

**CITY OF POUGHKEEPSIE, NEW YORK
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2011**

CITY OF POUGHKEEPSIE, NEW YORK
TABLE OF CONTENTS
DECEMBER 31, 2011

<u>DESCRIPTION</u>	<u>PAGE (S)</u>
Independent Auditors' Report	1-2
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.....	3-4
Independent Auditors' Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	5-6
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	7-8
Management's Discussion and Analysis (un-audited) For The Year Ended December 31, 2011	9-17
 BASIC FINANCIAL STATEMENTS:	
 Government-Wide Financial Statements	
Statement of Net Assets as of December 31, 2011	18-19
Statement of Activities For The Year Ended December 31, 2011	20-21
 Fund Financial Statements	
Balance Sheet – Governmental Funds as of December 31, 2011	22

CITY OF POUGHKEEPSIE, NEW YORK
TABLE OF CONTENTS (CONT'D)
DECEMBER 31, 2011

Reconciliation of Governmental Funds Balance Sheet
 To The Statement of Net Assets as of December 31, 201123

Statement of Revenues, Expenditures and Changes
 In Fund Balances- Governmental Funds
 For the Year Ended December 31, 2011 24

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Funds to the
 Statement of Activities as of December 31, 2011 25

Statement of Net Assets – Proprietary Funds as of December 31, 201126-27

Statement of Revenues, Expenses and Changes in Net Assets –
 Proprietary Funds for the Year Ended December 31, 2011 28

Statement of Cash Flows – Proprietary Funds For the Year Ended
 December 31, 2011 29

Statement of Net Assets – Fiduciary Funds as of December 31, 2011 30

Notes to the Financial Statements.....31-82

REQUIRED SUPPLEMENTAL INFORMATION SECTION:

Exhibit I

Budgetary Comparison Schedule -
 General Fund – For the Year Ended
 December 31, 2011 83

Exhibit II

Other Post-employment Benefits Plan Schedule of Funding Progress – December 31,
 2011..... 84

CITY OF POUGHKEEPSIE, NEW YORK
TABLE OF CONTENTS (CONT'D)
DECEMBER 31, 2011

OTHER SUPPLEMENTAL INFORMATION:

Exhibit III

Schedule of Expenditures of Federal Awards	85
Notes to the Schedule of Expenditures of Federal Awards	86

Exhibit IV

Schedule of Expenditures of New York State Transportation Assistance	87
Notes to the Schedule of Expenditures of New York State Transportation Assistance	88

Exhibit V

Schedule of Findings, Questioned Costs, Recommendations and Responses.....	89-102
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INDEPENDENT AUDITORS' REPORT

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Linda M. Hannigan, CPA

James L. Sedore, Jr., CPA

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

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, 2011, which collectively comprise the City of Poughkeepsie, New York's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the City of Poughkeepsie, New York's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the 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 financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Poughkeepsie Housing Authority, is based on the report of those 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 the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to examine the underlying documentation pertaining to the retroactive reporting of infrastructure assets because such documentation was not readily available. We were also unable to satisfy ourselves through alternative procedures.

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the City of Poughkeepsie, New York as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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 each major fund, aggregate discretely presented component unit, and the aggregate remaining fund information of

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the City of Poughkeepsie, New York, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, on our consideration of the City of Poughkeepsie, New York'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, Exhibit I, and Other Post-employment Benefit Plan Schedule of Funding Progress, Exhibit II 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express any 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Poughkeepsie, New York's financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, Exhibit III, and Schedule of Expenditures of New York State Transportation Assistance, Exhibit IV, are presented for purposes of additional analysis as required by U.S Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the financial statements. These exhibits are the responsibility of management and were derived from and relate 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Sedore & Company, CPAs
Poughkeepsie, New York
November 8, 2012



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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 the financial statements of the governmental activities, 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 and for the year ended December 31, 2011, which collectively comprise the City of Poughkeepsie, New York's basic financial statements and have issued our report thereon dated November 8, 2012. 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 and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for the Poughkeepsie Housing Authority, is based on the report of other auditors.

Except as discussed in the preceding paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Poughkeepsie, New York's internal control over financial reporting as a basis for designing our auditing procedures 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, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Poughkeepsie, New York's internal control over financial reporting.

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.

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Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses that we consider to be significant deficiencies in internal control over financial reporting, Findings One and Two. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Poughkeepsie, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance 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, Findings Three and Four.

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 Five - Eight.

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.

This report is intended for the information of the Mayor, Common Council, City Administrator, Commissioner of Finance, management, and federal awarding agencies and pass-through entities and, is not intended to be and should not be, used by anyone other than these specified parties.

Sedore & Company, CPAs

Poughkeepsie, New York
November 8, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

We have audited the compliance of the City of Poughkeepsie, New York with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The City of Poughkeepsie, New York's major federal programs are identified in Exhibit III, Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Poughkeepsie, New York's management. Our responsibility is to express an opinion on the City of Poughkeepsie, New York's compliance based on our audit and the report of other auditors.

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, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Poughkeepsie, New York's compliance with those requirements.

In our opinion, the City of Poughkeepsie, New York complied, in all material respects, with the 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, 2011.

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Internal Control Over Compliance

The management of the City of Poughkeepsie, New York is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Poughkeepsie, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 non-compliance 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 control deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance with a type of compliance requirement in internal control of a federal program will not be prevented or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Mayor, Common Council, City Administrator, Commissioner of Finance, management, and federal awarding agencies and pass-through entities and, is not intended to be and should not be, used by anyone other than these specified parties.

Sedou & Company, CPAs
Poughkeepsie, New York
November 8, 2012



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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

Compliance

We have audited the compliance of the City of Poughkeepsie, New York, 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, 2011. The programs tested are identified in Exhibit IV, Schedule of Expenditures of New York State Transportation Assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program is the responsibility of the City of Poughkeepsie, New York's management. Our responsibility is to express an opinion on the City of Poughkeepsie, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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. Our audit does not provide a legal determination on the City of Poughkeepsie, New York's compliance with those requirements.

In our opinion, the City of Poughkeepsie, New York, complied, in all material respects, with the requirements referred to above that are applicable to each of its state transportation assistance programs tested for the year ended December 31, 2011.

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Internal Control Over Compliance

The management of the City of Poughkeepsie, New York, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its state transportation assistance programs. In planning and performing our audit, we considered the City of Poughkeepsie, New York's internal control over compliance with requirements that could have a direct and material effect on each of its state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR. 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 non-compliance 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 control deficiencies, in internal control over compliance such that there is a reasonable possibility that material non-compliance with a type of compliance requirement in internal control of a federal program will not be prevented or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, City Administrator, Commissioner of Finance, management, and New York State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sedau & Company, CPA's

Poughkeepsie, New York
November 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2011 (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, 2011.

Financial Perspective:

The City of Poughkeepsie's finances were greatly affected by two very important events: the continuing effects of the economic downturn and the destructive storms. The lingering economic recession has produced some very challenging results: dramatic decline in home values and property assessments, persistent levels of over 300 abandoned and vacant homes, higher incidences of delinquencies in tax and utility payments resulting in the shortfall of tax and utility revenues, and increased properties with tax liens but with only close to half being sold at tax lien sales.

The back to back storms of Irene and Lee brought about some serious challenges of flooding, downed trees and power outages to the City. Neighborhoods along the Fallkill Creek experienced flooding that has not been seen in decades. The City's expenses incurred by the Fire Department, the Public Works Department, and the Police Department were estimated to close to half a million with only less than a hundred thousand reimbursed by FEMA and the NYS OEM. The lengthy heavy snows in early 2011 as well as the Halloween surprise heavily taxed the snow budget well beyond the original budget both in overtime and supplies.

There were four specific major expense categories that greatly affected the City's financials: legal costs, employee benefits primarily health insurance, equipment expenses specifically vehicle materials and maintenance, and debt service payments. All these expenditures greatly impacted the General Fund.

The Law Department had outside contracted services totaling over \$400,000 which was five times more than the budget. Over the previous years, the City had some very challenging cases that required a tremendous amount of support from outside counsel. Although it is now the policy of the City to handle all legal cases internally, it has required the City to slowly and expeditiously dispense with the current cases costing the City tremendous amounts for the immediate period. Steps have been taken in 2012 to minimize outside counsel as well as utilize in house counsel for revenue generation.

Dealing with labor contracts is always a very tricky proposition. Many times it requires the City to address changes in existing contracts which impact the City's spending. In 2011, the City was put in a corner that resulted in a very expensive agreement with the different unions to comply with the long standing agreement with regards to health

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2011, Cont'd. (Un-audited)

insurance. Over the years, the City had agreed to health insurance coverage that can only be termed as the premier of the industry. In 2011, to achieve the level that had been agreed to with the unions, the City had to take on the co-pay portion of all medical care. This not only cost the City in co-pay payments, but it also increased the medical usages and procedures. It is our estimation that this cost the City at least half a million dollars.

Over the past decades, the City of Poughkeepsie addressed its needs for vehicles and equipment through BANs and Bonds. Normally, these should have been addressed through the annual budget process. Instead, the City would regularly peel off the vehicle and equipment needs from the budget and insert it into the annual infrastructure government improvement BANs and Bonds. In 2008, the City stopped this practice and required all vehicle and equipment purchases to be paid through the individual department's budgeted expenses. This has tremendously slowed down the acquisition of vehicles and equipment. Unfortunately, the aging fleet of vehicles has cost the City in its maintenance costs. This was a cost of over \$400,000 which was over \$150,000 more than the original budget. The City is addressing vehicle and equipment replacement through prioritization and a targeted approach by selling older vehicles through the auction and only purchasing new vehicles and equipment on a direct need basis.

The City's debt in the years 2008-2011, (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 had to be 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 using BANs and Bonds. Finally, an aggressive approach was taken to paying down the debt. Additional principal payments in the amount of \$4.5 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.

Financial Highlights of 2011:

- The City's real property tax collection was \$16,662,878. This was \$365,638 less than the 2011 budget of \$17,028,516. Although the City had collected close to 100% of its tax levy over the past, 2010 and 2011 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2011, Cont'd. (Un-audited)

has remained steady with the increased completion of development projects. The 2011 PILOT collection was \$659,262 compared to 2010 of \$458,280.

- Our Sales tax revenue as distributed by Dutchess County increased in the year 2011 compared to 2010 by \$742,863 (2011 receipts were \$11,620,662 vs. 2010 receipts of \$10,877,799). We continue to receive (by formula) 7.0557% of the county's overall sales tax receipts. Our 2010 and 2011 actual were negatively impacted by the continuing deterioration of the economy and Dutchess County's decision to continue the sales tax exemption on shoes and clothing under \$110 at least through the first quarter of 2011. The County rescinded the clothing tax exemption.
- 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 down to \$4,334,715 or a reduction of \$278,892. In 2011 the City received \$4,248,021 or a further reduction of \$86,694.
- 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 ratings were held to an *A2* rating.
- 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, 2009 assessment roll (used to produce the 2010 tax rate) reflected the value of \$2,224,256,860 which was a 6.33% decrease from the record valuation of 2007 or a loss in value of \$150,288,969. The July 1, 2010 assessment value was \$2,041,961,923 which was a loss in value of \$182,294,937 or a decrease of 8.20%. 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 housing market has experienced dramatic lows in the County. The City's mortgage tax collection for 2011 was \$251,536 compared to \$369,296 in 2010. This is another drop of \$117,760 or 32%. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2011, Cont'd. (Un-audited)

- The City responded to the increased challenges of declining sales tax and mortgage tax collection by implementing tighter controls on its expenses. The 2009 General Fund expenditures were cut from \$43,513,818 in 2008 down to \$42,999,787 or savings of \$514,031. The 2010 General Fund expenditures were further cut to \$42,566,489. The 2011 budget reflected expenditures of \$42,484,452. The total full time funded employees decreased from the all time high of 417 in 2008 down to 403 in 2009. The 2010 budget reflected a further decrease of full time funded employees to 387 through attrition. 2011 saw a further decrease of employees to 368. 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 five 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

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 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, 2011, Cont'd.

(Un-audited)

2. Financial Analysis of our City as a whole

Governmental Funds:

Assets	2011	2010	Change
Non-Capital	\$ 29,929,183	\$ 32,837,817	\$ (2,908,634)
Capital	<u>64,339,531</u>	<u>59,989,630</u>	<u>4,349,901</u>
Total Assets	<u>\$ 94,268,714</u>	<u>\$ 92,827,447</u>	<u>\$ 1,441,267</u>
Liabilities			
Current	\$ 36,327,797	\$ 43,877,348	\$ (7,549,551)
Non-Current	<u>54,661,299</u>	<u>43,024,869</u>	<u>11,636,430</u>
Total Liabilities	90,989,096	86,902,217	4,086,879
Net Assets:			
Capital	8,561,908	6,060,623	2,501,285
Unrestricted	<u>(5,282,290)</u>	<u>(135,393)</u>	<u>(5,146,897)</u>
Total Net Assets	3,279,618	5,925,230	(2,645,612)
Total Liabilities and Net Assets	<u>\$ 94,268,714</u>	<u>\$ 92,827,447</u>	<u>\$ 1,441,267</u>

Revenues	2011	2010	Change
Program			
Fines, Fees & Charges	\$ 4,088,589	\$ 3,956,594	\$ 131,995
Operating Grants	7,625,133	8,382,816	(757,683)
Capital Grants	5,231,350	2,172,328	3,059,022
General Revenues			
Property Taxes	17,634,428	17,675,791	(41,363)
Other Taxes	12,706,645	12,132,383	574,262
State Aid	4,254,011	4,349,567	(95,556)
Other Revenues	<u>3,017,842</u>	<u>2,952,855</u>	<u>64,987</u>
Total Revenues	<u>54,557,998</u>	<u>51,622,334</u>	<u>2,935,664</u>
Expenses			
General Government Support	8,957,173	8,693,585	263,588
Public Safety	29,947,160	30,403,713	(456,553)
Transportation	6,277,353	6,154,271	123,082
Economic Assistance	359,242	(685,509)	1,044,751
Culture and Recreation	892,016	1,016,466	(124,450)
Home and Community Service	9,408,891	9,866,839	(457,948)
Other	<u>1,361,775</u>	<u>1,729,947</u>	<u>(368,172)</u>
Total Expenses	<u>57,203,610</u>	<u>57,179,312</u>	<u>24,298</u>
Change in Net Assets	<u>\$ (2,645,612)</u>	<u>\$ (5,556,978)</u>	<u>\$ 2,911,366</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplemental Information
For the Year Ended December 31, 2011, Cont'd.
(Un-audited)

Proprietary Funds:

	Assets	2011	2010	Change
Non-Capital		\$ 14,169,885	\$ 14,313,039	\$ (143,154)
Capital		48,179,549	50,403,187	(2,223,638)
	Total Assets	<u>\$ 62,349,434</u>	<u>\$ 64,716,226</u>	<u>\$ (2,366,792)</u>
	Liabilities			
Current		\$ 2,112,254	\$ 3,876,493	\$ (1,764,239)
Non-Current		17,579,544	17,043,506	536,038
	Total Liabilities	19,691,798	20,919,999	(1,228,201)
	Net Assets:			
Capital		39,185,137	39,945,383	(760,246)
Unrestricted		3,472,499	3,850,844	(378,345)
	Total Net Assets	42,657,636	43,796,227	(1,138,591)
	Total Liabilities and Net Assets	<u>\$ 62,349,434</u>	<u>\$ 64,716,226</u>	<u>\$ (2,366,792)</u>

	Revenues	2011	2010	Change
Program				
Charges For Services		\$ 7,701,445	\$ 8,363,614	\$ (662,169)
General Revenues				
Investment Earnings		34,598	34,576	22
	Total Revenues	<u>7,736,043</u>	<u>8,398,190</u>	<u>(662,147)</u>
Expenses				
Home and Community Service		8,666,011	8,125,208	540,803
Transfers		208,623	157,773	50,850
	Total Expenses	<u>8,874,634</u>	<u>8,282,981</u>	<u>591,653</u>
	Change in Net Assets	<u>\$ (1,138,591)</u>	<u>\$ 115,209</u>	<u>\$ (1,253,800)</u>

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 2011. In 2010 \$1,111,346 was appropriated to help balance the 2010 budget. Total 2010 revenues were greatly

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information

For the Year Ended December 31, 2011, Cont'd.

(Un-audited)

impacted by the continuing economic downturn further deteriorating the fund balance. Stringent spending controls were put in place since the second half of 2008 to help reverse the fund balance trend. The one time spending events have not helped stem the deficits.

In 2010, the City decided to merge the Parking fund with the General Fund for better overall supervision. The 2010 plans included a continued commitment to parking structure and equipment upgrades. Our 2010 results were directly related to our City's pledge of keeping the decks better maintained, better equipped, and better staffing coverage for safety. In 2011, the off street parking department experienced a big decline in revenue requiring a strategic change. Capitalizing on event parking revenue, the City Parking Department has rebounded to the over \$1 Million revenue level. Planning for upgrades on parking structures continues, and a priority of the City is to continue the oversight of these valuable assets accordingly. The consolidation of the Development, Inspection, and Fire Department inspection functions has enhanced the inspection revenues.

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

City Revenues –General Fund (%)

Real Property taxes	16,662,878	40.80%
State Aid	4,973,971	12.18%
Real Property Tax Items	946,157	2.32%
Sales & Franchise Taxes	12,455,109	30.49%
Departmental Income	2,113,268	5.17%
Fines and Forfeitures	942,390	2.31%
All Other Revenues	2,749,940	6.73%
Total	40,843,713	100.00%

City Expenditures-General Fund (%)

Public Safety	18,898,498	41.67%
Transportation	2,761,085	6.09%
General Govt Support	6,132,693	13.52%
Culture & Recreation	626,646	1.38%
Employee Benefits	9,399,904	20.72%
Home & Community Services	2,330,875	5.14%
Transfers to Other Funds - net	4,902,077	10.81%
All other expenses	305,070	0.67%
Total	45,356,848	100.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2011, Cont'd. (Un-audited)

Water Fund

Our Water Fund reflected the positive impact of our 2010 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 continues to provide good quality water to our residents and businesses. The total revenue for 2011 was \$3,083,203. Unfortunately, the revenue collections have been less due 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 2011 was \$548,104. 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. In 2010 the City's Sewer and Joint Sewer Funds continued to increase the fund balance. Our City's goal of increasing the Sewer fund balance is on track. The increase in 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. The higher fuel costs in 2007 and 2008 had a negative impact on operations for both years. 2009 and 2010 saw lower and more stable fuel prices. 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. Fuel and repair costs in 2011 were \$195,682 compared to \$142,048 in 2010. Our ongoing goal is to ensure our traveling public gets quality service at the best possible price.

Budgetary Highlights for the Year Ended December 31, 2011

In December 2010 our City adopted the 2011 tax rates of \$7.79 per \$1,000 of FMV assessed valuation (Homestead rate) and \$9.51 per \$1,000 of FMV (Non- Homestead

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information

For the Year Ended December 31, 2011, Cont'd.

(Un-audited)

rate). These tax rates do not compare to 2005 as these new rates are properly adjusted for Full market valuation. Our 2011 General Fund tax levy increased over 2010 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 2011-2015 Capital Plan was adopted in August of 2010 with an original spending plan of under \$3 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. In 2008 our City expended a drastically reduced amount of approximately \$5.0 million on various City Capital projects. In 2009 and 2010, the City continued to maintain a very conservative approach towards any capital projects and financing using primarily 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, 2011 equated to \$56,965,000 (over 75% directly related to the General Fund and the remaining debt directly related to exempt water and sewer projects). The actual 2011 expenditures for total long term debt principal and interest were \$3,786,000 and \$1,918,004 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.

4. 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 2011 the City expended over \$1.4 million (over \$300,000 from CHIPS in the General Funds) on the upkeep and improvement of its roads and sidewalks.

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
Current assets:				
Cash and cash equivalents	\$ 7,077,355	\$ -	\$ 7,077,355	\$ 1,834,797
Investments	2,170,103	-	2,170,103	350,199
Restricted cash	509,929	-	509,929	312,946
Receivables (net)	12,942,919	3,281,193	16,224,112	222,690
Internal balances	(990,087)	990,087	-	-
Due from related parties	801,504	-	801,504	-
Due from other governments	7,359,792	149,809	7,509,601	-
Inventories - net of allowance	-	-	-	96,277
Prepaid expenses	57,668	37,381	95,049	9,688
Total current assets	29,929,183	4,458,470	34,387,653	2,826,597
Non-current assets:				
Restricted cash & cash equivalents	-	-	-	1,535
Due from related party	-	-	-	-
Other assets	-	-	-	10,492,288
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	13,111,374	47,003,541	60,114,915	-
Buildings, machinery and equipment, net of depreciation	23,584,265	124,360	23,708,625	4,961,099
Construction in progress	23,820,275	1,017,264	24,837,539	-
Total capital assets	64,339,531	48,179,549	112,519,080	5,298,379
Total assets	\$ 94,268,714	\$ 62,349,434	\$ 156,618,148	\$ 18,618,799

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET ASSETS (Continued)
DECEMBER 31, 2011

LIABILITIES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
Current Liabilities:				
Accounts payable	\$ 5,449,864	\$ 520,107	\$ 5,969,971	\$ 33,361
Accrued liabilities and retainage payable	4,104,261	236,922	4,341,183	202,102
Tenant security deposits	-	-	-	141,245
Due to other governments	6,309,038	-	6,309,038	154,268
Deferred revenues and other liabilities	6,317,158	5,119	6,322,277	62,643
Due to related party	-	-	-	445,251
Notes payable	11,513,000	-	11,513,000	152,519
Current portion of long-term liabilities				
Capital lease	347,920	-	347,920	-
Compensated absence liability	61,000	-	61,000	-
Landfill remediation liability	10,295	-	10,295	-
Bonds payable	2,215,261	1,350,106	3,565,367	-
Total current liabilities	36,327,797	2,112,254	38,440,051	1,191,389
Non-current liabilities:				
Judgments and claims	500,000	-	500,000	-
Capital lease payable	873,085	-	873,085	-
Compensated absence liability	6,020,814	223,823	6,244,637	115,119
Landfill remediation liability	371,244	-	371,244	-
Bonds payable	36,043,912	17,355,721	53,399,633	1,937,240
Other post-employment benefits	10,852,244	-	10,852,244	-
Other long term liabilities	-	-	-	113,600
Total non-current liabilities	54,661,299	17,579,544	72,240,843	2,165,959
Total liabilities	90,989,096	19,691,798	110,680,894	3,357,348
NET ASSETS				
Invested in Capital Assets and Joint Water				
Project net of related debt	8,561,908	39,185,137	47,747,045	5,298,379
Restricted	-	-	-	208,954
Unrestricted	(5,282,290)	3,472,499	(1,809,791)	9,754,118
Total net assets	3,279,618	42,657,636	45,937,254	15,261,451
Total liabilities and net assets	\$ 94,268,714	\$ 62,349,434	\$ 156,618,148	\$ 18,618,799

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Governmental Activities:			
General government support	\$ 8,957,173	\$ 537,066	\$ -
Public safety	29,947,160	1,701,189	464,204
Health	78,735	78,440	-
Transportation	6,277,353	1,552,225	469,503
Economic assistance & opportunity	359,242	46,626	1,883
Culture and recreation	892,016	42,479	-
Home and community services	9,408,891	130,564	6,689,543
Interest on long-term debt	1,283,040	-	-
Total governmental activities	57,203,610	4,088,589	7,625,133
Business-type activities:			
Water Fund	3,672,712	3,271,481	-
Sewer Fund	4,993,299	4,430,662	-
Total business-type activities	8,666,011	7,702,143	-
Total primary government	\$ 65,869,621	\$ 11,790,732	\$ 7,625,133
Component Units:			
Poughkeepsie Housing Authority	\$ 5,773,518	\$ 1,722,133	\$ 2,968,629
City of Poughkeepsie IDA	9,327	-	-
Total component units	\$ 5,782,845	\$ 1,722,133	\$ 2,968,629

General revenues

Taxes:

Real property taxes

Sales taxes

Mortgage taxes

Utility taxes

Franchise taxes

Payments from other governments

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

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

Miscellaneous

Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets - beginning

Prior period adjustments

Adjusted net assets - beginning

Net assets - ending

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

**CHANGES IN NET ASSETS
PRIMARY GOVERNMENT**

CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
\$ -	\$ (8,420,107)	\$ -	\$ (8,420,107)	\$ -
231,600	(27,550,167)	-	(27,550,167)	-
-	(295)	-	(295)	-
4,514,236	258,611	-	258,611	-
485,514	174,781	-	174,781	-
-	(849,537)	-	(849,537)	-
-	(2,588,784)	-	(2,588,784)	-
-	(1,283,040)	-	(1,283,040)	-
<u>5,231,350</u>	<u>(40,258,538)</u>	<u>-</u>	<u>(40,258,538)</u>	<u>-</u>
-	-	(401,231)	(401,231)	-
-	-	(562,637)	(562,637)	-
-	-	(963,868)	(963,868)	-
<u>\$ 5,231,350</u>	<u>(40,258,538)</u>	<u>(963,868)</u>	<u>(41,222,406)</u>	<u>-</u>
\$ 377,540	-	-	-	(705,216)
-	-	-	-	(9,327)
<u>\$ 377,540</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(714,543)</u>
	17,634,428	-	17,634,428	-
	11,620,663	-	11,620,663	-
	251,536	-	251,536	-
	362,153	-	362,153	-
	472,293	-	472,293	-
	225,004	-	225,004	-
	4,254,011	-	4,254,011	-
	333,523	34,598	368,121	14,021
	467,610	-	467,610	-
	1,783,082	(698)	1,782,384	582,604
	208,623	(208,623)	-	-
	<u>37,612,926</u>	<u>(174,723)</u>	<u>37,438,203</u>	<u>596,625</u>
	(2,645,612)	(1,138,591)	(3,784,203)	(117,918)
	5,925,230	43,796,227	49,721,457	15,369,742
	-	-	-	9,627
	<u>5,925,230</u>	<u>43,796,227</u>	<u>49,721,457</u>	<u>15,379,369</u>
	<u>\$ 3,279,618</u>	<u>\$ 42,657,636</u>	<u>\$ 45,937,254</u>	<u>\$ 15,261,451</u>

CITY OF POUGHKEEPSIE, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>SPECIAL GRANT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS						
Cash and cash equivalents	\$ -	\$ 2,034,232	\$ 4,764,032	\$ -	\$ 279,091	\$ 7,077,355
Investments	1,710,318	-	459,785	-	-	2,170,103
Restricted cash	55,000	454,929	-	-	-	509,929
Receivables:						
Taxes	6,787,692	-	-	-	-	6,787,692
Other	278,794	-	14,253	-	797	293,844
Mortgage loans receivable	-	-	570,113	-	-	570,113
Due from other funds	8,070,299	14,477,391	835,347	-	173,965	23,557,002
Due from related party	329,590	-	445,251	-	-	774,841
Due from other governments	1,919,430	-	-	5,420,000	20,362	7,359,792
State and federal receivable	154,458	3,842,792	648,793	-	645,227	5,291,270
Prepaid expenses	16,180	-	15,387	2,901	23,200	57,668
Total assets	<u>\$ 19,321,761</u>	<u>\$ 20,809,344</u>	<u>\$ 7,752,961</u>	<u>\$ 5,422,901</u>	<u>\$ 1,142,642</u>	<u>\$ 54,449,609</u>
LIABILITIES AND FUND EQUITY						
LIABILITIES						
Accounts payable	\$ 2,530,796	\$ 2,636,573	\$ 260,725	\$ -	\$ 21,770	\$ 5,449,864
Accrued liabilities	2,893,189	-	40,275	-	89,259	3,022,723
Retainage payable	-	798,320	6,807	-	-	805,127
Bond anticipation notes payable	-	11,513,000	-	-	-	11,513,000
Due to related party	-	-	-	-	-	-
Due to other funds	12,268,234	10,188,677	19,711	60,175	2,010,291	24,547,088
Due to other governments	6,290,706	-	18,332	-	-	6,309,038
Deferred revenues	4,811,164	-	570,114	5,621,997	25,917	11,029,192
Other liabilities	4,347	-	3,111	-	3,283	10,741
Total liabilities	<u>28,798,436</u>	<u>25,136,570</u>	<u>919,075</u>	<u>5,682,172</u>	<u>2,150,520</u>	<u>62,686,773</u>
FUND EQUITY						
Fund balance (deficit):						
Committed:						
Encumbrances	209,001	14,228,037	853,940	-	186,562	15,477,540
Assigned:						
Subsequent year's expenditures	-	-	-	-	-	-
Self-insurance	1,500,000	-	-	-	-	1,500,000
Unassigned	(11,185,676)	(18,555,263)	5,979,946	(259,271)	(1,194,440)	(25,214,704)
Total fund equity	<u>(9,476,675)</u>	<u>(4,327,226)</u>	<u>6,833,886</u>	<u>(259,271)</u>	<u>(1,007,878)</u>	<u>(8,237,164)</u>
Total liabilities and fund equity	<u>\$ 19,321,761</u>	<u>\$ 20,809,344</u>	<u>\$ 7,752,961</u>	<u>\$ 5,422,901</u>	<u>\$ 1,142,642</u>	<u>\$ 54,449,609</u>

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

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total fund equity for governmental funds	\$ (8,237,164)
Total net assets reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	64,339,531
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.	(57,269,111)
Certain deferred revenues are recorded when billed.	4,722,775
Accrued interest is not reported in the funds.	<u>(276,413)</u>
Total net assets of governmental activities	<u><u>\$ 3,279,618</u></u>

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	GENERAL FUND	CAPITAL PROJECTS FUND	SPECIAL GRANT FUND	DEBT SERVICE FUND	NON- MAJOR FUNDS	TOTAL FUNDS
REVENUES						
Real property taxes	\$ 16,662,878	\$ -	\$ -	\$ -	\$ -	\$ 16,662,878
Real property taxes items	946,157	-	-	-	-	946,157
Non property taxes items	12,455,109	-	-	-	-	12,455,109
Departmental income	2,113,268	-	46,626	-	351,961	2,511,855
Intergovernmental charges	172,051	-	-	25,089	1,200	198,340
Use of money and property	189,934	1,139	1,944	140,157	4	333,178
Licenses and permits	634,344	-	-	-	-	634,344
Fines and forfeitures	942,390	-	-	-	-	942,390
Sale of property and compensation for loss	459,342	-	-	-	8,268	467,610
Miscellaneous local sources	215,071	-	-	-	1,040	216,111
Interfund revenues	1,079,198	-	-	-	-	1,079,198
State aid	4,973,971	485,514	1,883	-	787,821	6,249,189
Federal aid	-	3,756,799	6,679,543	-	670,509	11,106,851
Total revenues	40,843,713	4,243,452	6,729,996	165,246	1,820,803	53,803,210
EXPENDITURES						
General government support	6,132,693	64,765	26,022	89,781	205,303	6,518,564
Public safety	18,898,498	367,160	-	-	599,298	19,864,956
Health	51,396	-	-	-	-	51,396
Transportation	2,761,085	4,897,118	-	-	915,023	8,573,226
Economic assistance & opportunity	253,674	1,109,113	-	-	-	1,362,787
Culture and recreation	626,646	26,231	-	-	-	652,877
Home and community services	2,330,875	184,722	6,953,474	-	-	9,469,071
Employee benefits	9,399,904	-	158,495	-	266,685	9,825,084
Debt service	-	-	-	5,804,465	-	5,804,465
Total expenditures	40,454,771	6,649,109	7,137,991	5,894,246	1,986,309	62,122,426
Excess of revenues over expenditures	388,942	(2,405,657)	(407,995)	(5,729,000)	(165,506)	(8,319,216)
Other financing sources:						
Proceeds of debt	-	10,822,770	-	-	-	10,822,770
Bans redeemed from appropriations	-	1,834,226	-	-	-	1,834,226
Operating transfers in	610,817	-	-	5,796,905	-	6,407,722
Operating transfers out	(5,512,894)	-	(73,317)	-	(612,888)	(6,199,099)
Total other financing sources	(4,902,077)	12,656,996	(73,317)	5,796,905	(612,888)	12,865,619
Excess (deficiency) of revenue and other sources over expenditures and other uses	(4,513,135)	10,251,339	(481,312)	67,905	(778,394)	4,546,403
Fund Balance, December 31, 2010	(5,522,771)	(14,019,334)	7,315,198	(327,176)	(229,484)	(12,783,567)
Prior Period Adjustment	559,231	(559,231)	-	-	-	-
Restated Fund Balance, December 31, 2010	(4,963,540)	(14,578,565)	7,315,198	(327,176)	(229,484)	(12,783,567)
Fund Balance, December 31, 2011	\$ (9,476,675)	\$ (4,327,226)	\$ 6,833,886	\$ (259,271)	\$ (1,007,878)	\$ (8,237,164)

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

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Net change in fund equities - total government funds \$ 4,546,403

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

Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 4,349,901

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 assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:			
Serial bonds		(10,071,000)	
Capital leases		(751,771)	
Repayments:			
Bond principal		2,351,608	
Capital lease payment		282,188	
			(8,188,975)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 53,404

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. (3,431,738)

Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds. 25,393

Net change in net assets of governmental activities \$ (2,645,612)

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2011

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
ASSETS					
Current assets:					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1,834,797	\$ 1,834,797
Investments	-	-	-	350,199	350,199
Restricted cash and cash equivalents	-	-	-	312,946	312,946
Receivables:					
Charges for Services	1,305,258	1,294,202	2,599,460	222,690	2,822,150
Other	20,490	661,243	681,733	-	681,733
Internal balances	(1,533,040)	2,523,127	990,087	-	990,087
Due from related party	-	-	-	-	-
Due from other governments	-	149,809	149,809	-	149,809
Inventories - net of allowance	-	-	-	96,277	96,277
Prepaid expenses	(1,925)	39,306	37,381	9,688	47,069
Total current assets	<u>(209,217)</u>	<u>4,667,687</u>	<u>4,458,470</u>	<u>2,826,597</u>	<u>7,285,067</u>
Non current assets:					
Restricted cash and cash equivalents	-	-	-	1,535	1,535
Due from related party	-	-	-	-	-
Other assets	-	-	-	10,492,288	10,492,288
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	-	-	-	4,961,099	4,961,099
Improvements and Infrastructure, net of depreciation	29,182,243	17,821,298	47,003,541	-	47,003,541
Machinery and equipment, net of depreciation	18,252	106,108	124,360	-	124,360
Construction in progress	326,829	690,435	1,017,264	-	1,017,264
Total capital assets	<u>29,527,324</u>	<u>18,652,225</u>	<u>48,179,549</u>	<u>5,298,379</u>	<u>53,477,928</u>
Total non current assets	<u>39,238,739</u>	<u>18,652,225</u>	<u>57,890,964</u>	<u>15,792,202</u>	<u>73,683,166</u>
Total Assets	<u><u>\$ 39,029,522</u></u>	<u><u>\$ 23,319,912</u></u>	<u><u>\$ 62,349,434</u></u>	<u><u>\$ 18,618,799</u></u>	<u><u>\$ 80,968,233</u></u>

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

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	TOTAL COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
LIABILITIES AND NET ASSETS					
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 22,447	\$ 497,660	\$ 520,107	\$ 33,361	\$ 553,468
Accrued liabilities	142,692	94,230	236,922	202,102	439,024
Tenant security deposits	-	-	-	141,245	141,245
Due to other governments	-	-	-	154,268	154,268
Other liabilities	4,327	792	5,119	-	5,119
Deferred credits and other liabilities	-	-	-	62,643	62,643
Due to related party	-	-	-	445,251	445,251
Notes payable	-	-	-	152,519	152,519
Current portion of bonds payable	619,716	730,390	1,350,106	-	1,350,106
Total current liabilities	<u>789,182</u>	<u>1,323,072</u>	<u>2,112,254</u>	<u>1,191,389</u>	<u>3,303,643</u>
Non-current liabilities:					
Compensated absence liability	211,353	12,470	223,823	115,119	338,942
Bonds, notes, and loans payable	7,790,310	9,565,411	17,355,721	1,937,240	19,292,961
Other long term liabilities	-	-	-	113,600	113,600
Total non-current liabilities	<u>8,001,663</u>	<u>9,577,881</u>	<u>17,579,544</u>	<u>2,165,959</u>	<u>19,745,503</u>
Total liabilities	8,790,845	10,900,953	19,691,798	3,357,348	23,049,146
NET ASSETS					
Invested in Capital Assets and Joint					
Water Project net of related debt	30,828,713	8,356,424	39,185,137	5,298,379	44,483,516
Restricted	-	-	-	208,954	208,954
Unrestricted (deficit)	(590,036)	4,062,535	3,472,499	9,754,118	13,226,617
Total net assets	<u>30,238,677</u>	<u>12,418,959</u>	<u>42,657,636</u>	<u>15,261,451</u>	<u>57,919,087</u>
Total liabilities and net assets	<u>\$ 39,029,522</u>	<u>\$ 23,319,912</u>	<u>\$ 62,349,434</u>	<u>\$ 18,618,799</u>	<u>\$ 80,968,233</u>

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
OPERATING REVENUES					
Charges for services	\$ 3,271,481	\$ 4,430,662	\$ 7,702,143	\$ 1,722,133	\$ 9,424,276
Program grants and subsidies	-	-	-	2,968,629	2,968,629
Other revenue	-	(698)	(698)	582,604	581,906
Total operating revenues	3,271,481	4,429,964	7,701,445	5,273,366	12,974,811
OPERATING EXPENSES					
Personal services	592,706	344,789	937,495	63,713	1,001,208
Administrative expense	510,823	505,467	1,016,290	1,043,091	2,059,381
Tenant services	-	-	-	96,945	96,945
Utilities	-	-	-	900,865	900,865
Maintenance, operations and contractual services	715,185	2,221,282	2,936,467	1,358,731	4,295,198
Protective services	-	-	-	56,726	56,726
General	-	-	-	458,973	458,973
Housing assistance payments	-	-	-	850,637	850,637
Employee benefits	426,786	164,490	591,276	-	591,276
Depreciation	1,114,300	1,361,989	2,476,289	893,483	3,369,772
Total operating expenses	3,359,800	4,598,017	7,957,817	5,723,164	13,680,981
NET OPERATING INCOME (LOSS)	(88,319)	(168,053)	(256,372)	(449,798)	(706,170)
NON-OPERATING REVENUES (EXPENSES)					
Interest income	34,553	45	34,598	14,021	48,619
Interest on bonds and notes	(312,912)	(395,282)	(708,194)	(59,593)	(767,787)
Miscellaneous expenses	-	-	-	(88)	(88)
Total non-operating revenues (expenses)	(278,359)	(395,237)	(673,596)	(45,660)	(719,256)
Transfers	(301,859)	93,236	(208,623)	-	(208,623)
Capital grants	-	-	-	377,540	377,540
NET INCOME (LOSS)	(668,537)	(470,054)	(1,138,591)	(117,918)	(1,256,509)
Net Assets, December 31, 2010	30,907,214	12,889,013	43,796,227	15,369,742	59,165,969
Prior period adjustment	-	-	-	9,627	9,627
Net Assets, as adjusted, December 31, 2009	30,907,214	12,889,013	43,796,227	15,379,369	59,175,596
Net Assets, December 31, 2011	\$30,238,677	\$ 12,418,959	\$ 42,657,636	\$15,261,451	\$ 57,919,087

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	PRIMARY GOVERNMENT		TOTAL PRIMARY GOVERNMENT	COMPONENT UNIT	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND			
Cash Flows From Operating Activities:					
Cash received from users	\$ 3,238,733	\$ 4,043,475	\$ 7,282,208	\$ 2,274,131	\$ 9,556,339
Cash paid to employees	(592,706)	(344,789)	(937,495)	(1,277,840)	(2,215,335)
Cash paid for employees benefits	(284,805)	(174,060)	(458,865)	-	(458,865)
Cash paid for operating expenses	(1,206,591)	(2,677,956)	(3,884,547)	(3,222,757)	(7,107,304)
Cash received from operating grants	-	-	-	3,001,015	3,001,015
Net Cash Provided by Operating Activities	1,154,631	846,670	2,001,301	774,549	2,775,850
Cash Flows From Noncapital Financing Activities:					
Payments from (to) related party	25,760	-	25,760	-	25,760
Payments from (to) other funds	(300,537)	456,905	156,368	-	156,368
Net Cash Provided by Noncapital Financing Activities	(274,777)	456,905	182,128	-	182,128
Cash Flows From Capital and Related Financing Activities:					
Purchase of Fixed Assets	(50,126)	(202,525)	(252,651)	(475,921)	(728,572)
Federal capital grant	-	-	-	377,540	377,540
Interest payments of bonded indebtedness	(312,912)	(395,282)	(708,194)	(59,592)	(767,786)
Principal payments for bonded indebtedness	(757,579)	(705,813)	(1,463,392)	(152,519)	(1,615,911)
Loans provided/paid, net	-	-	-	(281,341)	(281,341)
Net Cash (Used) by Capital and Related Financing Activities	(1,120,617)	(1,303,620)	(2,424,237)	(591,833)	(3,016,070)
Cash Flows From Investing Activities:					
Transfers to/from investments	-	-	-	(1,222)	(1,222)
Interest received	34,553	45	34,598	12,465	47,063
Net Cash Provided by Investing Activities	34,553	45	34,598	11,243	45,841
Net Increase (Decrease) in Cash and Cash Equivalents	(206,210)	-	(206,210)	193,959	(12,251)
Cash and Cash Equivalents at January 1, 2011	206,210	-	206,210	1,992,497	2,198,707
Cash and Cash Equivalents at December 31, 2011	\$ -	\$ -	\$ -	\$ 2,186,456	\$ 2,186,456
Reconciliation of operating income to net cash provided by operating activities:					
Operating loss	\$ (88,319)	\$ (168,053)	\$ (256,372)	\$ (449,798)	\$ (706,170)
Adjustments to reconcile operating loss to net cash provided by operating activities:					
Depreciation	1,114,300	1,361,989	2,476,289	893,483	3,369,772
Changes in assets and liabilities:					
Decrease (Increase) in accounts receivable	(32,748)	(386,489)	(419,237)	33,651	(385,586)
Decrease (Increase) in inventories	-	-	-	22,022	22,022
Decrease (Increase) in prepaid items	3,375	(37,945)	(34,570)	56,442	21,872
Increase (Decrease) in accounts payable	1,334	99,407	100,741	(16,201)	84,540
Increase (Decrease) in deferred revenues	-	-	-	15,463	15,463
Increase(Decrease) in accrued expenses and other liabilities	156,689	(22,239)	134,450	219,487	353,937
Net Cash Provided by Operating Activities	\$ 1,154,631	\$ 846,670	\$ 2,001,301	\$ 774,549	\$ 2,775,850

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

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2011

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 672,448
Due from other governments	<u>100,465</u>
Total assets	<u>\$ 772,913</u>
LIABILITIES	
Escrow funds returnable and other liabilities	<u>\$ 772,913</u>
Total liabilities	<u>772,913</u>
NET ASSETS	
Total liabilities and net assets	<u>\$ 772,913</u>

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

1. The Reporting Entity (Continued)

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 (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. 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, 2011

NOTE A - Summary of Accounting Policies (Continued)

2. Basic Financial Statements – Government-Wide Statements (Continued)

In the government-wide Statement of Net Assets, 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 assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the 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 assets 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, 2011

NOTE A - Summary of Accounting Policies (Continued)

3. Basic Financial Statements – Fund Financial Statements (Continued)

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

3. Basic Financial Statements – Fund Financial Statements (Continued)

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 assets and changes in net assets 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 the 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, 2011, which are available from the Housing Authority's office in Poughkeepsie, New York.

E. Fund Balance

In 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 changed the classification of fund balance to focus on the constraints imposed on resources in governmental funds, instead of the previous focus on availability for appropriation.

Fund balance is now broken down into five different classifications: nonspendable, restricted, committed, assigned, and unassigned.

Nonspendable consists of assets that are inherently nonspendable 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE A - Summary of Accounting Policies (Continued)

3. Basic Financial Statements – Fund Financial Statements (Continued)

E. Fund Balance (Continued)

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.

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

4. Basis of Accounting (Continued)

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, 2011, is as follows:

	GENERAL FUND	CAPITAL PROJECTS FUND	SPECIAL GRANT FUND	DEBT SERVICE FUND	NON- MAJOR FUNDS	BUSINESS TYPE ACTIVITIES	TOTAL
Non-Interest Bearing Accounts	\$ -	\$ -	\$ -	\$ -	\$ 279,091	\$ -	\$ 279,091
Interest Bearing Accounts	-	1,072,206	4,764,032	-	-	-	5,836,238
Restricted Cash - Interest Bearing	55,000	454,929	-	-	-	-	509,929
TOTALS	\$ 55,000	\$ 1,527,135	\$ 4,764,032	\$ -	\$ 279,091	\$ -	\$ 6,625,258

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts Continued)

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, 2011 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.

	CATEGORY <u>1</u>	CATEGORY <u>2</u>	CATEGORY <u>3</u>	MARKET <u>VALUE</u>	<u>TOTAL</u>
Money Market Funds	\$ -	\$ 173,680	\$ -	\$ 173,680	\$ 173,680
U.S. Treasury Notes	-	1,996,423	-	1,996,423	1,996,423
TOTALS	\$ -	\$ 2,170,103	\$ -	\$ 2,170,103	\$ 2,170,103

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

F. Deferred Revenues (Continued)

Deferred revenues consisted of the following at December 31, 2011:

	<u>GENERAL</u>	<u>SPECIAL</u>	<u>DEBT</u>	<u>NON-</u>	
	<u>FUND</u>	<u>GRANT</u>	<u>SERVICE</u>	<u>MAJOR</u>	
	<u>FUND</u>	<u>FUND</u>	<u>FUND</u>	<u>FUNDS</u>	<u>TOTAL</u>
Property Taxes	\$ 4,811,164	\$ -	\$ -	\$ -	\$ 4,811,164
Rehabilitation Loans	-	570,114	-	-	570,114
Revenues paid in advance	-	-	5,621,997	-	5,621,997
Fees paid in advance	-	-	-	25,917	25,917
TOTALS	<u>\$ 4,811,164</u>	<u>\$ 570,114</u>	<u>\$ 5,621,997</u>	<u>\$ 25,917</u>	<u>\$ 11,029,192</u>

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

H. Property Taxes (Continued)

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 2011 was \$38,270,392, of which the amount required for the tax levy was \$19,234,289, leaving a margin of \$19,036,103. Therefore, the 2011 City tax levy, which is based on the 2011 assessment roll, utilized approximately 50.26% 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.

32

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

M. Pension Plans (Continued)

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:

	<i>ERS</i>	<i>PFRS</i>
2011	\$ <u>1,127,852</u>	\$ <u>2,514,695</u>
2010	\$ <u>1,218,602</u>	\$ <u>1,950,959</u>
2009	\$ <u>714,523</u>	\$ <u>1,863,180</u>

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, 2011 is \$10,852,244.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011**

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

N. Post-employment Benefits (Continued)

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 \$3,842,700 for the year ended December 31, 2011. 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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

N. Post-employment Benefits (Continued)

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	<u>\$ 52,537,200</u>
Total Actuarial Accrued Liability	<u><u>\$ 52,537,200</u></u>
Annual Required Contribution (ARC)	<u><u>\$ 4,899,500</u></u>
Net OPEB Obligation - beginning of the year	<u>\$ 7,009,544</u>
Annual Required Contribution (ARC)	4,899,500
Interest on Net OPEB obligation	280,400
Adjustment to Annual Required Contribution	<u>(273,200)</u>
Annual OPEB cost	4,906,700
Actual Employer Contributions*	<u>(1,064,000)</u>
Increase in Net OPEB Obligation	<u>3,842,700</u>
Net OPEB Obligation - end of the year	<u><u>\$ 10,852,244</u></u>
Percent of annual OPEB cost contributed	21.68%

*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, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

N. Post-employment Benefits (Continued)

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, 2010, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level dollar amortization. The actuarial assumptions utilized a 4% 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>
2011	7.80%	7.80%	-
2012	6.00%	6.00%	-
2013	6.00%	6.00%	-
2014	5.90%	5.90%	-
2015	5.90%	5.90%	-
2016	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	8.20%	8.20%	-
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	2016	2016	-

*Information unavailable

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE A - Summary of Accounting Policies (Continued)

5. Financial Statement Amounts (Continued)

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, 2011 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

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, 2011. 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	\$ 8,070,299	\$ 12,268,234
Capital Projects	14,477,391	10,188,677
Special Grant	835,347	19,711
Debt Service	-	60,176
Non-Major	173,965	2,010,291
subtotal Governmental funds	<u>23,557,002</u>	<u>24,547,089</u>
Proprietary funds:		
Water	-	1,533,040
Sewer	2,523,127	-
subtotal Proprietary funds	<u>2,523,127</u>	<u>1,533,040</u>
TOTALS	<u>\$ 26,080,129</u>	<u>\$ 26,080,129</u>
	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General	\$ 610,817	\$ (5,512,894)
Capital Projects	-	-
Special Grant	-	(73,317)
Debt Service	5,796,905	-
Non-Major	-	(612,888)
subtotal Governmental funds	<u>6,407,722</u>	<u>(6,199,099)</u>
Proprietary funds:		
Water	-	(301,859)
Sewer	93,236	-
subtotal Proprietary funds	<u>93,236</u>	<u>(301,859)</u>
TOTALS	<u>\$ 6,500,958</u>	<u>\$ (6,500,958)</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, 2011

NOTE C – Capital Assets

	BALANCE JANUARY 1, 2011	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2011
Governmental activities:				
Land	\$ 3,823,617	\$ -	\$ -	\$ 3,823,617
Buildings	36,699,398	-	-	36,699,398
Infrastructure & Improvements	30,940,254	812,498	-	31,752,752
Machinery & equipment	25,042,002	2,704,765	-	27,746,767
Construction in Progress	18,435,950	6,011,991	(627,666)	23,820,275
Totals at historical cost	<u>114,941,221</u>	<u>9,529,254</u>	<u>(627,666)</u>	<u>123,842,809</u>
Less accumulated depreciation				
Buildings	(18,083,334)	(951,852)	-	(19,035,186)
Infrastructure & Improvements	(16,984,083)	(1,657,295)	-	(18,641,378)
Machinery & equipment	(19,884,174)	(1,942,540)	-	(21,826,714)
Total accumulated depreciation	<u>(54,951,591)</u>	<u>(4,551,687)</u>	<u>-</u>	<u>(59,503,278)</u>
Governmental activities				
capital assets, net	<u>\$ 59,989,630</u>	<u>\$ 4,977,567</u>	<u>\$ (627,666)</u>	<u>\$ 64,339,531</u>

*Depreciation was charged to governmental activities as follows:

General government support	\$ 875,420
Public safety	1,299,295
Health	2,245
Transportation	2,062,114
Economic assistance & opportunity	7,657
Culture & recreation	49,970
Home & community service	254,986
Total depreciation expense	<u>\$ 4,551,687</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE C – Capital Assets (Continued)

	BALANCE JANUARY 1, 2011	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2011
Business-type activities				
Land	\$ 34,384	\$ -	\$ -	\$ 34,384
Buildings	5,059,339	-	-	5,059,339
Infrastructure & Improvements	74,224,207	232,436	-	74,456,643
Machinery & equipment	5,425,028	-	-	5,425,028
Construction in Progress	997,049	20,215	-	1,017,264
Totals at historical cost	<u>85,740,007</u>	<u>252,651</u>	<u>-</u>	<u>85,992,658</u>
Less accumulated depreciation				
Buildings	(5,059,339)	-	-	(5,059,339)
Infrastructure & Improvements	(25,224,748)	(2,228,354)	-	(27,453,102)
Machinery & equipment	(5,052,733)	(247,935)	-	(5,300,668)
Total accumulated depreciation	<u>(35,336,820)</u>	<u>(2,476,289)</u>	<u>-</u>	<u>(37,813,109)</u>
Business-type capital assets, net	<u>\$ 50,403,187</u>	<u>\$ (2,223,638)</u>	<u>\$ -</u>	<u>\$ 48,179,549</u>

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

Home & community service	\$ 2,223,638
Total depreciation expense	<u>\$ 2,223,638</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, 2011 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, 2011

NOTE D - Long-Term Liabilities (Continued)

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, 2011, are summarized as follows:

	BALANCE JANUARY 1, 2011	INCREASE	(DECREASE)	BALANCE DECEMBER 31, 2011	AMOUNTS DUE WITHIN ONE YEAR
Long Term Liabilities:					
Serial Bonds	\$ 48,921,000	\$ 11,830,000	\$ (3,786,000)	\$ 56,965,000	\$ 3,565,367
Capital Leases	751,422	751,771	(282,188)	1,221,005	347,920
Judgments and Claims	500,000	-	-	500,000	-
Landfill Costs	446,538	-	(64,999)	381,539	10,295
Compensated Absences	6,492,525	-	(186,888)	6,305,637	61,000
Totals	\$ 57,111,485	\$ 12,581,771	\$ (4,320,075)	\$ 65,373,181	\$ 3,984,582

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, 2011

NOTE D - Long-Term Liabilities (Continued)

a. Serial Bonds (Continued)

The following is a schedule of the City's serial bonds as of December 31, 2011:

<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, 2011</u>
Public Improvement	12/91	2012	6.20%	\$ 3,557,100	\$ 25,000
Public Improvement	7/93	2013	4.88%	5,045,000	50,000
Public Improvement	5/94	2014	5.75%	2,000,000	45,000
Pine St. Refunding Bonds	3/96	2014	3.9-5.2%	1,450,000	310,000
Various Purposes	12/97	2012	4.40%	1,965,000	70,000
Various Purposes	3/01	2013	3.48-5.13%	545,451	255,000
Water	3/02	2023	2.95%	5,116,460	3,325,000
Waste Water Treatment Plant	3/03	2025	2.58%	2,485,000	1,680,000
Waste Water Treatment Plant	3/03	2028	2.95%	670,000	510,000
Sewer	7/03	2030	.79-4.612%	1,200,044	915,000
Various Purposes	3/04	2019	3.56%	10,565,000	6,525,001
Water Treatment Plant	7/05	2025	2.505-4.015%	164,476	135,000
Public Improvement	9/05	2024	3.25-5.50%	4,830,000	3,525,000
Public Improvement	7/06	2024	4.00%	8,535,000	6,825,000
Public Improvement	9/06	2016	5.50%	2,319,610	1,320,000
Drinking Water	7/06	2026	3.607-4.775%	854,751	685,000
Various Purposes	7/07	2023	4.00-5.00%	5,907,930	4,869,999
Various Purposes	7/08	2030	3.00%	5,350,000	4,870,000
Library	4/09	2030	2.00-5.00%	6,049,852	5,450,000
Water Treatment Plant	6/10	2019	.93-3.36%	3,188,667	1,545,000
Public Improvement	06/10	2024	.38-3.68%	2,545,000	2,200,000
Public Improvement	04/11	2016	3.90-6.75%	675,000	675,000
Public Improvement	04/11	2031	4.00-5.25%	11,155,000	11,155,000
TOTAL SERIAL BONDS				<u>\$ 86,174,341</u>	<u>\$ 56,965,000</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, 2011

NOTE D - Long-Term Liabilities (Continued)

The Bond Anticipation Notes Payable as of December 31, 2011 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>OF ISSUE</u>	<u>OUTSTANDING AT DECEMBER 31, 2011</u>
Various	4/11	4/12	1.05%	\$ 26,921,089	\$ 11,513,000
Total Bond Anticipation Notes				<u>\$ 26,921,089</u>	<u>\$ 11,513,000</u>

Changes in Bond Anticipation Notes Payable for the year ended December 31, 2011 are as follows:

	<u>BALANCE</u>	<u>BOND</u>	<u>REFINANCED/</u>	<u>BALANCE</u>	<u>AMOUNTS</u>
	<u>JANUARY 1, 2011</u>			<u>CONVERSION</u>	<u>PAYMENTS</u>
Bond Anticipation Notes Payable:					
Capital Projects	\$ 23,389,226	\$ (10,071,000)	\$ (1,805,226)	\$ 11,513,000	\$ 11,513,000
Sewer Fund	1,725,000	(1,705,000)	(20,000)	-	-
Water Fund	63,000	(54,000)	(9,000)	-	-
	<u>\$ 25,177,226</u>	<u>\$ (11,830,000)</u>	<u>\$ (1,834,226)</u>	<u>\$ 11,513,000</u>	<u>\$ 11,513,000</u>

c. Amortization

The annual requirements needed to amortize bonded debt as of December 31, 2011, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>December 31,</u>			
2012	\$ 3,565,000	\$ 2,718,593	\$ 6,283,593
2013	3,840,000	2,225,009	6,065,009
2014	3,935,000	2,072,913	6,007,913
2015	4,000,000	1,906,623	5,906,623
2016	4,150,000	1,731,730	5,881,730
2017-2021	18,310,000	6,191,401	24,501,401
2022-2026	12,635,000	2,807,659	15,442,659
2027-2031	6,530,000	761,226	7,291,226
<u>TOTALS</u>	<u>\$ 56,965,000</u>	<u>\$ 20,415,155</u>	<u>\$ 77,380,155</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE E - Defeasement of Debt

1. Defeasement of Water Fund Debt

In February 1996, the City received the proceeds of the sale of an interest in the City Water Treatment facility. Since the City had debt outstanding which funded a portion of the assets sold, but which was not callable, the City was required to establish a mandatory reserve for the principal amount. The reserve funds were placed in an irrevocable trust with an escrow agent which will be used to pay the debt when due. Accordingly, the bonds are considered to be defeased and the liability for those bonds has been removed from Long Term Liabilities.

The total debt defeased amounted to \$3,535,000. During the year ended December 31, 2011, the defeased debt was paid and the balance is now \$0.

2. 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 \$315,000.

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, 2011 amounted to \$231,261. These leases run for a maximum term of up to four years with renewal or purchase options available to the City.

At December 31, 2011, the approximate future annual operating lease commitments, subject to appropriation of funds, were as follows:

Year Ending December 31,	Operating Leases
2012	\$ 284,190
2013	255,790
2014	237,998
2015	109,261
Total minimum lease commitments	\$ 887,239

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE F – Leases (Continued)

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, 2011, the approximate future annual capital lease commitments, subject to appropriation of funds, were as follows:

Year Ending December 31,	Capital Leases
2012	\$ 347,920
2013	359,057
2014	370,802
2015	143,226
Total minimum lease commitments	\$ 1,221,005

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, 2011, the City had included \$3,167,997 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, 2011, the City owed Dutchess County \$3,089,098 for delinquent county property taxes.

CITY OF POUGHKEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

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, 2011 is as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
April-99	Water Treatment Plant Upgrade	\$ 333
November-99	City Hall	13,000
May-00	Storm Sewers	696
May-00	Academy Street lots and curbs	28,000
May-00	Whitter Blvd. Storm separation	300,000
May-00	Academy and South Ave Sewers	75,000
October-00	Sewer Treatment Plant Upgrades	30,550
May-01	Sewer Improvements	300,000
May-01	College Hill Reservoir	9,000
August-01	DPW Compound Bridge	99,000
October-01	Wastewater Treatment Plant	92,234
November-01	FPD Reconstruction phase 4	73,000
February-02	Reconstruction of Sewers	100,000

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE H - Commitments and Contingencies (Continued)

3. Authorized Debt (Continued)

April-03	Wastewater Treatment Plant	381,890
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
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
	Total	<u><u>\$ 9,102,950</u></u>

4. Capital Projects

Annually, the City revises its five year capital program which includes a total of \$129,418,000 in capital expenditures through the year 2016. 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE H - Commitments and Contingencies (Continued)

4. Capital Projects (Continued)

In particular, the planned expenditures for years 2012 through 2016 amount to \$3,901,000 for equipment and \$125,517,000 for infrastructure improvements for a total of \$129,418,000.

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

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, 2011, there were two series of Industrial Development Bonds outstanding, with an aggregate principal amount payable of \$18,282,215.

NOTE J - 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, 2011

NOTE J - Component Units (Continued)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

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, 2011

NOTE J - Component Units (Continued)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

b. Reporting Entity (Continued)

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, 2011

NOTE J - Component Units (Continued)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

c. Basis of Accounting (Continued)

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, 2011

NOTE J - Component Units (Continued)

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

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, 2011

NOTE J - Component Units (Continued)

2. Accounts Receivable

Accounts receivable at March 31, 2011, represents the following:

Accounts receivable - PHA projects	\$ 3,120
Accounts receivable - HUD	4,007
Accounts receivable - other governments	16,577
Tenant accounts receivable	84,755
Other receivables	170,682
Notes and mortgages receivable - current	2,458
Allowance for doubtful accounts	(60,927)
Accrued Interest receivable	2,018
	<u>\$ 222,690</u>

3. Property and Equipment

Property and equipment and the related depreciation as of March 31, 2011, are summarized as follows:

	Low Rent	Housing Choice Vouchers	NECAP	Accumulated Depreciation	Net Book Value
Land	\$ 337,280	\$ -	\$ -	\$ -	\$ 337,280
Buildings	29,829,223	-	-	25,966,257	3,862,966
Furniture, equipment & machinery - dwellings	492,601	-	-	415,933	76,668
Furniture, equipment & machinery - admin	896,870	2,071	3,291	761,857	140,375
Leasehold improvements	3,061,759	-	-	2,230,303	831,456
Construction in progress	49,634	-	-	-	49,634
	<u>\$ 34,667,367</u>	<u>\$ 2,071</u>	<u>\$ 3,291</u>	<u>\$ 29,374,350</u>	<u>\$ 5,298,379</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

3. Property and Equipment (Continued)

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

<u>Cost</u>	Balance March 31, 2010	Additions	Deletions	Balance March 31, 2011
Land	\$ 337,280	\$ -	\$ -	\$ 337,280
Buildings	29,526,067	303,156	-	29,829,223
Furniture, equipment & machinery - dwellings	474,998	19,078	1,475	492,601
Furniture, equipment & machinery - admin	822,778	81,054	1,600	902,232
Leasehold improvements	3,038,760	22,999	-	3,061,759
Construction in progress	-	49,634	-	49,634
	<u>\$ 34,199,883</u>	<u>\$ 475,921</u>	<u>\$ 3,075</u>	<u>\$ 34,672,729</u>

<u>Accumulated Depreciation</u>	Adjusted GAAP Balance March 31, 2010	Additions	Deletions	Balance March 31, 2011
Land	\$ -	\$ -	\$ -	\$ -
Buildings	25,298,055	668,290	1,382	25,964,963
Furniture, equipment & machinery - dwellings	388,913	28,314	-	417,227
Furniture, equipment & machinery - admin	735,942	27,515	1,600	761,857
Leasehold improvements	2,060,939	169,364	-	2,230,303
	<u>\$ 28,483,849</u>	<u>\$ 893,483</u>	<u>\$ 2,982</u>	<u>\$ 29,374,350</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

4. Prepaid Expenses and Other Assets

Prepaid expenses at March 31, 2011 consisted of the following:

Prepaid Insurance	<u>\$9,688</u>
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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.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

5. Pension and Other Retirement Benefits (Continued)

c. Funding Policies (Continued)

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:

2011	\$111,705
2010	67,297
2009	76,222

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 2011 would be based on the pension values as of March 31, 2010).

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

**CITY OF POUGHKEEPSIE, NEW YORK
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011**

NOTE J - Component Units (Continued)

5. Pension and Other Retirement Benefits (Continued)

1. Funding Policies (Continued)

- 3) For SFY 2007-8, 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 2011. 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, 2011, 1 retiree was eligible at an annual cost of \$4,548.

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, 2011, \$0 of the Authorities bank balance of \$2,439,460 was exposed to custodial risk as follows:

Cash	
Uncollateralized	\$ -
Collateralized with securities held by the pledging financial institution, or 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, 2011**

NOTE J - Component Units (Continued)

8. Intergovernmental Payables

Intergovernmental payables at March 31, 2011, consisted of the following:

Pilot payable	<u>\$154,268</u>
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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, 2011, the Authority had the following obligated but unexpended funds in open CFP projects:

CFP	Obligated But Unexpended
CFP 2010	\$ 152,851
CFRG 2009	-
CFP 2009	335,169
CFP 2008	65,929

11. Accrued Liabilities

Accrued liabilities consisted of the following as of March 31, 2011:

Accrued compensated absences	\$ 6,059
Accrued interests	8,874
Accrued payroll and taxes	24,741
Accrued other liabilities	<u>162,428</u>
	<u>\$ 202,102</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

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, 2009. The total of the remaining mortgage is \$9,702 with an interest rate of 5.375% maturing November 2015. The following is a summary of required principal repayments:

2012	\$	2,458
2013		2,737
2014		2,920
2015		1,587
	<u>\$</u>	<u>9,702</u>

The \$2,458 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 \$7,244 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, 2011, 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, 2011**

NOTE J - Component Units (Continued)

13. Non Current Assets (Continued)

State Housing (Continued)

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	\$	7,244
Mortgages receivable - state program		7,500,000
Accrued interest on mortgages receivable		<u>2,985,044</u>
		<u>\$ 10,492,288</u>

14. Investments

Investments at March 31, 2011, consisted of the following:

		Category
Savings account yielding .20%	\$ 95,076	1
Certificate of Deposits yielding 1.10% - 1.23%, maturing 7/16/10 - 7/14/11	<u>217,870</u>	1
	<u>\$ 312,946</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, 2011

NOTE J - Component Units (Continued)

14. Investments (Continued)

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, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year	Amount Due Greater Than One Year
Notes Payable:						
State of New York	\$ 2,242,278	\$ -	\$ (152,519)	\$ 2,089,759	\$ 152,519	\$ 1,937,240
Other Liabilities:						
Compensated absences	105,430	15,748	-	121,178	6,059	115,119
OPEB payable	54,179	57,886	-	112,065	-	112,065
Escrow payable	10,006	-	(8,471)	1,535	-	1,535
Total Other Liabilities	169,615	73,634	(8,471)	234,778	6,059	228,719
Long Term Liabilities	\$ 2,411,893	\$ 73,634	\$ (160,990)	\$ 2,324,537	\$ 158,578	\$ 2,165,959

a. Debt Maturity

Debt service requirements at March 31, 2011, were as follows:

<u>Year ended March 31</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 152,519	\$ 54,504
2013	152,519	50,416
2014	152,519	46,328
2015	152,519	42,240
2016	152,519	38,152
2017-2021	762,596	129,442
2022-2026	564,568	29,973
	<u>\$ 2,089,759</u>	<u>\$ 391,055</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

15. Long-Term Liabilities (Continued)

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, 2011. 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 \$4,548 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, 2011, the Authority contributed \$5,230 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, 2011

NOTE J - Component Units (Continued)

16. Post-Employment (Health Insurance) Benefits (Continued)

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	\$ 62,987
Annual OPEB cost (expense) and contributions made	(5,230)
Increase in net OPEB obligation	129
Net OPEB obligation - beginning of year	<u>54,179</u>
Net OPEB obligation - end of year	<u>\$ 112,065</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
3/31/2009	Authority did not implement GASB 45 until fiscal year ended March 31, 2010, therefore, no information is available for fiscal year ended March 31, 2009.		
3/31/2010	\$ 58,430	7%	\$ 54,179
3/31/2011	\$ 62,978	8%	\$ 112,065

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

16. Post-Employment (Health Insurance) Benefits (Continued)

c. Annual OPEB Cost and Net OPEB Obligation (Continued)

Funded Status and Funding Progress: As of March 31, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$583,833 and the actuarial value of assets was \$0, resulting in an underfunded actuarial accrued liability (UAAL) of \$585,833. The covered payroll (annual payroll of active employees covered by the plan) was \$983,863 and the ratio of the UAAL to the covered payroll was 59%. 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, 2011 was 29 years.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

17. Economic Dependency

For the year ended March 31, 2011, 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 \$3,086,524 for the year ending March 31, 2011.

18. Prior Year Adjustments

The total net assets beginning April 1, 2010, have been adjusted as follows:

Total net assets - beginning	\$ 15,689,388
Prior years expenses	<u>9,627</u>
Total net assets - beginning	<u><u>\$ 15,699,015</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 2011 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, 2011 consisted of P.I.L.O.T. in the amount of \$154,268 and water costs in the amount of \$96,945 and sewer in the amount of \$94,443.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE J - Component Units (Continued)

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, 2011, 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, 2011

NOTE J - Component Units (Continued)

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, 2011

NOTE J - Component Units (Continued)

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, 2011

NOTE J - Component Units (Continued)

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, 2011, total \$18,282,215.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2011

NOTE K - 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, 2011. 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, 2011

Total Assets	<u>\$ 17,304,646</u>
Total Liabilities	<u>\$ 1,190,697</u>
Joint Venture Net Assets	<u>\$ 16,113,949</u>
Total Revenues – 2011	<u>\$ 3,895,824</u>
Total Expenses - 2011	<u>\$ 4,626,251</u>

The City's net share of expenses amounted to \$548,104, which is included in Home and Community Service expenditures and received reimbursement of administrative costs of \$154,813 which is recorded as an Intergovernmental Revenue in the Water Fund. The City is owed \$329,590 for operations, which is reported as Due from Related Party as of December 31, 2011.

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, 2011 the outstanding balance is \$5,005,000.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2011

NOTE K - Joint Ventures (Continued)

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, 2011, 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, 2011</u>
Total Assets	<u>\$ 98,098</u>
Total Liabilities	<u>\$ 0</u>
Total Venture Equity	<u>\$ 124,832</u>
Total Revenues	<u>\$ 18</u>
Total Expenditures	<u>\$ 26,752</u>

During 2003, an Order of Consent was issued through the New York State Department of Environmental Conservation to remediate Environmental Conservation Law and New York Codes Rule and Regulations violations. To comply with this order the 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 \$10,295 and a long-term liability amounting to \$371,244 for a total liability of \$381,529 to account for the closure and monitoring liability.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2011

NOTE K - Joint Ventures (Continued)

2. Poughkeepsie-Wappingers-LaGrange Joint Landfill (Continued)

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

NOTE L – Legal Compliance

1. General Fund – Deficit Fund Balance

The General Fund incurred a deficit during 2011 of (\$4,513,135), resulting in a deficit fund balance of (\$9,476,673). 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 (\$4,513,135) 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 M - Subsequent Events

1. Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is November 8, 2012.
2. 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	04/19/12	04/19/13	1.50%	Various	\$ 4,035,000 *	2012A
Bond Anticipation Note	04/19/12	09/27/12	1.75%	Various	\$ 6,515,000 *	2012B
Capital Lease	08/13/12	07/15/17	2.86%	DPW Equipment	\$ 143,973 **	NA
Capital Lease	08/24/12	07/15/19	2.91%	Heavy Equipment	\$ 862,000 **	NA

*Re-financing of existing Bond Anticipation Notes

**New Debt

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011**

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Real property taxes	\$ 17,186,041	\$ 17,028,516	\$ 16,662,878	\$ (365,638)
Real property tax items	1,160,500	1,160,500	946,157	(214,343)
Non property tax items	11,532,900	11,532,900	12,455,109	922,209
Departmental income	2,769,920	2,769,920	2,113,268	(656,652)
Intergovernmental charges	99,000	99,000	172,051	73,051
Use of money and property	370,600	370,600	189,934	(180,666)
Licenses and permits	362,630	362,630	634,344	271,714
Fines and forfeitures	1,249,884	1,249,884	942,390	(307,494)
Sale of property and compensation for loss	440,400	440,400	459,342	18,942
Miscellaneous local sources	38,000	38,000	215,071	177,071
Interfund revenues	1,103,700	1,103,700	1,079,198	(24,502)
State aid	5,422,814	5,422,814	4,973,971	(448,843)
Federal aid	10,000	10,000	-	(10,000)
Total revenues	41,746,389	41,588,864	40,843,713	(745,151)
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriation of prior year's fund balance	41,746,389	41,588,864	40,843,713	(745,151)
EXPENDITURES AND ENCUMBRANCES				
General Government Support	5,463,296	5,463,296	6,172,030	(708,734)
Public safety	19,045,210	19,047,210	18,898,910	148,300
Health	50,025	50,025	51,396	(1,371)
Transportation	2,715,572	2,723,572	2,772,645	(49,073)
Economic assistance & opportunity	228,936	228,436	253,674	(25,238)
Culture and recreation	581,479	581,479	626,646	(45,167)
Home and community service	2,296,887	2,295,387	2,330,875	(35,488)
Employee benefits	8,093,959	8,093,959	9,399,904	(1,305,945)
Total expenditures and encumbrances	38,475,364	38,483,364	40,506,080	(2,022,716)
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	3,271,025	3,105,500	337,633	(2,767,867)
Other financing sources (uses):				
Operating transfers in	820,100	820,100	610,817	(209,283)
Operating transfers out	(4,091,125)	(3,925,600)	(5,512,894)	(1,587,294)
Total other financing sources	(3,271,025)	(3,105,500)	(4,902,077)	(1,796,577)
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	\$ -	\$ -	\$ (4,564,444)	\$ (4,564,444)
Explanation of Differences between Budgetary and GAAP Basis:				
Excess of revenues over/(under) expenditures - Budgetary basis			\$ (4,564,444)	
Expenditures do not include encumbrances			51,309	
Excess of revenue under expenditures - GAAP Basis			\$ (4,513,135)	

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2011**

<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>
12/31/2009	1/1/2008	\$ -	\$ 40,894,479	\$ 40,894,479	0.0%	\$ 9,205,234	444.25%
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%

OTHER SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

<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	\$ 4,347,468
* Community Development Block Grant Program- Entitlement Grants	14.218	1,827,172
Home Investment Partnership Program	14.239	15,325
Housing Opportunities * For Persons With Aids	14.241	443,502
Total Housing and Urban Development		<u>6,633,467</u>
U.S. Department of Justice		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	106,983
Public Safety Partnership and Community Policing	16.710	55,642
Edward Byrne Memorial Justice Assistance Grant Program (ARRA)	16.804	68,975
Total - U.S. Department of Justice		<u>231,600</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) (ARRA)	20.507	1,758,178
* Highway Planning and Construction	20.205	794,733
* Highway Planning and Construction (ARRA)	20.205	1,642,797
Total - U.S. Department of Transportation		<u>4,195,708</u>
Total Federal Awards Expended		<u>\$ 11,060,775</u>
* Major Program		

See Independent Auditor's Report
The accompanying Notes to the Schedule of Expenditures of Federal Awards
are an integral part of this Schedule.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011, 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, 2011</u>	<u>Amount Outstanding December 31, 2011</u>
Community Development Block Grant Program	14.218	\$ 63,651	\$ 381,184
Urban Development Action Grants	N/A	\$ -	\$ 188,929

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	\$ 150,569
Housing Opportunities For Persons With Aids	14.241	\$ 476,260

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF NEW YORK STATE
TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>Program Title</u>	<u>Funded NYS DOT Contract Ref. Number</u>	<u>Expenditures December 31, 2011</u>
Consolidated Local Streets & Highway Development Program	822046	\$ 318,528
State Transit Operation Assistance Program	822046	<u>377,896</u>
		<u>\$ 696,424</u>

See Independent Auditor's Report
The Accompanying Notes to the Schedule of Expenditures of New York State
Transportation Assistance are an integral part of this schedule.

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF NEW YORK STATE TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, 2011**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statement

Type of Auditor's report issued:	<u>Qualified</u>
Internal control over financial reporting:	
Material Weakness identified:	<u>None Noted</u>
Significant deficiencies:	<u>Two 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
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

Continuing Findings:

Significant Deficiencies:

Finding 1: General Ledger Adjustments:

A significant effort has been made over the past three 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 should include an analysis of the City's capital projects on an individual basis as well. However, material adjustments were made that resulted in a \$966,715 negative impact on ending fund balances, as noted below. Additionally a prior period adjustment was made between the General Fund and the Capital Projects Fund of \$559,231. These adjustments also impacted the initial report that was submitted to New York State for the year ended 2011.

Effect:

These adjustments, affecting assets and liability accounts, also impact the City's revenues and expenditures. Because they were made at the end of the year, these changes were not reflected in the City's interim budget reports. The net affect of these adjustments on fund balance were as follows:

Revenue over (under) Expenses

	Unadjusted	Adjusted	Net
General Fund	\$ (4,350,944)	\$ (4,513,135)	\$ (162,191)
Special Grant Fund	(213,930)	(481,312)	(267,382)
Misc. Special Revenue Fund	(96,097)	(111,037)	(14,940)
Water Fund	(165,885)	(145,036)	20,849
Sewer Fund	118,408	36,553	(81,855)
Capital Projects Fund	12,500,530	12,039,334	(461,196)
Transportation Fund	(667,357)	(667,357)	-
Debt Service Fund	67,905	67,905	-
	<u>\$ 7,192,630</u>	<u>\$ 6,225,915</u>	<u>\$ (966,715)</u>

Cause:

Current staffing does not allow for more timely reconciliations until at or after year-end.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 1: General Ledger Adjustments (Continued):

Recommendation:

It is important that monthly posting and reconciliations of general ledger accounts be done timely so that any discrepancies can be identified and resolved. This assures that correct information is being used for internal and external reporting on a timely basis. Management should monitor the progress of all general ledger reconciliations so that when problems are detected, they can be handled promptly. The City should continue to use a contract consultant, experienced in municipal accounting, on an as-needed basis to assist the Commissioner of Finance and Deputy Commissioner of Finance in this process. This person should have at least a bachelor's degree in accounting and could also be used to increase efficiencies in other areas identified in this audit and previous audits.

Response:

The Finance Department continues to make tremendous strides in addressing the timeliness and accuracy of its general ledger entries. With the help of a contracted consultant with extensive background in municipal accounting as well as additional training for the Principal Account clerk in the understanding, entry and monitoring of all general ledger entries, general ledger adjustment entries have been entered on a more timely and consistent manner than in the past. In 2010, the process for the New World Software upgrade was implemented and completed. As the City becomes more familiar with the upgrade, general ledger adjustments will be reduced to a bare minimum which will help in processing transactions and general ledger reconciliation.

Finding 2: 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 2011 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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 2: Fixed Assets (Continued):

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.

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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Reportable Non-Compliance

Finding 3: Budget Modifications:

The City over-expended its budget by (\$4,513,135). 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:

General Fund	Budgeted	Actual	Variance Over (Under)
Revenues			
Real property taxes	\$ 17,028,516	\$ 16,662,878	\$ (365,638)
Real property tax items	1,160,500	946,157	(214,343)
Non property tax items	11,532,900	12,455,109	922,209
Departmental income	2,769,920	2,113,268	(656,652)
Intergovernmental charges	99,000	172,051	73,051
Use of money and property	370,600	189,934	(180,666)
Licenses and permits	362,630	634,344	271,714
Fines and forfeitures	1,249,884	942,390	(307,494)
Sale of property and compensation for loss	440,400	459,342	18,942
Miscellaneous local sources	38,000	215,071	177,071
Interfund revenues	1,103,700	1,079,198	(24,502)
State aid	5,422,814	4,973,971	(448,843)
Federal aid	10,000	-	(10,000)
	<u>41,588,864</u>	<u>40,843,713</u>	<u>(745,151)</u>

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 3: Budget Modifications (Continued):

Expenditures			
General Government Support	5,463,296	6,132,693	669,397
Public safety	19,047,210	18,898,498	(148,712)
Health	50,025	51,396	1,371
Transportation	2,723,572	2,761,085	37,513
Economic assistance & opportunity	228,436	253,674	25,238
Culture and recreation	581,479	626,646	45,167
Home and community service	2,295,387	2,330,875	35,488
Employee benefits	8,093,959	9,399,904	1,305,945
	<u>38,483,364</u>	<u>40,454,771</u>	<u>1,971,407</u>
Operating transfers in	820,100	610,817	(209,283)
Operating transfers out	<u>(3,925,600)</u>	<u>(5,512,894)</u>	<u>(1,587,294)</u>
	<u>(3,105,500)</u>	<u>(4,902,077)</u>	<u>(1,796,577)</u>
	<u>\$ -</u>	<u>\$ (4,513,135)</u>	<u>\$ (4,513,135)</u>

Recommendation:

The City should reconcile accounts as suggested in Finding 1, avoiding significant audit adjustments at year end and provide for any necessary budgetary transfers and/or amendments before making expenditures.

Response:

Over the years, the City of Poughkeepsie engaged in two significant practices that distorted the true picture of its finances especially expenditures:

- 1. At year end, it was practice that the Finance Department presented a "cleanup" resolution to the previous year's actual expense to "balance" the budget.*

- 2. At year end, the account control for expenses were "opened" up to accommodate unpaid invoices that may not have been approved and do not have any backup purchase orders.*

The first practice rewarded the overspending by some departments knowing that at the end of the year, the overspending will be "cleaned up". Further, this encouraged the practice of "hiding funds" in other budget accounts that will be used for the "cleanup". The second practice reinforced either the lack of discipline to manage spending within approved budget limits or the sentiment of entitlement that departments are entitled to every dollar approved in the budget and more regardless of the financial realities.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 3: Budget Modifications (Continued):

The Commissioner of Finance, in consultation with the New York State OSC, decided to bypass any "cleanup" process at the end of the year. The goal is not to make any budget adjustments for a couple of years to get a true picture of the disparities between the adopted budget figures and actual expenditures. Although budget adjustments were processed all year long by the Budget Analyst, year end adjustments, especially for overextended accounts were not adjusted. The imbalances were under control for most of the year. They frequently turned up after all expenses were addressed at year end.

The years 2008 and 2009 were used to get true measures of the wide variances that existed between adopted budgetary expenditures and actual expenses. In 2010 the Purchase Card system was introduced and the upgrade of the New World Software for Finance was implemented. We had put in place the capability to adjust expenditures to the most current financial situation. This should allow the City to conduct business with minimal and timely budget adjustments. Going forward, we continue to address a major challenge, the year end undocumented, unapproved invoices and expenses that appear.

Finding 4: 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 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 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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION –
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 4: Budget Preparation (Continued):

- The HAP payments budget for the year was understated by \$766,527 or 22% in the City's adopted budget for the Section 8 Program for this budget line.
- Annual Rent Expense was not included in the City's adopted budget for the Program, although the City was aware of the executed leasing agreement. This resulted in a budget understatement of \$44,733 or 100% for this budget line.
- Professional Service Expenses for the year was understated by \$59,644 or 45% in the City's adopted budget for the Section 8 Program for this budget line.
- Employee Benefits for the year was understated by \$59,586 or 63% in the City's adopted budget for the Section 8 Program for this budget line.
- Office Expenses for the year were understated by \$21,634 or 90% in the City's adopted budget for the Section 8 Program for this budget line.
- 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.
- The Operating Budget for 2011 was prepared by the City's Finance Department with very limited input from the Section 8 Program staff.

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 as established municipal practice. In addition, lack of current accounting information can allow for **undetected misappropriation of funds** and for poor decision-making as reliance is made on incorrect financial data. The City cannot properly account for budgeted expense. Projected budget expenses were significantly understated.

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

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION –
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 4: Budget Preparation (Continued):

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.

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:

The City of Poughkeepsie's budget process begins with the Department Heads. It is the responsibility of the Department Head to gather all pertinent data to prepare all the budgets that are directly under their supervision. The Development Director has always had the responsibility of preparing the Section 8 budget. As a rule, the Budget Analyst and the Commissioner of Finance accepts departmental recommendations as long as the proposed budget is balanced and has no negative impact on the general operations of the City.

The day to day operational activities, especially the financial transactions are communicated, discussed, and handled on a regular basis amongst the financial consultant for Section 8 and the proper accounting / banking employees of the Finance Department.

The City has begun an organizational realignment to "right size" the City's governmental structure. The Development Director position has been eliminated and the

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION –
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 4: Budget Preparation (Continued):

Section 8 supervisor will be working directly with the Budget Analyst and the Commissioner of Finance to develop the budget. This should enhance the budgeting process and provide for better accuracy and monitoring.

Continuing Findings:

Other Matters:

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, similar to those described in Finding One, 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 as also discussed in Finding One.

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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

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. For example in the General Fund, one cash account shows a cash balance of \$65,000,000 while two others show a negative balance of \$48,000,000 and \$20,000,000, respectively.

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.

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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 7: Interfund Balances:

As of December 31, 2011 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.

Finding 8: Trust and Agency Balances:

As of December 31, 2011, the City's Trust and Agency (fiduciary) balances contained many old escrows, tax sale monies, and payroll amounts, including carrying old outstanding checks in excess of \$47,000. Further, the City is holding \$772,913 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.

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER SUPPLEMENTAL INFORMATION -
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2011**

Finding 8: Trust and Agency Balances (Continued):

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:

Every year the Finance Department experiences a tremendous amount of Trust and Agency balances that have to be resolved. The department has made considerable effort and continually puts in the effort to research and resolve Trust and Agency balances. Many of the issues have been results 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 #2