	32,677,165
Furniture, equipment & machinery - dwellings	492,601	204,117	3,750	692,968
Furniture, equipment & machinery - admin	902,232	34,855	11,034	926,053
Leasehold improvements	3,061,759	4,671	-	3,066,430
Construction in progress	49,634	1,575	49,634	1,575
	<u>\$ 34,623,095</u>	<u>\$ 3,093,160</u>	<u>\$ 64,418</u>	<u>\$ 37,701,471</u>

<u>Accumulated Depreciation</u>	Adjusted GAAP Balance			Balance
	Balance March 31, 2011	Additions	Deletions	March 31, 2012
Land	\$ -	\$ -	\$ -	\$ -
Buildings	25,964,963	662,311	-	26,627,274
Furniture, equipment & machinery - dwellings	417,227	33,576	2,500	448,303
Furniture, equipment & machinery - admin	761,857	50,601	10,087	802,371
Leasehold improvements	2,230,303	135,791	-	2,366,094
	<u>\$ 29,374,350</u>	<u>\$ 882,279</u>	<u>\$ 12,587</u>	<u>\$ 30,244,042</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

4. Prepaid Expenses and Other Assets

Prepaid expenses at March 31, 2012 consisted of the following:

Prepaid Insurance	\$ 94,472
Prepaid Expenses - other	<u>11,132</u>
	<u><u>\$ 105,604</u></u>

5. Pension and Other Retirement Benefits

a. General Information

The Housing Authority participated in the New York State and Local Employees' Retirement System (ERS). This is cost-sharing, multiple employer, public employee retirement system. This system offers 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.

b. Plan Description

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt, and may amend the rules and regulations for the administration and transaction of the business of the System, and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System; Gov. Alfred E. Smith State Office Building; Albany, New York 12244.

c. Funding Policies

The System is noncontributory except for employees who joined the New York State and Local Employees Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employer's contributions.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

5. Pension and Other Retirement Benefits (Cont'd.)

c. Funding Policies (Cont'd.)

Contributions made to the System were equal to 100 percent of the contributions required for each year.

The Authority is required to contribute at an actuarially determined rate. The required contribution for the current year and previous two years are as follows:

2012	\$	179,397
2011		111,705
2010		67,297

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on March 31, 1989 and 1990, respectively) over a 17-year period, with an 8.75% interest factor added.

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

- 1) 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.
- 2) Changes in the cycle of annual billing such that the contribution of a given fiscal year will be based on the value of the pension fund on the prior April 1 (e.g., billings due February 2012 would be based on the pension values as of March 31, 2011).

Chapter 260 of the Laws of 2004 of the State of New York was enacted that allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- 1) For State fiscal year (SFY) 2004-5, the amount in excess of 7% of employees' covered pensionable salaries, with the first payment of these pension costs not due until the fiscal year succeeding the fiscal year in which the bonding/amortization was instituted.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE K - Component Units (Cont'd.)

5. Pension and Other Retirement Benefits (Cont'd.)

1. Funding Policies (Cont'd.)

- 2) For SFY 2005-6, the amount in excess of 9.5% of employees' covered pensionable salaries.
- 3) For SFY 2011-8, the amount in excess of 10.5% of employees' covered pensionable salaries.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005, through 2012. The total unpaid liability at the end of the fiscal year was \$0.

2. Health Insurance

The Housing Authority provides health insurance coverage to its employees after retirement. All employees must formally retire under the New York Retirement System and have provided a total of at least 25 years of service as an employee of the Authority. The retiree must be at least 55 years old and not be covered by any other health plan. For the year ending March 31, 2012, 1 retiree was eligible at an annual cost of \$5,430

6. Income Taxes

The Housing Authority is a non-profit entity which is subsidized by the Federal government and the State of New York. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal or State income tax returns.

7. Cash and Cash Equivalents – Custodial Credit, Concentration of Credit, Interest Rate, and Foreign Currency Risks

Cash Custodial credit risk is the risk that in the event of a bank failure, the Housing Authority deposits may not be returned to it.

As of March 31, 2012, \$0 of the Authorities bank balance of \$2,439,460 was exposed to custodial risk as follows:

Cash	
Uncollateralized	\$ <u> -</u>
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Authority's name	\$ <u> -</u>

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE K - Component Units (Cont'd.)

8. Intergovernmental Payables

Intergovernmental payables at March 31, 2012, consisted of the following:

Pilot payable	<u>\$99,155</u>
---------------	-----------------

9. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Authority and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the authority and its employees are accounted for in the period in which such services are rendered or in which such events take place.

10. Contingencies and Commitments

As of March 31, 2012, the Authority had the following obligated but unexpended funds in open CFP projects:

CFP	Obligated But Unexpended
CFP 2011	\$ 113,671
CFP 2010	34,908
CFP 2009	25,269

11. Accrued Liabilities

Accrued liabilities consisted of the following as of March 31, 2012:

Accrued compensated absences	\$ 6,388
Accrued interests	8,192
Accrued payroll and taxes	25,787
Accrued other liabilities	<u>26,961</u>
	<u>\$ 67,328</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

12. Mortgages Receivable

Public Housing

The balance consisted of 1 mortgage on single family homes sold to former tenants at varying interest rates and terms at April 1, 2011. The total of the remaining mortgage is \$7,243 with an interest rate of 5.375% maturing November 2015. The following is a summary of required principal repayments:

2013	\$	2,594
2014		2,920
2015		1,729
		7,243
	\$	7,243

The \$2,594 current portion of this balance is included in receivables – net on the Statement of Net Assets, and disclosed in Note 2 of this report. The \$4,649 non-current portion is included in the non-current assets account on the Statement of Net Assets and disclosed in Note 13 below.

13. Non Current Assets

State Housing

The balance in this account of \$7,500,000 at March 31, 2012, consists of 2 mortgages for the sale of the Eastman and Bixby projects to Eastman & Bixby Redevelopment Company. The first mortgage is for \$4,000,000 for 40 years with 6.22% interest which is due August 16, 2040. Interest accrues on the mortgage note from August 17, 2000 (date of sale) until the maturity date, unless prepaid earlier. Interest to the extent of one (1 %) percent per annum (the "Current Portion of Interest Payable") shall be due within 90 days of the last day of each calendar year, with the remainder accrued and payable upon maturing of the mortgage. The second mortgage is for \$3,500,000 for 40 years with an interest rate of 1.00% which is due August 16, 2040. Interest accrues on the mortgage note from August 17, 2000 until maturity date, unless prepaid earlier.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012**

NOTE K - Component Units (Cont'd.)

13. Non Current Assets (Cont'd.)

State Housing (Cont'd.)

Interest of one (1 %) percent per annum shall be due within 90 days after the last day of the each calendar year, with the remainder accrued and payable upon maturing of the mortgage. Summary of other non-current assets is as follows:

Home buyers mortgages - non current	\$ 4,649
Mortgages receivable - state program	7,500,000
Accrued interest on mortgages receivable	<u>3,268,844</u>
	<u>\$ 10,773,493</u>

14. Investments

Investments at March 31, 2012, consisted of the following:

		Category
Savings account yielding .20%	\$ 95,223	1
Certificate of Deposits yielding 1.00% - maturing 7/29/12	126,000	1
Certificate of Deposits yielding .75% - maturing 7/16/12	<u>94,685</u>	1
	<u>\$ 315,908</u>	

Investments held at a financial institution can be categorized according to three levels of risk. These three levels are:

- 1) Category 1 - Insured, registered, or securities held by the Authority or its agent in the Authority's name.
- 2) Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department, or agent in the Authority's name.
- 3) Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Authority's name.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

14. Investments (Cont'd.)

Investments in securities are stated at fair value. The fair value of securities is based on quotations obtained from national securities exchanges. In accordance with the policy of carrying investments at fair value, the change in net unrealized appreciation or depreciation is included in investment income in the combined statement of revenues, expenditures, and changes in net assets. Certain investments may not be federally insured which may subject the Authority to a concentration of credit risk. Although certain financial instruments may be at risk, no loss due to credit risk is anticipated as management does not expect nonperformance by the financial institution.

15. Long-Term Liabilities

Long term liability activity for the year ended March 31, 2012, was as follows:

	Beginning			Ending	Amount Due	Amount Due
	Balance	Additions	Reductions	Balance	Within One	Greater Than
					Year	One Year
Notes Payable:						
State of New York	\$ 2,089,759	\$ -	\$ (152,519)	\$ 1,937,240	\$ 152,519	\$ 1,784,721
Other Liabilities:						
Compensated absences	121,178	6,586	-	127,764	6,388	121,376
OPEB payable	112,065	60,807	-	172,872	-	172,872
Escrow payable	1,535	-	(1,437)	98	-	98
Total Other Liabilities	234,778	67,393	(1,437)	300,734	6,388	294,346
Long Term Liabilities	\$ 2,324,537	\$ 67,393	\$ (153,956)	\$ 2,237,974	\$ 158,907	\$ 2,079,067

a. Debt Maturity

Debt service requirements at March 31, 2012, were as follows:

<u>Year ended March 31</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 152,519	\$ 50,416
2014	152,519	46,328
2015	152,519	42,240
2016	152,519	38,152
2017	152,519	34,065
2018-2022	762,596	109,004
2023-2027	412,049	16,348
	<u>\$ 1,937,240</u>	<u>\$ 336,553</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

15. Long-Term Liabilities (Cont'd.)

b. State Housing

Due to State of New York, 2 notes due July 15, 2024 and October 1, 2023 at rates of 2.5% and 3%, respectively. Semi-annual principal and interest payments are required through maturity. Original amount of the notes were \$8,500,000. Payments on the debt are made with funds provided by the State of New York through a Loan and Subsidy Contract with the State of New York Division of Housing and Community Renewal.

16. Post-Employment (Health Insurance) Benefits

The Authority implemented GASB Statement #45, Accounting and Financial Reporting by employers for Post-Employment Benefits Other than Pensions, in the fiscal year ended March 31, 2012. This required the Authority to calculate and record a net other post-employment benefit obligation at year end. The net other post-employment benefit obligation is basically the cumulative difference between the actuarially required contributions and the actual contributions made.

a. Plan Description

The Authority provides post-employment health insurance (life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts.

The Authority recognizes the cost of providing health insurance annually as expenditures in the applicable programs as payments are made. For the year ended the Authority recognized \$5,430 for its share of insurance premiums for one currently enrolled retiree.

b. Funding Policy

The contribution requirements of Plan members and the Authority are established by the Board of Directors. The required contribution is based on projected pay-as-you-go financial requirements, with an additional amount to prefund benefits as may be determined annually by the Board. For fiscal year March 31, 2012, the Authority contributed \$6,615 to the plan, representing 100% of the current premiums. No contributions to prefund benefits were made.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

16. Post-Employment (Health Insurance) Benefits (Cont'd.)

c. Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

Annual required contribution	\$ 67,156
Annual OPEB cost (expense) and contributions made	(6,615)
Increase in net OPEB obligation	266
Net OPEB obligation - beginning of year	<u>112,065</u>
Net OPEB obligation - end of year	<u><u>\$ 172,872</u></u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

<u>Fiscal</u> <u>Year End</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
3/31/2010	\$ 58,430	7%	\$ 54,179
3/31/2011	\$ 62,987	8%	\$ 112,065
3/31/2012	\$ 67,156	10%	\$ 172,872

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

16. Post-Employment (Health Insurance) Benefits (Cont'd.)

c. Annual OPEB Cost and Net OPEB Obligation (Cont'd.)

Funded Status and Funding Progress: As of March 31, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$680,929 and the actuarial value of assets was \$0, resulting in an underfunded actuarial accrued liability (UAAL) of \$680,929. The covered payroll (annual payroll of active employees covered by the plan) was \$1,013,379 and the ratio of the UAAL to the covered payroll was 67%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

d. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the April 1, 2010 actuarial valuation, the Projected Unity Credit method was used. The actuarial assumptions included an 8% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date., and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 7.5% after 5 years. The actuarial value of assets was determined as the plan is not currently funded. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at March 31, 2012 was 28 years.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

17. Economic Dependency

For the year ended March 31, 2012, the Authority's revenues were primarily received from federal awards which are subject to availability of funds.

The Authority operations are concentrated in the low income housing real estate market. In addition, the Authority operates in a heavily regulated environment. The operations of the Authority are subject to the administrative directives, rules and regulations of federal, state, and local regulatory agencies, including, but not limited to HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Total Financial support by HUD was \$3,438,800 for the year ending March 31, 2012.

18. Prior Year Adjustments

The total net assets beginning April 1, 2011, have been adjusted as follows:

Total net assets - beginning	\$ 15,614,397
Prior years expenses	<u>8,735</u>
Total net assets - beginning	<u><u>\$ 15,623,132</u></u>

19. Risk Management

The Authority is exposed to various risks of loss related to torts, damage to, and theft or destruction of assets; errors and omissions; injuries to employees, and natural disasters. During the 2012 fiscal year, the Authority contracted with Housing Authority Insurance Group for liability, property and auto coverage. The Authority has had no significant reduction in insurance coverage from prior years. Because this is a public entity risk pool there is potential loss to members of the risk pool.

20. Related Parties

The City of Poughkeepsie considers the Authority to be a related party. Payments to The City of Poughkeepsie by the Authority for the fiscal year ended March 31, 2012 consisted of P.I.L.O.T. in the amount of \$99,155 and water costs in the amount of \$83,304 and sewer in the amount of \$82,902.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

21. Blended Component Unit

Neighborhood Economic & Cultural Activity Program, Inc. (NECAP) is organized as a not for profit corporation. The purpose of the corporation is to generate monies to be used to support public housing activities not sufficiently funded otherwise. NECAP operates on a fiscal year that ends March 31, the same year end as the Housing Authority. The Board of the NECAP is appointed as follows: all members of the board are members by virtue of their position on the Housing Authority Board of Commissioners. In accordance with GASB 14 due to the Board of Directors of NECAP and the Authority being the same this entity is being reported as a blended entity.

Complete financial statements of NECAP can be obtained from the administrative offices:

Neighborhood Economic & Cultural Activity Program, Inc.
4 Howard Street
Poughkeepsie, NY 10601

22. Asset Management

Based on the number of units the Authority has, they are eligible to opt out of asset management reporting. The Board of Commissioners voted to exercise this right and the Authority will not be reporting based on asset management requirements.

23. Administrative Fee Reserves

As of March 31, 2012, the Authority had reserves prior to 2004 totaling \$31,717 represented in the Unrestricted Net Assets for the Housing Choice Voucher Program.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

Poughkeepsie Industrial Development Agency

1. Organization and Summary of Significant Accounting Policies

Organization and Purpose:

The City of Poughkeepsie Industrial Development Agency (the Agency) is a public benefit corporation established under Section 856 of the New York State Industrial Development Agency Act of the State of New York and Chapter 73 of the Laws of 1970 of the State. The Agency was established to encourage economic growth within the City of Poughkeepsie, New York.

The financial statements of the Agency 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, some of which are as follows:

The Reporting Entity:

The Agency is considered a component unit of the financial reporting entity known as the City of Poughkeepsie, New York. Inclusion in the financial reporting entity, the City of Poughkeepsie, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity". The City of Poughkeepsie Common Council appoints all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB statement No. 14.

Proprietary Fund Accounting:

Basis of Accounting and Measurement Focus

The Agency helps to facilitate economic development in the City of Poughkeepsie, primarily by issuing tax-exempt debt. Its operations are financed primarily by the City of Poughkeepsie by providing use of City staff and facilities. Under standards set by the GASB, the Agency is considered an enterprise fund, a type of proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects on an enterprise of transactions and other events when these transactions and events occur. The measurement focus is the flow of economic resources. This basis differs from that used by governmental funds in that the effects of transactions in government funds are recorded when revenues are measurable and available and when expenditures are incurred. The measurement focus is the flow of current transactions.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

1. Organization and Summary of Significant Accounting Policies (Cont'd.)

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

In June 1999, the GASB approved Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant policies in the Statement, which affect the financial statements of the IDA include the following:

The financial statements include a Management Discussion and Analysis (MD&A) section providing an analysis of the IDA's overall financial position and results of operations. The IDA's basis of accounting has not changed, but financial statement titles have changed to focus on "Net Assets."

2. Income Taxes

The Agency is exempt from federal, state and local income taxes.

3. Cash, Cash Equivalents and Investments

State statutes govern the Agency's investment policies. Agency monies must be deposited in Federal Deposit Insurance Corporation insured commercial banks or trust companies located within the State of New York. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State and 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 are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. The Agency's cash was covered in full by a combination of FDIC insurance and collateral pledged by a third party custodian.

For purposes of the Statement of Cash Flows, the Agency considers all demand deposits, time and savings accounts, and certificates of deposit with an original maturity of three months or less to be cash equivalents.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE K - Component Units (Cont'd.)

4. Risk Management

Risk management activities are limited to being listed as an additional insured on properties covered by payment in lieu of tax (PILOT) agreements. The Agency's management believes it has limited exposure for loss as its sole asset is cash and it has no employees. Tax assessment disputes are litigated by the taxing authorities with no financial effect on the Agency.

5. Use of Estimates

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

6. Industrial Revenue Bonds

Bonds authorized by the IDA and issued through various lending institutions are designated as special obligations of the IDA and payable solely from the revenues and other assets pledged as collateral against the bonds. While in most instances the IDA is the holder of legal title to properties acquired with industrial revenue bond financing until such point in time as the construction of property improvements has been completed or satisfaction of the obligation has been effected in full, the IDA does not act as a guarantor in the event of default. Accordingly, recourse on the part of the lending institution against the IDA is limited to collateralization properties and revenues as specified in the body of the applicable financing agreement. Additionally, in each of these financings, the IDA has assigned all rights to receive certain revenues derived with respect to the facilities it has financed to the holders of the industrial revenue bonds. As a consequence, the IDA does not reflect such bonds or related properties on its financial statements. Industrial revenue bonds authorized by the IDA and outstanding at December 31, 2012, total \$18,190,494.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2012

NOTE L - Joint Ventures

1. Poughkeepsie Water Treatment Facility

In August 1995, the City entered into an inter-municipal agreement with the Town 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 amended and superseded an agreement dated October 11, 1991 covering a joint water project. Under the terms of the 1995 agreement, the Town obtained a one-half interest in the City's Water treatment plant; the Town will finance studies for and upgrades and/or expansions to the plant to increase capacity; the Town will pay 50% of the cost to design and build an alum sludge treatment plant; and the Town will pay for administrative costs related to obtaining approvals to enable the project to proceed. The agreement also provides 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 following is a summary of financial information included in the audited financial statements issued for the joint venture for the year ended December 31, 2012. These financial statements are issued separately and can be obtained from the Joint Water Project at 62 Civic Center Plaza, Poughkeepsie, NY 12601.

	Balances at
	December 31, 2012
Total Assets	\$ 16,396,746
Total Liabilities	\$ 1,054,762
Joint Venture Net Assets	\$ 15,341,984
Total Revenues – 2012	\$ 3,489,782
Total Expenses - 2012	\$ 4,261,548

The City's net share of expenses amounted to \$375,415, which is included in Home and Community Service expenditures and received reimbursement of administrative costs of \$139,627 which is recorded as an Intergovernmental Revenue in the Water Fund. The City owes \$322,722 for operations, which is reported as Due to Related Party as of December 31, 2012.

As part of the Joint Project agreement described above, the City financed a share of plant improvements and expansion. The Joint Venture reported total project costs of \$20,680,853 with \$9,090,350 being financed by the City and \$11,590,503 being financed by the Town of Poughkeepsie. The City issued serial bonds in the amount of \$8,305,127 to partially fund its share of improvements. As of December 31, 2012 the outstanding balance is \$4,600,000.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2012

NOTE L - Joint Ventures (Cont'd.)

2. Poughkeepsie-Wappingers-LaGrange Joint Landfill

The City 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 following is a summary of unaudited financial information at December 31, 2012, which is included in the separate financial statements available from the Joint Landfill Board of Governors, Town of Poughkeepsie, One Overocker Road, Poughkeepsie, New York, 12603.

	Unaudited Balances at <u>December 31, 2012</u>
Total Assets	\$ 81,879
Total Liabilities	\$ -
Total Venture Equity	\$ 81,879
Total Revenues	\$ 1
Total Expenditures	\$ 16,220

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 municipalities need to perform final closure of the landfill under current regulations by December 31, 2007 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 City of Poughkeepsie's share being 30.1898% or \$3,018,980. Post closure and monitoring costs commenced in 2009 and continue for 30 years, are estimated to amount to \$1,683,500, with the City's share being \$508,245. In 2011, the City has recorded a short-term liability amounting to \$8,815 and a long-term liability amounting to \$351,107 for a total liability of \$359,922 to account for the closure and monitoring liability.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2012

NOTE M - Subsequent Events

1. The City has issued the following debt:

<u>TYPE</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>Rate</u>	<u>PURPOSE</u>	<u>AMOUNT</u>	<u>SERIES</u>
Bond Anticipation Note	02/14/13	02/14/14	1.50%	Various	\$ 3,780,000 *	2013B
Bond Anticipation Note	02/14/13	08/09/13	1.75%	Various	\$ 6,110,000 *	2013A

* Denotes renewals of existing debt.

2. The City has authorized the following debt:

<u>PURPOSE</u>	<u>DATE AUTHORIZED</u>	<u>AMOUNT</u>
Poughkeepsie Library District	February-13	\$ 2,852,870
Water - Centrifuge Upgrade	June-13	1,300,000
Water - Water Meters	June-13	5,121,856
Water - Disinfection Byproduct Upgrade	July-13	9,062,945
Total		<u><u>\$ 18,337,671</u></u>

3. The City conducted an auction of surplus properties in August, 2013, the proceeds of which amounted to \$2,013,420. Included in that sale were parking garages which had previously generated net revenues of \$57,000.

NOTE N – New Reporting Standards

In June 2011, the Government Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provided guidance for reporting deferred outflows and inflows of resources and net position as defined in Concepts Statement No. 4. This Statement was implemented for the year ended December 31, 2012. There was no effect on operations.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. When implemented, this Statement will require the re-consideration of the reporting of assets and liabilities. The City is required to implement this standard for the year ending December 31, 2013. The implementation of GASB Statement No. 65 could have a substantive effect on the City's fund balance.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Real property taxes	\$ 17,369,086	\$ 17,369,086	\$ 16,937,054	\$ (432,032)
Real property tax items	1,320,500	1,320,500	890,627	(429,873)
Non property tax items	12,650,000	12,650,000	12,487,506	(162,494)
Departmental income	2,564,048	2,564,048	2,611,694	47,646
Intergovernmental charges	99,750	99,750	83,397	(16,353)
Use of money and property	250,600	250,600	2,020	(248,580)
Licenses and permits	453,250	453,250	588,817	135,567
Fines and forfeitures	1,085,000	1,085,000	952,847	(132,154)
Sale of property and compensation for loss	181,400	181,400	811,008	629,608
Miscellaneous local sources	88,000	88,000	198,769	110,769
Interfund revenues	1,063,700	1,063,700	1,018,264	(45,436)
State aid	5,435,693	5,435,693	5,517,093	81,400
Federal aid	10,000	10,000	1,177	(8,823)
Total revenues	42,571,027	42,571,027	42,100,271	(470,756)
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriation of prior year's fund balance	42,571,027	42,571,027	42,100,271	(470,756)
EXPENDITURES AND ENCUMBRANCES				
General Government Support	5,627,031	5,614,949	5,614,562	387
Public safety	19,172,315	19,074,280	18,639,029	435,251
Health	49,579	49,579	165,166	(115,587)
Transportation	2,768,384	2,740,040	2,617,583	122,457
Economic assistance & opportunity	172,264	172,264	89,082	83,182
Culture and recreation	575,268	586,428	559,687	26,741
Home and community service	1,985,533	1,970,053	2,021,984	(51,931)
Employee benefits	8,441,878	8,441,878	10,103,364	(1,661,486)
Total expenditures and encumbrances	38,792,252	38,649,471	39,810,456	(1,160,985)
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	3,778,775	3,921,556	2,289,815	(1,631,741)
Other financing sources (uses):				
Operating transfers in	700,600	700,600	575,000	(125,600)
Operating transfers out	(4,479,375)	(4,622,156)	(5,422,500)	(800,344)
Total other financing sources	(3,778,775)	(3,921,556)	(4,847,500)	(925,944)
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	\$ -	\$ -	\$ (2,557,685)	\$ (2,557,685)
Explanation of Differences between Budgetary and GAAP Basis:				
Excess of revenues over/(under) expenditures - Budgetary basis			\$ (2,557,685)	
Expenditures do not include encumbrances			59,496	
Excess of revenue under expenditures - GAAP Basis			\$ (2,498,189)	

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2012**

<u>Year Ended,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (b)</u>	<u>Unfunded Accrued Liability (UAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2010	1/1/2010	\$ -	\$ 48,707,700	\$ 48,707,700	0.0%	\$ 25,442,063	191.45%
12/31/2011	1/1/2010	\$ -	\$ 52,537,200	\$ 52,537,200	0.0%	\$ 25,789,228	203.72%
12/31/2012	1/1/2012	\$ -	\$ 68,802,100	\$ 68,802,100	0.0%	\$ 24,634,939	279.29%

OTHER SUPPLEMENTAL INFORMATION

Exhibit III

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
* Section 8 Housing Choice Vouchers	14.871	\$ 3,189,396
HOME Investment Partnerships Program	14.239	40,000
Community Development Block Grant Program- Entitlement Grants	14.218	822,322
Housing Opportunities For Persons With Aids	14.241	705,463
Total Housing and Urban Development		<u>4,757,181</u>
U.S. Department of Justice		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	111,595
Public Safety Partnership and Community Policing	16.710	44,359
Edward Byrne Memorial Justice Assistance * Grant Program (ARRA)	16.804	192,546
Total - U.S. Department of Justice		<u>348,500</u>
U.S. Department of Transportation		
Pass-thru Programs From:		
New York State Department of Transportation (NYSDOT):		
Federal Transit - Formula Grants (Urbanized Area Formula Grant)	20.507	426,495
* Highway Planning and Construction (ARRA)	20.205	4,312,604
Total - U.S. Department of Transportation		<u>4,739,099</u>
Total Federal Awards Expended		<u>\$ 9,844,780</u>
* Major Program		

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
DECEMBER 31, 2012**

NOTE A - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City 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.

NOTE B - Loans Outstanding

The City of Poughkeepsie, New York has the following loan balances outstanding at December 31, 2012, which were originally funded with federal awards. Loans made during the year are included in the federal expenditures presented in the schedule:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures December 31, 2012</u>	<u>Outstanding December 31, 2012</u>
Community Development Block Grant Program	14.218	\$ <u>34,873</u>	\$ <u>342,358</u>
Urban Development Action Grants	N/A	\$ <u>-</u>	\$ <u>185,680</u>

NOTE C – Sub-recipients

The City of Poughkeepsie, New York provided federal awards to sub-recipients which are included in the expenditures of the Federal programs listed below:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Sub-Recipients</u>
Community Development Block Grant Program	14.218	\$ <u>73,500</u>
Housing Opportunities For Persons With Aids	14.241	\$ <u>618,018</u>

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF NEW YORK STATE
TRANSPORTATION ASSISTANCE
DECEMBER 31, 2012**

<u>Program Title</u>	<u>Funded NYS DOT Contract Ref. Number</u>	<u>Expenditures December 31, 2012</u>
Consolidated Highway Improvement Program	822046	\$ 698,812
State Transit Operation Assistance Program	822046	414,413
		<u>\$ 1,113,225</u>

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF NEW YORK STATE TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of New York State Transportation Assistance includes the activity of the financial assistance programs provided by the New York State Department of Transportation to the City of Poughkeepsie, New York and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to State transportation assistance programs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2012**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statement

Type of Auditors' report issued:	<u>Adverse/Unmodified</u>
Internal control over financial reporting:	
Material Weakness identified:	<u>None Noted</u>
Significant deficiencies:	<u>One Noted</u>
Noncompliance material to financial statements noted:	<u>Two Noted</u>

Federal Awards

Internal Control over major programs:	
Material weakness identified:	<u>None Noted</u>
Significant deficiencies 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>

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS, AND RESPONSES (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2012**

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

Identification of Major Programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>
14.871	Section 8 Housing – Choice Vouchers
16.804	Edward Byrne Memorial Justice Assistance * Grant Program (ARRA)
20.205	Highway Planning and Construction (ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee classified as a low-risk auditee:	No

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

Continuing Findings:

Significant Deficiencies:

Finding 1: Fixed Assets:

The City implemented GASB Statement No.34 as of 12/31/03, which required the City to record all of its fixed assets, construction in progress and the corresponding accumulated depreciation and depreciation expense. As noted in footnote A.5.E, the City had elected to defer retroactive recording of its infrastructure assets, those placed in service prior to January 1, 2003, until on or before the period ending December 31, 2007, as required. While the City completed a calculation and recording of its infrastructure assets, the supporting documentation could not be verified. While there has been an improvement of the City's tracking and recording of fixed assets for the 2012 year, reports produced by the City software continue to not agree with amounts calculated for fixed assets for the audit. This is due to the problems in the past including: expenses not being coded to purchase orders resulting in only partial amounts of fixed assets being capitalized; expenses identified during previous audits as capital items and added to New World system; and the New World software being unable to generate appropriate and useful reports. We continue to be unable to identify differences with the New World report and what is on record as the City's fixed assets. The report writer module of the New World system has not been implemented. Alternatively, schedules of fixed assets have been prepared by the City and depreciation expense has been calculated.

Effect:

- Fixed Asset software reports are incomplete and understated.
- Future attempts to value inventory will be extremely difficult.
- Extensive reconciliations of reports are necessary to comply with GASB #34 requirements.

Cause:

Recording of prior years' assets from other information sources and review of resulting reports and information needed to comply with GASB Statement No. 34 was not completed and reconciled to last years adjusted amounts. City staff has had to make so many adjustments to the New World system in prior years, contributing to the difficulty in reconciling the outputs of the system to the audited financial statements. Comments described above were specifically caused by:

- Purchase orders were not marked for capitalization.
- Purchase orders were not established for some acquisitions, therefore not capitalized.
- New World system could not generate an accurate depreciation report.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 1: Fixed Assets (Cont'd.):

Recommendation:

An infrastructure valuation which is verifiable is needed as a part of the retroactive compliance requirement for GASB No.34, which was due for the 12/31/07 audit. As part of the infrastructure valuation, the City should consider having a professional physical inventory of their land, buildings, and machinery & equipment in order to have a complete and accurate record of the City's capital assets. The City should review the integration and reporting capabilities of its current fixed asset software with its current needs and determine whether upgrades or replacement is necessary.

Response:

The City is aware of its obligation to comply with GASB #34 and continues to review options to best fulfill this requirement including the recent financial software upgrade. The current financial conditions continue to hamper the Finance Department in identifying financially unobligated resources to contract an outside service to perform a complete physical inventory of its infrastructure assets. With the help of the New World Software upgrade, the Finance Department has been proactively implementing proper procedures to account for capital acquisitions. There is a continuing daily effort to address deficiencies in accounting for capital assets.

Reportable Non-Compliance

Finding 2: Budget Modifications:

The City overall over-expended its budget by (\$2,557,685). Revenue and expenditure categories were over-expended by significant amounts. The City budget is adopted by resolution of the City Council and variations from the original budget must be approved as modifications to be in compliance with the City Charter. We found modifications were not made as needed, resulting in expenditures being more than appropriations.

Effect:

Expenditures were made without budgetary authority.

Cause:

The City has not provided for budgetary authority sufficient to cover all expenditures and reallocated for revenues not received. The following lines needed to be reallocated:

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 2: Budget Modifications (Cont'd.):

<u>General Fund</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Revenues			
Real Property Taxes	\$ 17,369,086	\$ 16,937,054	\$ (432,032)
Real Property Tax Items	1,320,500	890,627	(429,873)
Non Porperty Tax Items	12,650,000	12,487,506	(162,494)
Use of Money and Property	250,600	2,020	(248,580)
Fines and Forfeitures	1,085,000	952,847	(132,153)
Interfund Transfers	700,600	575,000	(125,600)
Expenditures & Encumbrances			
Employee Benefits	8,441,878	10,103,364	(1,661,486)
Interfund Transfers	\$ 4,622,156	\$ 5,422,500	(800,344)
Total			<u>\$ (3,992,562)</u>

Recommendation:

The City should review its budgeting process and make corrective actions as necessary.

Response:

During the past couple of years, the City of Poughkeepsie has taken note of where the variances have been, and developed the 2013 budget to hold each department accountable for all of their expenditures in the proper budget lines. During the 2013 year, appropriate adjustments are being made to budget lines to keep them in line with actual expenditures.

Finding 3: Budget Preparation:

The City's management is responsible for the administration of the Section 8 Housing Choice Voucher Program, as a local public housing agency (PHA). As a local PHA, it is responsible for ensuring that the PHA is operated in an efficient and economical manner and that its financial integrity is maintained. This responsibility is exercised through the review, approval and control of the PHA Operating Budget(s) and Operating Budget revision(s). The City's management is responsible for ensuring that the Operating Budget is approved expressly by a duly executed board resolution. In practice, this requirement is satisfied with the overall approval of the City's budget, as the Section 8 Program is included in the annual consolidated adopted budget. The PHA Operating Budget is expected to comprise the proposed expenditures necessary in the efficient and economical operation of the housing for the purpose of serving low-income families. In addition, it is expected to be reasonable in that it indicates sources of funding adequate to

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 3: Budget Preparation (Cont'):

cover all proposed expenditures. While OMB A-133 Compliance Supplement (CFDA 14.871) references to the HUD Financial Management Handbook 7475.1, which notes the PHA's Executive Director has the overall responsibility for the budget preparation, and is accountable for the soundness and validity of the budget estimates, in the case of the City, the Commissioner of Finance and staff have such overall responsibilities. As a result of limited budgeting procedures, management failed to provide and maintain timely, complete, and accurate budget data necessary for the City to maintain fiscal discipline and budgetary control.

- In the adopted (and not modified) Section 8 Program budget, the HAP payments to participants' line was understated by \$616,492. Since the HAP payments revenue was under-budgeted by \$631,446, this represented a shortfall of \$1,247,938 in the Program's budget overall, or 26%.
- The City's adopted budget for the Section 8 Program did not include an appropriation of prior year's fund balance, although there were funds available from the prior year's fund balance in excess of \$2 million and the United States Housing and Urban Development issued a federal mandate to use available Net Restricted Assets (HAP Equity) balances to fund operations during the year.

Effect:

The Section 8 Program's adopted operating budget was not adequately monitored or maintained in accordance with established municipal practice. Available fund balances were not properly appropriated to fund current operations in accordance with established municipal practice. In addition, lack of current accounting information can allow any **misappropriation or misclassification of funds** to go undetected and/or poor decision-making based on the City's reliance on possibly incorrect financial data.

Cause:

The accounting procedures followed by the City to draft the Section 8 Program's operating budget did not include sufficient input and communication with the Section 8 Program staff to ensure that the proposed expenditures reasonably reflect the projected costs for the period. In addition, the Finance Department did not routinely reconcile actual costs of operations to the operating budget to ensure fiscal discipline and budgetary control is maintained. When it became apparent that the City's Section 8 Program expenditures exceeded the adopted operating budget, it did not to request a revision of the budget and enact a resolution to appropriate available funds from the prior period year's fund balance to fund current operations as per established municipal practice.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 3: Budget Preparation (Cont'd):

Recommendation:

The procedures used by the City to draft the operating budget for the Section 8 Program should include input from the staff managing the program, as prescribed by the HUD Financial Management Handbook. In addition, the budget should comprise the proposed sources and expenditures necessary for the efficient and economical operation of the housing program in accordance with the Section 8 Housing Choice Vouchers Program's objectives. A complete understanding of fiscal discipline and budget management should be effectuated by the people charged with fiscal oversight responsibility.

Response:

Although the Section 8 Director and Staff did not participate in preparation of the 2012 Budget, account balances were and continue to be carefully monitored on a month to month basis by the Director and Staff of the Section 8 Program. Complete financial statements including a detailed General Ledger and bank reconciliations for all bank accounts are prepared, reviewed and submitted to the finance department on a monthly basis. We do not lack current accounting information. For 2012 HUD's directive was to expend most of our huge HAP reserve for 2012 HAP expenses and to prepare for upcoming funding reductions of both HAP and Administrative fees in 2013.

We have not lost sight of our goals to expend within the funding provided, and, our Section 8 Program has accomplished this to date with regard to HAP expenses to date for fiscal year 2013. We are also making great strides in reducing Administrative Expenses to adjust to decreased funding in this area. Some of these include staff reduction and reduction of rental space.

Based on Prior Audit Findings, the Section 8 Director was included in the preparation of the 2013 Budget, and this will be an ongoing process from 2013 forward. We will attempt to establish periodic reviews where Section 8 Staff will request collaborative meetings with Finance Department officials to compare actual amounts of HUD funding and HAP and Administrative expenses to budgetary items and modify these as appropriate. This increased communication will enable the Section 8 Director and the Finance Department to discuss Program goals and concerns.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Continuing Findings:

Other Matters:

Finding 4: General Ledger Adjustments:

A significant effort has been made over the past four years to complete certain financial reconciliations. Such financial reconciliations include reconciling the General Ledger to underlying documentation in order to provide a basis for accurate reporting to members of management, the Common Council, federal and state agencies, and for the audited financial statements. During this process staff reviews balance sheet amounts in each fund (cash, investments, receivables, accounts payable, deferred revenues, etc.) and makes appropriate adjustments. Such reconciliations include an analysis of the City's capital projects on an individual basis as well. We note reconciliations of old Capital Projects and those between the City and the Section 8 Program need to be reviewed.

Effect:

Asset and liability balances may be inaccurate.

Cause:

Research can be time-consuming and current staffing may not allow for more timely reconciliations.

Recommendation:

Management should monitor the progress of all general ledger reconciliations so that when problems are detected, they can be handled promptly. Capital projects should be reviewed as completed and any residual funds transferred to the funding source or reserved for the payment of debt as appropriate.

Response:

The Finance Department continues it's efforts in reconciling general ledger accounts with underlying documentation in order to produce accurate and timely information for management. With the continued assistance of a contracted consultant with extensive background in municipal accounting, we are working on reconciling the long standing "old balances" in Capital Projects and overseeing the reconciliation between Section 8 financial records and the City general ledger.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 5: Special Grant Loan Record Keeping:

As part of the audit we verify balances for Economic Development and Rehabilitation Loans Receivable in the Special Grant Fund. During that process we must examine the reconciliations from the “old system” to the “new system” of New World.

Effect:

A reconciliation between the systems must be performed requiring use of additional City resources.

Cause:

Cash receipts, principal and interest payments, recorded and adjustments made to the loan accounts are posted to the “old” software system and converted to New World. The two accounting systems are reconciled during the year to identify and rectify problems. These reconciliations are necessary because the loan details are not maintained on the New World software.

Recommendation:

The City should use the resources of the New World Software System to record and track loans and eliminate the need for conversion entries.

Response:

The City is aware that it would be more efficient to consolidate these loans into the new software system, however a mortgage program is not currently available. If one becomes available in the future the City will convert these loans into the new software.

Finding 6: General Ledger Cash Balances:

The City has numerous cash balances on its general ledger with balances that are not individually representative of the true cash balances in a specific fund.

Effect:

The process of reconciling bank accounts continues to be time consuming and therefore costly for the City.

Cause:

The City uses bank accounts whose balances include cash owned by more than fund and did not offset cash balances when moving cash.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 6: General Ledger Cash Balances (Cont'd):

Recommendation:

Individual fund general ledger cash balances should represent the actual cash owned by that fund in that bank account. The City should close offsetting cash balances, using due to/due from accounts when offsets cross funds in order to clearly show cash balances. This will simplify the bank reconciliation process and minimize the time spent by the Finance staff and outside consultants reconciling and reviewing these accounts.

Response:

The City uses bank accounts whose balances include cash owned by more than one fund, thereby the City carries cash ledger accounts with offsetting balances in each fund. Going forward, the City will work on clearing these general ledger accounts to leave only those with current balances that relate more directly to specific bank accounts. The City has made improvements in addressing the cash balances.

Finding 7: Interfund Balances:

As of December 31, 2012 the City has many outstanding interfund loans, commonly referred to as "Due to or Due From Other Funds". General municipal law states that money should be repaid to the advancing fund by the end of the year in which it was advanced.

Effect:

Interest is being earned on cash in funds that it doesn't belong to. Interfund loans makes the City's accounting records more complicated.

Cause:

The City has not cleared up old outstanding interfund loans.

Recommendation:

The City should make journal entries for the due to's and due from's and transfer the available money. The development of these entries should be done together with the development of entries to clear cash balances as noted in Finding 6 above.

Response:

The Finance Department continues to make significant improvements in researching and resolving interfund balances. Going forward, proper steps and procedures have been put into place to address the variances throughout the year prior to the annual audit.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2012**

Finding 8: Trust and Agency Balances:

As of December 31, 2012, the City's Trust and Agency (fiduciary) balances contained many old escrows, tax sale monies, and payroll amounts. Further, the City is holding \$625,000 in escrows, documentation for many of which needs to be researched.

Effect:

There could be un-identified liabilities or assets in the Trust and Agency fund.

Cause:

The Finance staff has been unable to complete an analysis of all Trust and Agency balances.

Recommendation:

With regard to escrow balances, the City should continue to research to whom the money belongs and either reimburse the City's General Fund amounts for expenses the City has incurred on behalf of the applicant, or return monies to the applicant because the project has been completed and there are no further outstanding liabilities, or retain in the Trust & Agency Fund because the project is still ongoing. With regard to the payroll amounts, the City should review the journal entries recorded when processing payroll and paying payroll related items such as health insurance and deferred compensation. Generally, after payroll is processed and payroll related items paid, the balances in Trust & Agency accounts should be zero.

Response:

The Finance Department has made considerable effort and continues to put in the time to research and resolve Trust and Agency balances. Many of the issues have been the result of practices and procedures from the past. Additional staffing, additional time and protected concentrated work should enable the Department to address most of the balances.

Status of Prior Year Findings:

Satisfied/No Longer Applicable: - Prior Year Significant Deficiency Finding #1 and #4