

**CITY OF POUGHKEEPSIE, NEW YORK
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2013**

CITY OF POUGHKEEPSIE, NEW YORK
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, New York, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Poughkeepsie Housing Authority, a component unit of the City of Poughkeepsie, which represents 99% of the assets, net position and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Poughkeepsie Housing Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

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for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on Governmental Activities

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

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the City of Poughkeepsie, New York, as of December 31, 2013, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, New York, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, and Other Post-employment Benefit Plan Schedule of Funding Progress, as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014, on our consideration of the City of Poughkeepsie's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Poughkeepsie's internal control over financial reporting and compliance.

Sedall & Company, CPA's

Poughkeepsie, New York
September 11, 2014

Navigating Your Success

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Poughkeepsie, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Poughkeepsie's basic financial statements, and have issued our report thereon dated September 11, 2014.

Internal Control Over Financial Reporting

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

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

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

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We did identify a deficiency in internal control, described in the accompanying Schedule of Findings, Questioned Costs, Recommendations and Responses, Finding One, that we consider to be a significant deficiency.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Sedall & Company, CPA's

Poughkeepsie, New York
September 11, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited the City of Poughkeepsie's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Poughkeepsie's major federal programs for the year ended December 31, 2013. The City of Poughkeepsie's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Poughkeepsie's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Poughkeepsie's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the City of Poughkeepsie complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

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

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

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

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

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

We have audited the financial statements of City of Poughkeepsie as of and for the year ended

December 31, 2013, and have issued our report thereon dated September 11, 2014, which contained adverse and unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Sedall & Company, CPAs

Poughkeepsie, New York
September 11, 2014

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

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

Report on Compliance for Each State Transportation Assistance Program

We have audited the City of Poughkeepsie's compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations ("NYCRR") that are applicable to each state transportation assistance program tested for the year ended December 31, 2013. The programs tested are identified in Exhibit IV, Schedule of Expenditures of New York State Transportation Assistance.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the City of Poughkeepsie's state transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and Draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the City of Poughkeepsie, New York's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

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Opinion on Each State Transportation Assistance Program

In our opinion, the City of Poughkeepsie complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its state transportation assistance programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City of Poughkeepsie is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Poughkeepsie's internal control over compliance with the types of requirements that could have a direct and material effect on each state transportation assistance program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each state transportation assistance program and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Poughkeepsie's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of New York State Transportation Assistance

We have audited the financial statements of City of Poughkeepsie as of and for the year ended December 31, 2013, and have issued our report thereon dated September 11, 2014, which contained adverse and unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of New York state transportation assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of New York State Transportation Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Sedall & Company, CPAs

Poughkeepsie, New York
September 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013 (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, 2013.

Financial Perspective:

After years of deficits, the City of Poughkeepsie closed the 2013 year with over \$800,000 surplus in its General Fund. Although still facing the daunting task of getting the City to a surplus fund balance, the 2013 results were very encouraging.

The City of Poughkeepsie's financial challenges are consistent with those of many municipalities across New York State. Property tax collections were short \$371,147 which followed the 2011 and 2012 property tax deficits of \$365,638 and \$432,032. Fiscal problems caused by unfunded mandates, skyrocketing health care and retirement system costs continue to adversely affect the City of Poughkeepsie as our community continues to deal with a slow recovery from the economic downturn experienced in the region over the past several years.

In 2013 the City's employee benefits contributed greatly to its expenses. Worker's Compensation expenses were more than \$200,000 over the 2013 budget however this is \$91,000 less than the 2012 actual. The City's retirement contribution rose \$125,000 compared to 2012. That is a 3.5% increase in a year. The health insurance expenses were almost \$5.1 million which is now over 12% of the General Fund expenditures. Employee benefits are over 23.5% of the General Fund appropriations. The City of Poughkeepsie must find answers and compromises for its employee benefits before they completely take over the General Fund appropriations.

Corporation Counsel continues to be challenged by many litigations. In 2013, the department continued to close many lawsuits some going back many years. The cost of handling these cases has cost the City over \$262,000 in legal contractual services. This is more than \$182,000 over the 2013 budget however \$200,000 less than the 2012 actual expense. Corporation Counsel has diligently addressed tax certs, personnel / union issues, and various litigations at the most cost efficiency for the City.

The City's assessment values have steadily dropped by more than \$690 million from the original "revaluation" assessment of 2006 with the most dramatic decreases from 2008 of over \$650 million. This is a direct result of the housing crisis accompanied by a sluggish recovery from the recession in recent years. The July 1, 2013 assessment showed the least decrease of 4.76%.

The City's debt in the years 2008-2012, (Serial Bonds, Bond Anticipation Notes and Installment Purchase Debt) had climbed to an astronomical amount of over \$76 million in 2009, with a debt service of over \$9 million in 2010. This trend has been reversed. The first step in reversing the increasing debt was to review the City's Capital Plan and only adopting projects that are either funded by CDBG or other grants or revenue producing. The second step taken was to prioritize

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

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

The City put together a budget for 2013 that had the objective of restoring year end surpluses and fund balances. The 2013 adopted budget saw the creation of a self-supporting sanitation enterprise fund that is completely independent of the General Fund. The Sanitation Fund is supported by sanitation fees accompanied by recycling revenues and reduction of tipping costs. The Sanitation Fund reflected a small deficit largely due to expense controls and the delay in the SLU (Scheduled Loss of Use) awards by the Workers Comp Board. The year ending 2014 will provide a better picture for the sanitation fund.

The departments have responded to the challenges of expense reductions. Manpower has been reduced to an all time low of 343. To reverse the current financial trend, the City has to look for other avenues of revenues. The City of Poughkeepsie continues to look for revenue opportunities within its capacity such as parking lot, permit, and license rates. The public auction of City owned properties brought in over \$1.4 million. The Common Council approved an on street parking meter program in its central business district for a 2014 implementation. This is a significant source of revenue for many municipalities.

The cost of energy has been on the rise. With hundreds of old light fixtures for streets and parks, the City has opportunity to improve its expenses. The Common Council has approved the LED project to proceed and work is being done to arrive at a financial proposal for Common Council approval that will include grants from NYSERDA, rate agreements with Central Hudson, and a competitive financing.

The City of Poughkeepsie will be facing three major expenses in 2014. In the fall of 2013, the EPA will be implementing higher drinking water standards that the Joint Water Plant has to comply with. The City's share of the ozone implementation will be over \$10 Million. This will be funded through EFC financing and rate increase in the Water Fund. The City started the implementation of the water meter upgrades with financing of \$5.1 million for the project. The City's water meters are over 25 years old and needed to be replaced for more accurate and equitable billing of water usage. Early results have indicated self-sufficiency and additional revenues to the water fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

Financial Highlights of 2013:

- The City's real property tax collection was \$17,344,520. This was \$371,947 less than the 2013 budget of \$17,716,467. The key contributing factor in the City's high rate of tax collection was the annual tax lien sale conducted for any unpaid property taxes. The last couple years have not been as productive with many liens unsold. PILOT (payments in lieu of taxes) revenue has increased in 2013 to \$628,138 compared to 2012 of \$571,396.
- Our Sales tax revenue as distributed by Dutchess County decreased in the year 2013 compared to 2012 by \$1,459,419 (2013 receipts were \$10,266,212 vs. 2012 receipts of \$11,725,631). We continue to receive (by formula) 7.0557% of the county's overall sales tax receipts. The 2013 budget reflected the county's reduction of sales tax distribution to the City capped at \$9.56 million. In 2013, the City entered into a countywide ten year agreement on county sales tax distribution that will guarantee \$9.56 million annually. The City will also participate in the county's growth receipts based on a population formula.
- After a few years of decreases to Aid and Incentives to Municipalities (AIM), the New York State funding has leveled off in 2012 and 2013 at \$4,248,021.
- In a planned recalibration of municipal bond ratings, the City of Poughkeepsie was upgraded to *A1* in the fall of 2010. In a review of its debt holdings in 2011, the City's rating was reduced to an *A2* rating. The City's rating remained at *A2* for 2012. In early 2013, Moody's further reduced the City's rating down to *Baa3*. Moody's identified the City's high debt and continuing deficits as the main reason for the rating reduction. In the latest bond rating conducted in early 2014, the City maintained its rating of *Baa3* due to signs of improvement.
- 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, 2011 assessment roll (used to produce the 2012 tax rate) reflected the value of \$1,954,424,460 which was a 25.5% decrease from the record valuation of 2007 or a loss in value of \$607,239,395. The July 1, 2013 assessment value was \$1,683,067,222 which was a loss in value of \$84,178,632 or a decrease of 4.76%. We are very confident that the softening of the housing market values is slowly reversing its trend and realize that this will restore much of the previous losses in the tax assessment rolls.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

- The City's mortgage tax collection for 2013 was \$274,763 compared to \$326,776 in 2012. The City's mortgage tax revenue has decreased \$52,010 or 16%. The mortgage tax has always accounted for less than 1% of the General Fund revenue, which is far less than most of the suburban municipalities.
- In these challenging times of continued declining revenue collections, the City has continued to implement tighter controls on its expenses. The 2013 General Fund expenditures were cut to \$42,535,105 from \$45,232,956 in 2012, a decrease of 5.96%. The total full time funded employees decreased from the all time high of 417 in 2008 down to 343 at the end of 2013. It is the goal of the City to continue reducing the personnel level through attrition and restructuring / consolidation.

1. Overview of the Financial Statements

These audited financial statements consist of six parts:

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

2. Financial Analysis of our City as a whole

Governmental Funds:

	Assets	2013	2012	Change
Non-Capital		\$ 23,635,417	\$ 25,978,814	\$ (2,343,397)
Capital		<u>65,876,070</u>	<u>67,971,855</u>	<u>(2,095,785)</u>
	Total Assets	<u>\$ 89,511,487</u>	<u>\$ 93,950,669</u>	<u>\$ (4,439,182)</u>
	Liabilities			
Current		\$ 25,245,479	\$ 35,776,137	\$ (10,530,658)
Non-Current		<u>62,097,328</u>	<u>57,222,620</u>	<u>4,874,708</u>
	Total Liabilities	<u>87,342,807</u>	<u>92,998,757</u>	<u>(5,655,950)</u>
	Deferred inflows of resources	<u>5,842,160</u>	<u>-</u>	<u>5,842,160</u>
	Net Position			
Capital		16,366,778	13,499,059	2,867,719
Unrestricted		<u>(20,040,258)</u>	<u>(12,547,147)</u>	<u>(7,493,111)</u>
	Total Net Position	<u>(3,673,480)</u>	<u>951,912</u>	<u>(4,625,392)</u>
	Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 89,511,487</u>	<u>\$ 93,950,669</u>	<u>\$ (4,439,182)</u>
	Revenues	2013	2012	Change
Program				
Fines, Fees & Charges		\$ 4,703,351	\$ 4,402,866	\$ 300,485
Operating Grants		12,171,343	11,231,173	940,170
Capital Grants		4,018,124	6,271,217	(2,253,093)
General Revenues				-
Property Taxes		18,942,608	17,863,074	1,079,534
Other Taxes		11,366,156	12,814,278	(1,448,122)
State Aid		497,983	475,394	22,589
Other Revenues		<u>4,055,362</u>	<u>2,038,279</u>	<u>2,017,083</u>
	Total Revenues	<u>55,754,927</u>	<u>55,096,281</u>	<u>658,646</u>
Expenses				-
General Government Support		9,444,094	7,951,040	1,493,054
Public Safety		31,086,588	27,176,412	3,910,176
Transportation		5,934,170	4,948,633	985,537
Economic Assistance		1,695,734	136,206	1,559,528
Culture and Recreation		835,382	703,238	132,144
Home and Community Service		7,415,390	14,444,929	(7,029,539)
Other		<u>2,051,842</u>	<u>2,063,529</u>	<u>(11,687)</u>
	Total Expenses	<u>58,463,200</u>	<u>57,423,987</u>	<u>1,039,213</u>
	Change in Net Position	<u>(2,708,273)</u>	<u>(2,327,706)</u>	<u>(380,567)</u>
	Net Position, January 1, as adjusted	<u>(965,207)</u>	<u>3,279,618</u>	<u>(4,244,825)</u>
	Net Position, December 31	<u>\$ (3,673,480)</u>	<u>\$ 951,912</u>	<u>\$ (4,625,392)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
Required Supplemental Information
For the Year Ended December 31, 2013, Cont'd.
(Un-audited)

Proprietary Funds:

Assets	2013	2012	Change
Non-Capital	\$ 7,441,169	\$ 15,566,328	\$ (8,125,159)
Capital	<u>58,017,576</u>	<u>46,292,269</u>	<u>11,725,307</u>
Total Assets	<u>\$ 65,458,745</u>	<u>\$ 61,858,597</u>	<u>\$ 3,600,148</u>
Liabilities			
Current	\$ 8,362,248	\$ 1,934,593	\$ 6,427,655
Non-Current	<u>14,753,180</u>	<u>17,590,956</u>	<u>(2,837,776)</u>
Total Liabilities	<u>23,115,428</u>	<u>19,525,549</u>	<u>3,589,879</u>
Net Position			
Capital	42,071,416	38,641,973	3,429,443
Unrestricted	<u>271,901</u>	<u>3,691,075</u>	<u>(3,419,174)</u>
Total Net Position	<u>42,343,317</u>	<u>42,333,048</u>	<u>10,269</u>
Total Liabilities and Net Position	<u>\$ 65,458,745</u>	<u>\$ 61,858,597</u>	<u>\$ 3,600,148</u>

Revenues	2013	2012	Change
Program			
Charges For Services	\$ 10,301,035	\$ 7,587,515	\$ 2,713,520
General Revenues			
Investment Earnings	<u>51,509</u>	<u>34,534</u>	<u>16,975</u>
Total Revenues	<u>10,352,544</u>	<u>7,622,049</u>	<u>2,730,495</u>
Expenses			
Home and Community Service	9,962,601	7,755,142	2,207,459
Transfers	<u>379,674</u>	<u>191,495</u>	<u>188,179</u>
Total Expenses	<u>10,342,275</u>	<u>7,946,637</u>	<u>2,395,638</u>
Change in Net Position	10,269	(324,588)	334,857
Net Position, January 1	<u>42,333,048</u>	<u>42,657,636</u>	<u>(324,588)</u>
Net Position, December 31	<u>\$ 42,343,317</u>	<u>\$ 42,333,048</u>	<u>\$ 10,269</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

General Fund

The General Fund is the primary operating fund of the City. The fund balance has experienced serious declines beginning with the years prior to 2012, however has had an increase in 2013 of \$813,000. Revenues continue to be impacted by the economic downturn which continues to impact fund balance. Spending controls have been put in place since the second half of 2008 to help reverse the fund balance trend and have seemed to finally have a positive effect in 2013.

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

City Revenues –General Fund (%)

Real Property taxes	17,344,520	40.92%
State Aid	5,105,006	12.04%
Real Property Tax Items	929,455	2.19%
Sales & Franchise Taxes	11,091,393	26.17%
Departmental Income	2,901,965	6.85%
Fines and Forfeitures	885,330	2.09%
All Other Revenues	4,130,366	9.74%
Total	42,388,035	100.00%

City Expenditures-General Fund (%)

Public Safety	18,010,635	43.32%
Transportation	2,676,119	6.44%
General Govt Support	5,863,567	14.10%
Culture & Recreation	491,558	1.18%
Employee Benefits	10,026,800	24.12%
Home & Community Services	367,691	0.88%
Transfers to Other Funds - net	3,964,063	9.53%
All other expenses	173,801	0.42%
Total	41,574,234	100.00%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

Water Fund

Our Water Fund has reflected a positive impact of our 2013 rate increase from \$2.59 per 100cf. (748 gallons) of water usage as measured through the meter to \$3.00. This rate increase was instrumental in allowing our City to maintain all levels of service in 2012 and 2013, and continues to provide good quality water to our residents and businesses. The total revenue for 2013 was \$3,548,904. Unfortunately, the water billing revenue collections have been less due to residents' inability to pay. All unpaid utility bills are rolled over to the tax bills. Our City continues to pursue opportunities to sell water to third-party customers. Anticipated sales to neighboring communities remain a key part of our City's strategy for the long-term good water quality for our City's residents as well as stabilized water rates. Combined with the City's share of third party water revenue, the City contributed \$1,662,112 to the Joint Water Project in 2013. The City is looking to address upgrades to its water transmission infrastructure. To help address the infrastructure needs such as the reservoir and old pipe replacements, water rates may have to be increased. The Water Fund fund balance continues its steady improvement with a net income of \$285,482 in 2013.

Sewer / Joint Sewer Fund

Our Sewer / Joint Sewer Fund also reflected the positive impact of a rate increase in 2013 from \$2.59 per 100cf. of water usage to \$3.00. Increasing fund balance is crucial to addressing the challenges of aging sewer infrastructures.

Transit Fund

Our transit system decreased ridership, however, increased in ridership revenue, with the 2013 bus fare rate of \$1.50. We continue to work with our traveling public to reach fair compromises between route efficiencies and use of taxpayer dollars that subsidize our transit system. In 2010 two hybrid-electric buses were ordered and received in 2011. These new hybrids were acquired through the Federal Transit ARRA grants. These new vehicles have helped reduce repair and fuel costs. In 2013 we completed the construction of a new transit hub on Market Street. The Federal Transit grants helped pay for this improvement that provided a safe and efficient bus loading zone for the riding public. Our ongoing goal is to ensure our traveling public gets quality service at the best possible price.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

Budgetary Highlights for the Year Ended December 31, 2013

In December 2012 our City adopted the 2013 tax rates of \$9.3606 per \$1,000 of FMV assessed valuation (Homestead rate) and \$11.3062 per \$1,000 of FMV (Non- Homestead Rate). Our 2013 General Fund tax levy increased over 2012 by \$347,381 or 2.0%. This budget reflected the enhancement and continuation of all city services. All variances in budgetary revenues and appropriations were 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 2013-2017 Capital Plan was adopted in August of 2012 with an original spending plan of under \$10.642 million. Formal funding decisions are normally made in the spring of the subsequent year (as the adopted capital plan is a non-binding plan). Our Capital Program is funded by budgeted operating funds, grants and financing proceeds. The City has maintained a very conservative approach towards any capital projects and has used financing primarily from grants and CDBG. The City's main objective was the completion of the Hoffman Bridge.

Long-Term Debt

Total City Long-Term debt principal on December 31, 2013 equated to \$49,560,001 (68% directly related to the General Fund and the remaining debt directly related to exempt water and sewer projects). The actual 2013 expenditures for total long term debt principal and interest were \$3,840,000 and \$2,083,203 respectively. In view of the current economic pressures, all future debt decisions are carefully investigated and weighed against budgetary impacts before final recommendations are proposed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplemental Information For the Year Ended December 31, 2013, Cont'd. (Un-audited)

Maintaining the Condition of the City's Infrastructure

The City of Poughkeepsie maintains 67.39 miles of roads and approximately 47 miles of sidewalks and curbing. Monies are allocated each year in both the operating budget and Capital Plan to allow for said required maintenance and upkeep. In 2013 the City expended over \$1.5 million (\$474,849 from CHIPS in the General Fund) on the upkeep and improvement of its roads and sidewalks.

Component Unit Reports

Copies of the audit reports for any of the City's component units can be obtained from their respective administrative offices, as described in the enclosed footnotes.

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
DECEMBER 31, 2013

ASSETS	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u> <u>PRIMARY</u> <u>GOVERNMENT</u>	<u>COMPONENT</u> <u>UNITS</u>
Current assets:				
Cash and cash equivalents	\$ 7,108,499	\$ -	\$ 7,108,499	\$ 2,277,223
Investments	1,144,268	-	1,144,268	317,815
Restricted cash	268,745	-	268,745	321,797
Receivables (net)	11,176,579	3,168,842	14,345,421	213,629
Internal balances	(4,060,175)	4,060,175	-	-
Due from related parties	561,416	-	561,416	-
Due from other governments	7,361,149	165,330	7,526,479	-
Inventories - net of allowance	-	-	-	72,743
Prepaid expenses	74,936	46,822	121,758	50,674
Total current assets	<u>23,635,417</u>	<u>7,441,169</u>	<u>31,076,586</u>	<u>3,253,881</u>
Non-current assets:				
Restricted cash & cash equivalents	-	-	-	1,189
Due from related party	-	-	-	-
Other assets	-	-	-	11,054,557
Investment in Joint Water Project	-	10,008,200	10,008,200	-
Capital assets:				
Land	3,823,617	34,384	3,858,001	337,280
Improvements and Infrastructure net of depreciation	12,029,586	47,804,992	59,834,578	-
Buildings, machinery and equipment, net of depreciation	20,524,364	170,000	20,694,364	6,504,726
Construction in progress	29,498,503	-	29,498,503	-
Total capital assets	<u>65,876,070</u>	<u>48,009,376</u>	<u>113,885,446</u>	<u>6,842,006</u>
Total assets	<u>\$ 89,511,487</u>	<u>\$ 65,458,745</u>	<u>\$ 154,970,232</u>	<u>\$ 21,151,633</u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION (Continued)
DECEMBER 31, 2013

LIABILITIES	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
Current Liabilities:				
Accounts payable	\$ 4,086,582	\$ 619,072	\$ 4,705,654	\$ 51,820
Accrued liabilities and retainage payable	4,533,946	518,934	5,052,880	171,277
Tenant security deposits	-	-	-	141,917
Due to other governments	3,392,916	-	3,392,916	106,491
Deferred revenues and other liabilities	34,464	7,088	41,552	19,475
Due to related party	-	145,312	145,312	445,251
Notes payable	9,890,000	5,630,656	15,520,656	-
Current portion of long-term liabilities				
Capital lease	514,431	-	514,431	-
Retirement liability	229,178	-	229,178	-
Compensated absence liability	61,000	-	61,000	-
Landfill remediation liability	9,148	-	9,148	-
Bonds payable	2,493,814	1,441,186	3,935,000	152,519
Total current liabilities	<u>25,245,479</u>	<u>8,362,248</u>	<u>33,607,727</u>	<u>1,088,750</u>
Non-current liabilities:				
Judgments and claims	500,000	-	500,000	-
Capital lease payable	862,999	-	862,999	-
Retirement liability	2,774,866	-	2,774,866	-
Compensated absence liability	6,009,231	248,206	6,257,437	116,898
Landfill remediation liability	341,960	-	341,960	-
Bonds payable	31,120,028	14,504,974	45,625,002	1,632,201
Other post-employment benefits	20,488,244	-	20,488,244	-
Other long term liabilities	-	-	-	181,983
Total non-current liabilities	<u>62,097,328</u>	<u>14,753,180</u>	<u>76,850,508</u>	<u>1,931,082</u>
Total liabilities	<u>87,342,807</u>	<u>23,115,428</u>	<u>110,458,235</u>	<u>3,019,832</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,842,160</u>	<u>-</u>	<u>5,842,160</u>	<u>-</u>
NET POSITION				
Invested in Capital Assets and Joint Water				
Project net of related debt	16,366,778	42,071,416	58,438,194	6,842,006
Restricted	-	-	-	171,983
Unrestricted	(20,040,258)	271,901	(19,768,357)	11,117,812
Total net position	<u>(3,673,480)</u>	<u>42,343,317</u>	<u>38,669,837</u>	<u>18,131,801</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 89,511,487</u>	<u>\$ 65,458,745</u>	<u>\$ 154,970,232</u>	<u>\$ 21,151,633</u>

See independent auditors' report

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

FUNCTIONS/PROGRAMS	CHANGES IN NET POSITION							COMPONENT UNITS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities:								
General government support	\$ 9,444,094	\$ 563,967	\$ -	\$ -	\$ (8,880,127)	\$ -	\$ (8,880,127)	\$ -
Public safety	31,086,588	1,721,306	405,155	65,617	(28,894,510)	-	(28,894,510)	-
Health	209,458	112,219	-	-	(97,239)	-	(97,239)	-
Transportation	5,934,170	2,099,877	660,459	3,952,507	778,673	-	778,673	-
Economic assistance & opportunity	1,695,734	25	-	-	(1,695,709)	-	(1,695,709)	-
Culture and recreation	835,382	75,245	28,815	-	(731,322)	-	(731,322)	-
Home and community services	7,415,390	130,712	11,076,914	-	3,792,236	-	3,792,236	-
Interest on long-term debt	1,842,384	-	-	-	(1,842,384)	-	(1,842,384)	-
Total governmental activities	58,463,200	4,703,351	12,171,343	4,018,124	(37,570,382)	-	(37,570,382)	-
Business-type activities:								
Water Fund	2,877,493	3,548,904	-	-	-	671,411	671,411	-
Sewer Fund	4,832,560	4,513,523	-	-	-	(319,037)	(319,037)	-
Sanitation Fund	2,252,548	2,238,608	-	-	-	(13,940)	(13,940)	-
Total business-type activities	9,962,601	10,301,035	-	-	-	338,434	338,434	-
Total primary government	\$ 68,425,801	\$ 15,004,386	\$ 12,171,343	\$ 4,018,124	(37,570,382)	338,434	(37,231,948)	-
Component Units:								
Poughkeepsie Housing Authority	\$ 5,377,233	\$ 1,790,003	\$ 2,832,646	\$ 186,358	-	-	-	(568,226)
City of Poughkeepsie IDA	9,327	-	-	-	-	-	-	(9,327)
Total component units	\$ 5,386,560	\$ 1,790,003	\$ 2,832,646	\$ 186,358	-	-	-	(577,553)
General revenues								
Taxes:								
Real property taxes					18,942,608	-	18,942,608	-
Sales taxes					10,221,670	-	10,221,670	-
Mortgage taxes					274,763	-	274,763	-
Utility taxes					335,357	-	335,357	-
Franchise taxes					534,366	-	534,366	-
Payments from other governments					497,983	-	497,983	-
Grants and contributions not restricted to specific programs					8,075	-	8,075	-
Unrestricted investment earnings					111,220	51,509	162,729	7,433
Special item-Gains on sale of property and compensation for loss					2,033,031	-	2,033,031	-
Miscellaneous					1,523,362	-	1,523,362	583,818
Transfers					379,674	(379,674)	-	-
Total general revenues, special items and transfers					34,862,109	(328,165)	34,533,944	591,251
Change in net position					(2,708,273)	10,269	(2,698,004)	13,698
Net position - beginning					951,912	42,333,048	43,284,960	18,103,845
Prior period adjustments					(1,917,119)	-	(1,917,119)	14,258
Adjusted net position - beginning					(965,207)	42,333,048	41,367,841	18,118,103
Net position - ending					\$ (3,673,480)	\$ 42,343,317	\$ 38,669,837	\$ 18,131,801

**CITY OF POUGHKEEPSIE, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	<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	\$ -	\$ 2,529,998	\$ 3,790,101	\$ 211,979	\$ 576,421	\$ 7,108,499
Investments	710,318	-	433,950	-	-	1,144,268
Restricted cash	55,000	213,745	-	-	-	268,745
Receivables:						
Taxes	7,550,277	-	-	-	-	7,550,277
Other	881,484	-	31,558	-	1,662	914,704
Mortgage loans receivable	-	-	653,224	-	-	653,224
Due from other funds	6,195,660	6,299,491	835,347	7,400	173,965	13,511,863
Due from related party	-	116,165	445,251	-	-	561,416
Due from other governments	2,284,646	-	-	5,035,000	41,503	7,361,149
State and federal receivable	166,967	767,644	552,474	-	571,289	2,058,374
Prepaid expenses	50,392	-	8,651	-	15,894	74,937
Total assets	<u>\$ 17,894,744</u>	<u>\$ 9,927,043</u>	<u>\$ 6,750,556</u>	<u>\$ 5,254,379</u>	<u>\$ 1,380,734</u>	<u>\$ 41,207,456</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY						
LIABILITIES						
Accounts payable	\$ 3,377,046	\$ 332,963	\$ 291,294	\$ -	\$ 85,279	\$ 4,086,582
Accrued liabilities	3,395,868	-	45,021	-	80,021	3,520,910
Retainage payable	-	684,847	10,555	-	-	695,402
Bond anticipation notes payable	-	9,890,000	-	-	-	9,890,000
Due to other funds	13,375,349	1,714,254	3,004	-	2,479,432	17,572,039
Due to other governments	3,392,916	-	-	-	-	3,392,916
Other liabilities	20,025	-	11,156	-	3,283	34,464
Total liabilities	<u>23,561,204</u>	<u>12,622,064</u>	<u>361,030</u>	<u>-</u>	<u>2,648,015</u>	<u>39,192,313</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,554,099</u>	<u>-</u>	<u>653,225</u>	<u>5,035,000</u>	<u>26,637</u>	<u>11,268,961</u>
FUND EQUITY						
Fund balance (deficit):						
Assigned	1,683,302	7,417,457	5,736,301	219,379	146,855	15,203,294
Unassigned	(12,903,861)	(10,112,478)	-	-	(1,440,773)	(24,457,112)
Total fund equity	<u>(11,220,559)</u>	<u>(2,695,021)</u>	<u>5,736,301</u>	<u>219,379</u>	<u>(1,293,918)</u>	<u>(9,253,818)</u>
Total liabilities, deferred inflows of resources and fund equity	<u>\$ 17,894,744</u>	<u>\$ 9,927,043</u>	<u>\$ 6,750,556</u>	<u>\$ 5,254,379</u>	<u>\$ 1,380,734</u>	<u>\$ 41,207,456</u>

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2013

Total fund balance for governmental funds	\$ (9,253,818)
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Total net position reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	65,876,070
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Long-term liabilities, including bonds payable, compensated absences, judgement and claims, post-employment benefits, retirement contribution, landfill remediation liabilities and capital leases are not due and payable in the current period and therefore are not reported in the funds.	(65,404,899)
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Certain deferred revenues are recorded when billed.	5,426,801
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Accrued interest is not reported in the funds.	<u>(317,634)</u>
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Total net position of governmental activities	<u><u>\$ (3,673,480)</u></u>
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CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	GENERAL FUND	CAPITAL PROJECTS FUND	SPECIAL GRANT FUND	DEBT SERVICE FUND	NON- MAJOR FUNDS	TOTAL FUNDS
REVENUES						
Real property taxes	\$ 17,344,520	\$ -	\$ -	\$ -	\$ -	\$ 17,344,520
Real property taxes items	929,455	-	-	-	-	929,455
Non property taxes items	11,091,393	-	-	-	-	11,091,393
Departmental income	2,901,965	-	24,836	-	417,918	3,344,719
Intergovernmental charges	89,664	-	-	408,319	-	497,983
Use of money and property	(23,070)	440	1,827	132,014	9	111,220
Licenses and permits	627,421	-	-	-	-	627,421
Fines and forfeitures	885,330	-	-	-	-	885,330
Sale of property and compensation for loss	2,024,968	-	-	-	-	2,024,968
Miscellaneous local sources	175,261	42,368	-	-	52,875	270,504
Interfund revenues	1,236,122	-	-	-	-	1,236,122
State aid	5,105,006	45,961	-	-	1,073,789	6,224,756
Federal aid	-	2,989,265	6,612,851	-	508,049	10,110,165
Total revenues	42,388,035	3,078,034	6,639,514	540,333	2,052,640	54,698,556
EXPENDITURES						
General government support	5,863,567	115,834	23,107	40,394	239,193	6,282,095
Public safety	18,010,635	-	-	-	304,114	18,314,749
Health	173,501	-	-	-	-	173,501
Transportation	2,676,119	2,035,934	-	-	826,774	5,538,827
Economic assistance & opportunity	300	59,213	-	-	-	59,513
Culture and recreation	491,558	-	-	-	-	491,558
Home and community services	367,691	-	6,394,370	-	286,073	7,048,134
Employee benefits	10,026,800	-	166,309	-	228,201	10,421,310
Debt service	-	-	-	5,349,001	-	5,349,001
Total expenditures	37,610,171	2,210,981	6,583,786	5,389,395	1,884,355	53,678,688
Excess of revenues over expenditures	4,777,864	867,053	55,728	(4,849,062)	168,285	1,019,868
Other financing sources:						
Proceeds of debt	-	-	-	835,000	-	835,000
Bans redeemed from appropriations	-	660,000	-	-	-	660,000
Operating transfers in	960,871	-	-	4,825,208	237,000	6,023,079
Operating transfers out	(4,924,934)	(336,786)	(25,835)	-	(355,850)	(5,643,405)
Refunding debt escrow payment	-	-	-	(826,937)	-	(826,937)
Total other financing sources	(3,964,063)	323,214	(25,835)	4,833,271	(118,850)	1,047,737
Excess (deficiency) of revenue and other sources over expenditures and other uses	813,801	1,190,267	29,893	(15,791)	49,435	2,067,605
Fund Balance, December 31, 2012	(12,034,360)	(3,885,288)	5,706,408	235,170	(1,343,353)	(11,321,423)
Fund Balance, December 31, 2013	\$ (11,220,559)	\$ (2,695,021)	\$ 5,736,301	\$ 219,379	\$ (1,293,918)	\$ (9,253,818)

CITY OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013

Net change in fund balance - total government funds \$ 2,067,605

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

Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (2,095,785)

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

Debt issued:			
BANs redeemed from appropriations	660,000		
Proceeds from refunding debt	835,000		
Repayments:			
Bond principal	3,084,448		
Refunding debt escrow payment	826,937		
Capital lease payment	501,626		
Net			2,918,011

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (79,457)

Some expenses reported in the statement of activities, such as compensated absences, retirement and landfill liabilities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (6,195,343)

Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds. 676,696

Net change in net position of governmental activities \$ (2,708,273)

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013

	PRIMARY GOVERNMENT			TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND	SANITATION FUND			
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 2,277,223	\$ 2,277,223
Investments	-	-	-	-	317,815	317,815
Restricted cash and cash equivalents	-	-	-	-	321,797	321,797
Receivables:						
Charges for Services	1,317,182	1,302,100	386,807	3,006,089	213,629	3,219,718
Other	118,318	44,435	-	162,753	-	162,753
Internal balances	1,139,080	2,956,657	(35,562)	4,060,175	-	4,060,175
Due from related party	-	-	-	-	-	-
Due from other governments	-	165,330	-	165,330	-	165,330
Inventories - net of allowance	-	-	-	-	72,743	72,743
Prepaid expenses	2,931	41,573	2,318	46,822	50,674	97,496
Total current assets	<u>2,577,511</u>	<u>4,510,095</u>	<u>353,563</u>	<u>7,441,169</u>	<u>3,253,881</u>	<u>10,695,050</u>
Non current assets:						
Restricted cash and cash equivalents	-	-	-	-	1,189	1,189
Due from related party	-	-	-	-	-	-
Other assets	-	-	-	-	11,054,557	11,054,557
Investment in Joint Water Project	10,008,200	-	-	10,008,200	-	10,008,200
Capital assets:						
Land	-	34,384	-	34,384	337,280	371,664
Buildings, net of depreciation	-	-	-	-	6,504,726	6,504,726
Improvements and Infrastructure, net of depreciation	30,810,219	16,994,773	-	47,804,992	-	47,804,992
Machinery and equipment, net of depreciation	17,917	152,083	-	170,000	-	170,000
Construction in progress	-	-	-	-	-	-
Total capital assets	<u>30,828,136</u>	<u>17,181,240</u>	<u>-</u>	<u>48,009,376</u>	<u>6,842,006</u>	<u>54,851,382</u>
Total non current assets	<u>40,836,336</u>	<u>17,181,240</u>	<u>-</u>	<u>58,017,576</u>	<u>17,897,752</u>	<u>75,915,328</u>
Total Assets	<u>\$ 43,413,847</u>	<u>\$ 21,691,335</u>	<u>\$ 353,563</u>	<u>\$ 65,458,745</u>	<u>\$ 21,151,633</u>	<u>\$ 86,610,378</u>

	PRIMARY GOVERNMENT			TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND	SANITATION FUND			
LIABILITIES AND NET POSITION						
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 36,604	\$ 444,941	\$ 137,527	\$ 619,072	\$ 51,820	\$ 670,892
Accrued liabilities	188,135	76,990	253,809	518,934	171,277	690,211
Tenant security deposits	-	-	-	-	141,917	141,917
Due to other governments	-	-	-	-	106,491	106,491
Other liabilities	1,033	812	5,243	7,088	-	7,088
Deferred revenues and other liability	-	-	-	-	19,475	19,475
Due to related party	145,312	-	-	145,312	445,251	590,563
Notes payable	5,630,656	-	-	5,630,656	-	5,630,656
Current portion of bonds payable	692,395	748,791	-	1,441,186	152,519	1,593,705
Total current liabilities	6,694,135	1,271,534	396,579	8,362,248	1,088,750	9,450,998
Non-current liabilities:						
Compensated absence liability	232,206	16,000	-	248,206	116,898	365,104
Bonds, notes, and loans payable	6,730,551	7,774,423	-	14,504,974	1,632,201	16,137,175
Other long term liabilities	-	-	-	-	181,983	181,983
Total non-current liabilities	6,962,757	7,790,423	-	14,753,180	1,931,082	16,684,262
Total liabilities	13,656,892	9,061,957	396,579	23,115,428	3,019,832	26,135,260
NET POSITION						
Invested in Capital Assets and Joint						
Water Project net of related debt	33,413,390	8,658,026	-	42,071,416	6,842,006	48,913,422
Restricted	-	-	-	-	171,983	171,983
Unrestricted (deficit)	(3,656,435)	3,971,352	(43,016)	271,901	11,117,812	11,389,713
Total net position	29,756,955	12,629,378	(43,016)	42,343,317	18,131,801	60,475,118
Total liabilities and net position	\$ 43,413,847	\$ 21,691,335	\$ 353,563	\$ 65,458,745	\$ 21,151,633	\$ 86,610,378

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013

	PRIMARY GOVERNMENT			TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND	SANITATION FUND			
OPERATING REVENUES						
Charges for services	\$ 3,548,904	\$ 4,513,523	\$ 2,238,608	\$ 10,301,035	\$ 1,790,003	\$ 12,091,038
Government operating grants	-	-	-	-	2,832,646	2,832,646
Other revenue	-	-	-	-	583,818	583,818
Total operating revenues	3,548,904	4,513,523	2,238,608	10,301,035	5,206,467	15,507,502
OPERATING EXPENSES						
Personal services	563,041	297,613	-	860,654	-	860,654
Administrative expense	495,530	554,795	315,412	1,365,737	850,029	2,215,766
Tenant services	-	-	-	-	85,583	85,583
Utilities	-	-	-	-	652,687	652,687
Maintenance, operations and contractual services	420,460	2,429,375	1,366,466	4,216,301	1,324,887	5,541,188
Protective services	-	-	-	-	46,866	46,866
General	-	-	-	-	417,996	417,996
Housing assistance payments	-	-	-	-	1,074,778	1,074,778
Employee benefits	290,289	245,722	570,670	1,106,681	-	1,106,681
Depreciation	1,127,789	883,167	-	2,010,956	883,166	2,894,122
Total operating expenses	2,897,109	4,410,672	2,252,548	9,560,329	5,335,992	14,896,321
NET OPERATING INCOME (LOSS)	651,795	102,851	(13,940)	740,706	(129,525)	611,181
NON-OPERATING REVENUES (EXPENSES)						
Interest income	51,436	7	66	51,509	7,433	58,942
Interest on bonds and notes	19,616	(421,888)	-	(402,272)	(50,416)	(452,688)
Miscellaneous expenses	-	-	-	-	(152)	(152)
Total non-operating revenues (expenses)	71,052	(421,881)	66	(350,763)	(43,135)	(393,898)
Transfers	(437,365)	86,833	(29,142)	(379,674)	-	(379,674)
Capital grants	-	-	-	-	186,358	186,358
NET INCOME (LOSS)	285,482	(232,197)	(43,016)	10,269	13,698	23,967
Net Position, December 31, 2012	29,471,473	12,861,575	-	42,333,048	18,103,845	60,436,893
Adjustments to beginning net position	-	-	-	-	14,258	14,258
Net Position, December 31, 2012, adjusted	29,471,473	12,861,575	-	42,333,048	18,118,103	60,451,151
Net Position, December 31, 2013	\$ 29,756,955	\$ 12,629,378	\$ (43,016)	\$ 42,343,317	\$18,131,801	\$ 60,475,118

**CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	PRIMARY GOVERNMENT			TOTAL PRIMARY GOVERNMENT	COMPONENT UNIT	TOTAL PROPRIETARY FUNDS
	WATER FUND	SEWER FUND	SANITATION FUND			
Cash Flows From Operating Activities:						
Cash received from users	\$ 3,414,605	\$ 5,022,871	\$ 1,851,801	\$ 10,289,277	\$ 1,799,326	\$ 12,088,603
Cash received - other	-	-	-	-	602,026	602,026
Cash paid to employees	(563,041)	(297,613)	-	(860,654)	(1,094,447)	(1,955,101)
Cash paid for employees benefits	(274,014)	(243,036)	(316,861)	(833,911)	-	(833,911)
Cash paid for operating expenses	(862,630)	(3,003,638)	(1,541,426)	(5,407,694)	(3,205,152)	(8,612,846)
Cash received from operating grants	-	-	-	-	2,844,800	2,844,800
Net Cash Provided by Operating Activities	<u>1,714,920</u>	<u>1,478,584</u>	<u>(6,486)</u>	<u>3,187,018</u>	<u>946,553</u>	<u>4,133,571</u>
Cash Flows From Noncapital Financing Activities:						
Payments from (to) related party	(1,119,163)	-	-	(1,119,163)	-	(1,119,163)
Payments from (to) other funds	(2,120,787)	(155,207)	6,420	(2,269,574)	-	(2,269,574)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(3,239,950)</u>	<u>(155,207)</u>	<u>6,420</u>	<u>(3,388,737)</u>	<u>-</u>	<u>(3,388,737)</u>
Cash Flows From Capital and Related Financing Activities:						
Purchase of Fixed Assets	(3,565,803)	(162,260)	-	(3,728,063)	(268,245)	(3,996,308)
Increase in investment in Joint Water	(296,785)	-	-	(296,785)	-	-
Federal capital grant	-	-	-	-	186,358	186,358
Proceeds of new debt	5,630,656	-	-	5,630,656	-	-
Interest payments of bonded indebtedness	19,616	(421,887)	-	(402,271)	(50,416)	(452,687)
Principal payments for bonded indebtedness	(676,314)	(739,237)	-	(1,415,551)	(152,520)	(1,568,071)
Loans provided/paid, net	-	-	-	-	(283,953)	(283,953)
Net Cash (Used) by Capital and Related Financing Activities	<u>1,111,370</u>	<u>(1,323,384)</u>	<u>-</u>	<u>(212,014)</u>	<u>(568,776)</u>	<u>(6,114,661)</u>
Cash Flows From Investing Activities:						
Transfers to/from investments	-	-	-	-	(1,907)	(1,907)
Interest received	51,436	7	66	51,509	7,985	59,494
Net Cash Provided by Investing Activities	<u>51,436</u>	<u>7</u>	<u>66</u>	<u>51,509</u>	<u>6,078</u>	<u>57,587</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(362,224)	-	-	(362,224)	383,855	21,631
Cash and Cash Equivalents at January 1, 2013	<u>362,224</u>	<u>-</u>	<u>-</u>	<u>362,224</u>	<u>2,216,354</u>	<u>2,578,578</u>
Cash and Cash Equivalents at December 31, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,600,209</u>	<u>\$ 2,600,209</u>
Reconciliation of operating income to net cash provided by operating activities:						
Operating income	\$ 651,795	\$ 102,851	\$ (13,940)	\$ 740,706	\$ (129,525)	\$ 611,181
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	1,127,789	883,167	-	2,010,956	883,166	2,894,122
Changes in assets and liabilities:						
Decrease (Increase) in accounts receivable	(134,299)	509,348	(386,807)	(11,758)	52,938	41,180
Decrease (Increase) in inventories	-	-	-	-	3,283	3,283
Decrease (Increase) in prepaid items	(2,931)	(41,573)	(2,318)	(46,822)	54,930	8,108
Increase (Decrease) in accounts payable	26,337	21,305	137,527	185,169	(13,470)	171,699
Increase (Decrease) in deferred revenues	-	-	-	-	(13,253)	(13,253)
Increase(Decrease) in accrued expenses and other liabilities	46,229	3,486	259,052	308,767	108,484	417,251
Net Cash Provided by Operating Activities	<u>\$ 1,714,920</u>	<u>\$ 1,478,584</u>	<u>\$ (6,486)</u>	<u>\$ 3,187,018</u>	<u>\$ 946,553</u>	<u>\$ 4,133,571</u>

CITY OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2013

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 718,080
Due from other governments	<u>100,465</u>
Total assets	<u><u>\$ 818,545</u></u>
LIABILITIES	
Escrow funds returnable and other liabilities	<u>\$ 818,545</u>
Total liabilities	<u>818,545</u>
NET POSITION	
Total liabilities and net position	<u><u>\$ 818,545</u></u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013

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). 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, 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, 2013

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

1. The Reporting Entity (Cont'd.)

Poughkeepsie Housing Authority

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

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

Poughkeepsie Industrial Development Agency

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

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 L.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, sewer, and sanitation services are classified as business-type activities.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

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

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

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or mortgage taxes, intergovernmental revenues, interest income, etc.). All inter-fund (internal) activity is eliminated.

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

3. Basic Financial Statements – Fund Financial Statements

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

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

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

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

A. Governmental Funds (Cont'd)

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. Such revenues are considered operating revenues. All other revenues are considered non-operating revenues.

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, sewer, and sanitation services.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

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

C. Fiduciary Funds

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

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

D. Component Unit Year End

As described above, the Poughkeepsie Housing Authority is not considered to be part of the primary government and is presented as a component unit of the City. The financial information for this component unit in the accompanying basic financial statements is derived from its most recently issued audited annual financial statements as of and for the year ended March 31, 2013, which are available from the Housing Authority's office in Poughkeepsie, New York.

E. Fund Balance

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

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

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

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

taken prior to the end of the fiscal year, commit fund balance.

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

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

E. Fund Balance (Cont'd.)

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.

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

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.

Demand, time deposits and certificates of deposit with a maturity date of 30 days are considered cash equivalents for purpose of the cash flow statement.

The cash of the City at December 31, 2013, is as follows:

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>SPECIAL GRANT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>NON- MAJOR FUNDS</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
Interest Bearing							
Accounts	\$ -	\$10,653,762	\$3,790,101	\$ 211,979	\$576,421	\$ -	\$15,232,263
Restricted Cash -							
Interest Bearing	55,000	302,151	-	-	-	-	357,151
TOTALS	\$ 55,000	\$10,955,913	\$3,790,101	\$ 211,979	\$576,421	\$ -	\$15,589,414

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.

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, 2013, 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

B. Investments

	<u>CATEGORY</u> <u>1</u>	<u>CATEGORY</u> <u>2</u>	<u>CATEGORY</u> <u>3</u>	<u>MARKET</u> <u>VALUE</u>	<u>TOTAL</u>
Money Market Funds	\$ -	\$ 51,832	\$ -	\$ 51,832	\$ 51,832
U.S. Treasury Notes	-	1,092,436	-	1,092,436	1,092,436
TOTALS	\$ -	\$ 1,144,268	\$ -	\$ 1,144,268	\$ 1,144,268

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.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

E. Capital Assets

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 Inflows of Resources

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

Deferred inflows of resources consisted of the following at December 31, 2013:

	GENERAL FUND	SPECIAL GRANT FUND	DEBT SERVICE FUND	NON- MAJOR FUNDS	TOTAL
Property Taxes	\$ 5,426,801	\$ -	\$ -	\$ -	\$ 5,426,801
Rehabilitation Loans	-	653,225	-	-	653,225
Revenues paid in advance	-	-	5,035,000	-	5,035,000
Fees paid in advance	127,298	-	-	26,637	153,935
TOTALS	\$ 5,554,099	\$ 653,225	\$ 5,035,000	\$ 26,637	\$11,268,961

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

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.

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 2013 was \$34,949,918, of which the amount required for the tax levy was \$20,472,218, leaving a margin of \$15,477,700. Therefore, the 2013 City tax levy, which is based on the 2012 assessment roll, utilized approximately 56.95% 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

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.

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

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.

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. However Chapter 57 of the laws of 2010 allow participating employers to amortize a portion of their annual pension costs. The City determined that portions of the 2011, 2012 and 2013 contributions would be amortized. As more fully described in Note D, Short and Long-Term Liabilities, the unpaid contributions as of December 31, 2013 amounted to \$3,004,044. Payments on this debt, including interest, is billed by the Retirement Systems and included in the minimum amortization payment due each year. The contributions made, including required minimum amortization amounts for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2013	<u>\$ 1,366,652</u>	<u>\$ 2,849,931</u>
2012	<u>\$ 1,368,197</u>	<u>\$ 2,782,613</u>
2011	<u>\$ 1,127,852</u>	<u>\$ 2,514,695</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

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, 2013, is \$20,488,244.

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 - Retiree Coverage	50%	35%
IAFF - Retiree Coverage	50%	35%
PBA - Retiree Coverage	50%	35%

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

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

Annual Other Post-employment Benefit Cost

The City's OPEB cost (expense) amounted to \$5,067,400 for the year ended December 31, 2013. 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.

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>\$71,613,500</u>
Total Actuarial Accrued Liability	<u>\$71,613,500</u>
Annual Required Contribution (ARC)	<u>\$ 6,275,100</u>
Net OPEB Obligation - beginning of the year	<u>\$15,420,844</u>
Annual Required Contribution (ARC)	6,275,100
Interest on Net OPEB obligation	462,600
Adjustment to Annual Required Contribution	<u>(521,700)</u>
Annual OPEB cost	6,216,000
Actual Employer Contributions*	<u>(1,148,600)</u>
Increase in Net OPEB Obligation	<u>5,067,400</u>
Net OPEB Obligation - end of the year	<u>\$20,488,244</u>
Percent of annual OPEB cost contributed	18.48%

*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, 2013

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

5. Financial Statement Amounts (Cont'd.)

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

Actuarial Methods and Assumptions

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

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

Fiscal Year	Pre-65 Medical	Post-65 Medical	Prescription Drug*
2013	7.80%	7.80%	-
2014	6.40%	6.40%	-
2015	5.90%	5.90%	-
2016	5.90%	5.90%	-
2017	5.90%	5.90%	-
2018-2019	5.90%	5.90%	-

	Pre-65 Medical	Post-65 Medical	Prescription Drug*
Healthcare cost trend rate assumed for next fiscal year	6.40%	6.40%	-
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.60%	4.60%	-
Fiscal year that the rate reaches the ultimate trend rate	2082	2082	-

*Information unavailable

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

5. Financial Statement Amounts (Cont'd.)

O. Risk of Loss

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, 2013, are reported as part of Assigned Fund Balance in the General Fund, totaling \$1,500,000.

P. Use of Estimates

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

Q. Subsequent Events

Management has evaluated subsequent events through September 11, 2014 the date the financial statements were available to be issued.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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, 2013. These inter-fund balances have been eliminated as part of the aggregation of balances in the statement of net assets. Such balances arise through the use of a pooled cash disbursement account and the temporary funding of capital projects. Transfers are recorded for the reimbursement of expenses and the permanent funding of capital projects.

<u>FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>	
General	\$ 6,195,660	\$ 13,375,349	
Capital Projects	6,299,491	1,714,254	
Special Grant	835,347	3,004	
Debt Service	7,400	-	
Non-Major	173,965	2,479,432	
subtotal Governmental funds	<u>13,511,863</u>	<u>17,572,039</u>	
Proprietary funds:			
Water	1,139,080		*
Sewer	2,956,657		*
Sanitation		35,561	*
subtotal Proprietary funds	<u>4,095,737</u>	<u>35,561</u>	
TOTALS	<u>\$ 17,607,600</u>	<u>\$ 17,607,600</u>	
	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>	
General	\$ 960,871	\$ (4,924,934)	
Capital Projects	-	(292,583)	
Special Grant	-	(25,835)	
Debt Service	4,781,005	-	
Non-Major	237,000	(355,850)	
subtotal Governmental funds	<u>5,978,876</u>	<u>(5,599,202)</u>	
Proprietary funds:			
Water	-	(437,365)	*
Sewer	86,833	-	*
Sanitation	-	(29,142)	*
subtotal Proprietary funds	<u>86,833</u>	<u>(466,507)</u>	
TOTALS	<u>\$ 6,065,709</u>	<u>\$ (6,065,709)</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, 2013

NOTE C – Capital Assets

The following describes the City's Capital Assets:

	BALANCE JANUARY 1, 2013	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2013
Governmental activities:				
Land	\$ 3,823,617	\$ -	\$ -	\$ 3,823,617
Buildings	35,931,810	-	-	35,931,810
Infrastructure & Improvements	32,741,734	804,978	-	33,546,712
Machinery & equipment	28,966,254	71,426	-	29,037,680
Construction in Progress	28,953,768	544,735	-	29,498,503
Totals at historical cost	130,417,183	1,421,139	-	131,838,322
Less accumulated depreciation				
Buildings	(19,871,900)	(932,662)	-	(20,804,562)
Infrastructure & Improvements	(20,049,616)	(1,467,510)	-	(21,517,126)
Machinery & equipment	(22,523,812)	(1,116,752)	-	(23,640,564)
Total accumulated depreciation	(62,445,328)	(3,516,924)	-	(65,962,252)
Governmental activities capital assets, net	\$ 67,971,855	\$ (2,095,785)	\$ -	\$ 65,876,070

*Depreciation was charged to governmental activities as follows:

General government support	\$ 845,747
Public safety	569,685
Transportation	1,797,868
Economic assistance & opportunity	7,657
Culture & recreation	49,242
Home & community service	246,725
Total depreciation expense	\$ 3,516,924

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE C – Capital Assets (Cont'd.)

	BALANCE JANUARY 1, 2013	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2013
Business-type activities				
Land	\$ 34,384	\$ -	\$ -	\$ 34,384
Buildings	5,059,339	-	-	5,059,339
Infrastructure & Improvements	75,167,516	604,012	-	75,771,528
Machinery & equipment	5,425,028	173,850	-	5,598,878
Construction in Progress	604,012	3,554,213	(604,012)	3,554,213
Totals at historical cost	86,290,279	4,332,075	(604,012)	90,018,342
Less accumulated depreciation				
Buildings	(5,059,339)	-	-	(5,059,339)
Infrastructure & Improvements	(29,533,400)	(1,987,349)	-	(31,520,749)
Machinery & equipment	(5,405,271)	(23,607)	-	(5,428,878)
Total accumulated depreciation	(39,998,010)	(2,010,956)	-	(42,008,966)
Business-type capital assets, net	\$ 46,292,269	\$ 2,321,119	\$ (604,012)	\$ 48,009,376

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

Home & community service	\$ 2,010,956
Total depreciation expense	\$ 2,010,956

NOTE D – Short and Long-Term Liabilities

1. Types

a. 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 liabilities are considered general obligation debt, supported by the full faith and credit of the City. Short-term notes are recorded in the funds, while the long-term portion is only reflected in the government-wide statements. Current principal and interest payments are included in the expenditures of the Debt Service Fund. The City has utilized 36.14% of its constitutional debt limit as of December 31, 2013, 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.

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

2. Changes

The changes in the City's indebtedness during the year ended December 31, 2013, are summarized as follows:

	BALANCE JANUARY 1, 2013	INCREASE	(DECREASE)	BALANCE DECEMBER 31, 2013	AMOUNTS DUE WITHIN ONE YEAR
Long Term Liabilities:					
Serial Bonds - governmental	\$ 36,038,289	\$ -	\$ (2,424,449)	\$ 33,613,840	\$ 2,493,814
Serial Bonds - proprietary	17,361,711	-	(1,415,551)	15,946,160	1,441,186
Retirement Liability - ERS	1,011,859	540,048	(44,141)	1,507,766	120,200
Retirement Liability - PFRS	905,260	626,188	(35,170)	1,496,278	108,978
Capital Leases	1,879,056	-	(501,626)	1,377,430	514,431
Judgments and Claims	500,000	-	-	500,000	-
Landfill Costs	359,922	-	(8,815)	351,107	9,148
Compensated Absences	6,249,644	68,793	-	6,318,437	63,000
Totals	<u>\$ 64,305,741</u>	<u>\$ 1,235,029</u>	<u>\$ (4,429,752)</u>	<u>\$ 61,111,018</u>	<u>\$ 4,750,757</u>

Compensated absences and vacation pay are shown net, since it is impracticable to determine the changes separately. Retirement and other post-employment benefit liabilities are allocated on a City-wide basis, as amounts due from proprietary funds are immaterial. Upon implementation of GASB #68, as described in Note N, New Reporting Standards, it is expected that those liabilities will be material.

3. Description

a. Bond Anticipation Notes Payable

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

The Bond Anticipation Notes Payable as of December 31, 2013, are as follows:

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

<u>PURPOSE</u>	<u>ISSUE DATE</u>	<u>MATURITY DATE</u>	<u>INTEREST RATE</u>	<u>ORIGINAL AMOUNT OF ISSUE</u>	<u>AMOUNT OUTSTANDING AT DECEMBER 31, 2013</u>
Various Equipment and Improvements	2/14/13	2/14/14	1.50%	\$ 3,780,000	\$ 3,780,000
Southern Waterfront	7/26/13	4/22/14	1.875%	6,110,000	6,110,000
Water Meter Replacement and Upgrades	9/26/13	7/15/14	2.00%	5,630,656	5,630,656
Total Bond Anticipation Notes				<u>\$ 15,520,656</u>	<u>\$ 15,520,656</u>

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

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

Changes in Bond Anticipation Notes Payable for the year ended December 31, 2013, are as follows:

<u>FUND</u>	<u>BALANCE JANUARY 1, 2013</u>	<u>NEW ISSUE</u>	<u>REFINANCED/ PAYMENTS</u>	<u>BALANCE DECEMBER 31, 2013</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
General	\$ 10,160,000	\$ -	\$ (470,000)	\$ 9,690,000	\$ 9,690,000
Transit	390,000	-	(190,000)	200,000	200,000
Water	-	5,630,656	-	5,630,656	5,630,656
Totals	<u>\$ 10,550,000</u>	<u>\$ 5,630,656</u>	<u>\$ (660,000)</u>	<u>\$ 15,520,656</u>	<u>\$ 15,520,656</u>

b. 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, 2013

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

b. Serial Bonds (Cont'd.)

The following is a schedule of the City's serial bonds as of December 31, 2013:

<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, 2013</u>
Public Improvement	7/93	2013	4.88%	\$ 5,045,000	\$ -
Public Improvement	5/94	2014	5.75%	2,000,000	15,000
Pine St. Refunding Bonds	3/11	2014	3.9-5.2%	310,000	100,000
Various Purposes	3/01	2020	3.48-5.13%	285,000	195,000
Water	3/02	2023	2.95%	5,116,460	2,855,000
Waste Water Treatment Plant	3/03	2025	2.58%	2,485,000	1,485,000
Waste Water Treatment Plant	6/12	2028	2.95%	490,000	470,000
Sewer	7/03	2030	.79-4.612%	1,200,044	835,000
Various Purposes	3/04	2019	3.56%	10,565,000	5,100,001
Water Treatment Plant	7/05	2025	2.505-4.015%	164,476	120,000
Public Improvement	9/05	2024	3.25-5.50%	4,830,000	3,095,000
Public Improvement	7/06	2024	4.00%	8,535,000	6,000,000
Public Improvement	9/06	2016	5.50%	2,319,610	825,000
Drinking Water	7/06	2026	3.607-4.775%	854,751	610,000
Various Purposes	7/07	2023	4.00-5.00%	5,907,930	4,219,999
Various Purposes	7/08	2030	3.00%	5,350,000	4,465,000
Library	4/09	2030	2.00-5.00%	6,049,852	5,035,000
Water Treatment Plant	6/10	2019	.93-3.36%	1,710,000	1,200,000
Public Improvement	06/10	2024	.38-3.68%	2,390,000	1,905,000
Public Improvement	04/11	2016	3.90-6.75%	675,000	435,000
Public Improvement	04/11	2031	4.00-5.25%	11,155,000	10,595,000
TOTAL SERIAL BONDS				\$77,438,123	\$ 49,560,000

c. Amortization

The annual requirements needed to amortize bonded debt as of December 31, 2013, are as follows:

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

c. Amortization (Cont'd)

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,935,000	\$ 2,029,105	\$ 5,964,105
2015	4,000,000	1,866,008	5,866,008
2016	4,150,000	1,693,333	5,843,333
2017	3,850,000	1,527,043	5,377,043
2018	4,020,000	1,362,087	5,382,087
2019-2023	17,210,000	4,610,993	21,820,993
2024-2028	9,010,000	1,806,560	10,816,560
2029-2033	3,385,000	252,230	3,637,230
	<u>\$ 49,560,000</u>	<u>\$ 15,147,359</u>	<u>\$ 64,707,359</u>

The annual requirements needed to amortize retirement debt as of December 31, 2013, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 229,178	\$ 43,083	\$ 272,261
2015	334,721	43,083	377,804
2016	334,721	43,083	377,804
2017	334,721	43,083	377,804
2018	334,721	43,083	377,804
2019-2023	1,594,294	198,155	1,792,449
2024	105,544	-	105,544
	<u>3,267,900</u>	<u>413,570</u>	<u>3,681,470</u>
Less 2014 liability	<u>(263,856)</u>	<u>-</u>	<u>(263,856)</u>
	<u>\$ 3,004,044</u>	<u>\$ 413,570</u>	<u>\$ 3,417,614</u>

NOTE E - Defeasement of Debt

1. Advance Refunding of Sewer Fund Debt

In 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 \$105,000.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE E - Defeasement of Debt (Cont'd)

2. Refunding of Water/Sewer Fund Debt

In 2013, the City participated in the NYS Environmental Facilities Corporation refunding of its 2003 issue, which resulted in a reduction of its overall interest cost, but not a change in the principal reduction schedule. The refunding debt has an average interest rate of 4.454% with a net present value savings of \$59,348. The net proceeds of the refunding debt, \$826,937, after payment of \$8,063 in underwriting and other issuance costs, was 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 2003 Series bonds being refunded. Consequently, the 2003 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's accounts. The debt was subsequently called and paid.

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, 2013 amounted to \$194,095. These leases run for a maximum term of up to five years with renewal or purchase options available to the City.

At December 31, 2013, the approximate future annual operating lease commitments, subject to appropriation of funds, were as follows:

Year Ending December 31,	Operating Leases
2014	\$ 172,736
2015	167,250
2016	138,759
2017	53,385
2018	-
Total minimum lease commitments	\$ 532,130

2. Capital Leases

The City currently has four capital leases. The leases include an emergency communications system and those for various equipment and vehicles, for a total asset cost of \$2,619,372. Payments, including principal and interest, are made until the lease commitment is paid in full.

At December 31, 2013, the approximate future annual capital lease commitments, subject to appropriation of funds, were as follows:

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

Year Ending December 31,	Capital Leases
2014	\$ 514,431
2015	291,024
2016	152,087
2017	156,502
2018	129,803
Thereafter	133,583
Total minimum lease commitments	<u>\$ 1,377,430</u>

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, 2013, the City had included \$3,262,249 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, 2013, the City owed Dutchess County \$109,734 for delinquent county property taxes.

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

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. Capital Projects

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

In particular, the planned expenditures for years 2014 through 2018 amount to \$5,453,000 for equipment and \$75,744,000 for infrastructure improvements for a total of \$81,197,000.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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

4. Authorized Debt

The City's authorized but unissued debt as of December 31, 2013 is as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
September-03	Dutchess Ave. Pump Station	\$ 12,000
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
March-09	Southern Waterfront Local Share	2,664,380
February-10	Hoffman Street Bridge Replacement	11,115,683
February-13	Poughkeepsie Public Library Project	2,852,870
June-13	Poughkeepsie Water Treatment - Centrifuge Upgrade	1,195,428
July-13	Poughkeepsie Water Treatment - Disinfection Byproduct Upgrade	8,658,717
	Total	<u>\$ 33,387,325</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

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, 2013, there was one Industrial Development Bond outstanding, with an aggregate principal amount payable of \$3,679,074.

NOTE J – Legal Compliance

1. General Fund – Deficit Fund Balance

The General Fund has a deficit fund balance of (\$11,220,559). 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 (\$2,650,818) caused by expending proceeds of bond anticipation notes. As payments are made on the debt and/or when permanent financing is obtained for the projects, revenue will be recorded eliminating the deficit.

NOTE K - Component Units

Poughkeepsie Housing Authority

1. Description of Organization and Summary of Significant Accounting Policies

a. Organization

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

b. Reporting Entity

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

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

POUGHKEEPSIE HOUSING AUTHORITY

The financial statements of the Poughkeepsie Housing Authority include Low-Rent Public Housing under Annual Contributions Contract NY-540, Housing Choice Voucher (NY- 062), New York State Housing, Public Housing Capital Fund Program, Disaster Housing Assistance Grant, Resident Opportunity and Supportive Services, and Neighborhood Economic & Cultural Activity Program, Inc. (Note 21-Component Unit).

Blended Component Unit

Included in the reporting entity is Neighborhood Economic & Cultural Activity Program, Inc. (NECAP) (Note 21). 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 appointed by the Board of Commissioners of the 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.

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

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

b. Reporting Entity (Cont'd.)

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. In accordance with GASB 62 the Authority applies all FASB pronouncements issued after November 19, 1989 that do not conflict with or contradict GASB pronouncements.

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. 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

c. Basis of Accounting (Cont'd.)

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 inventories 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, 2013

NOTE K - Component Units (Cont'd.)

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

h. Use of Estimates

Management of the 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, 2013

NOTE K - Component Units (Cont'd.)

2. Accounts Receivable

Accounts receivable at March 31, 2013, represents the following:

Accounts receivable - PHA projects	\$ 2,773
Accounts receivable - HUD	6,223
Accounts receivable - other governments	8,165
Tenant accounts receivable	104,981
Other receivables/accounts receivables miscellaneous	144,001
Notes and mortgages receivable - current	2,737
Allowance for doubtful accounts	(60,597)
Accrued interest receivable	782
Fraud recovery	<u>4,564</u>
	<u>\$ 213,629</u>

3. Property and Equipment

Property and equipment and the related depreciation as of March 31, 2013, are summarized as follows:

	Low Rent	Housing Choice Vouchers	NECAP	Accumulated Depreciation	Net Book Value
Land	\$ 337,280	\$ -	\$ -	\$ -	\$ 337,280
Buildings	32,911,783	-	-	27,303,419	5,608,364
Furniture, equipment & machinery - dwellings	692,840	-	-	484,775	208,065
Furniture, equipment & machinery - admin	910,422	2,071	3,088	823,249	92,332
Leasehold improvements	3,080,788	-	-	2,486,048	594,740
Construction in progress	1,225	-	-	-	1,225
	<u>\$ 37,934,338</u>	<u>\$ 2,071</u>	<u>\$ 3,088</u>	<u>\$ 31,097,491</u>	<u>\$ 6,842,006</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

3. Property and Equipment (Cont'd.)

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

Cost	Balance March 31, 2012	Additions	Deletions	Balance March 31, 2013
Land	\$ 337,280	\$ -	\$ -	\$ 337,280
Buildings	32,677,165	234,618	-	32,911,783
Furniture, equipment & machinery - dwellings	692,968	-	128	692,840
Furniture, equipment & machinery - admin	926,053	14,602	25,074	915,581
Leasehold improvements	3,066,430	19,025	4,667	3,080,788
Construction in progress	1,575	-	350	1,225
	<u>\$ 37,701,471</u>	<u>\$ 268,245</u>	<u>\$ 30,219</u>	<u>\$ 37,939,497</u>

Accumulated Depreciation	Balance March 31, 2012	Additions	Deletions	Balance March 31, 2013
Land	\$ -	\$ -	\$ -	\$ -
Buildings	26,627,274	676,145	-	27,303,419
Furniture, equipment & machinery - dwellings	448,303	41,416	4,944	484,775
Furniture, equipment & machinery - admin	802,371	45,800	24,922	823,249
Leasehold improvements	2,366,094	119,954	-	2,486,048
	<u>\$ 30,244,042</u>	<u>\$ 883,315</u>	<u>\$ 29,866</u>	<u>\$ 31,097,491</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

4. Prepaid Expenses and Other Assets

Prepaid expenses at March 31, 2013, consisted of the following:

Prepaid Insurance	\$	41,544
Prepaid Expenses - other		<u>9,130</u>
	\$	<u><u>50,674</u></u>

5. Pension and Other Retirement Benefits

a. General Information

The 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, 2013

NOTE K - Component Units (Cont'd.)

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

c. Funding Policies (Cont'd.)

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:

2013	\$ 184,949
2012	179,397
2011	111,705

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 2013 would be based on the pension values as of March 31, 2012).

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, 2013

NOTE K - Component Units (Cont'd.)

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

c. Funding Policies (Cont'd.)

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

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005, through 2013. The total unpaid liability at the end of the fiscal year was \$0.

d. Health Insurance

The 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, 2013, the Authority had no eligible retirees at an annual cost of \$0.

6. Income Taxes

The 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

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

As of March 31, 2013, \$0 of the Authority's bank balance of \$2,439,460 was exposed to custodial risk as follows:

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

8. Intergovernmental Payables

Intergovernmental payables at March 31, 2013, consisted of the following:

Pilot payable	<u>\$106,491</u>
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CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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, 2013, the Authority had the following obligated but unexpended funds in open CFP projects:

CFP	Obligated But Unexpended
CFP 2011	\$ 49,789
CFP 2012	\$ 199,688

11. Accrued Liabilities

Accrued liabilities consisted of the following as of March 31, 2013:

Accrued compensated absences	\$ 6,152
Accrued interests	7,510
Accrued payroll and taxes	31,136
Accrued other liabilities	126,479
	\$ 171,277

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, 2012. The total of the remaining mortgage is \$4,650 with an interest rate of 5.375% maturing November 2015. The following is a summary of required principal repayments:

2014	\$ 2,737
2015	1,913
2016	-
	\$ 4,650

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

12. Mortgages Receivable (Cont'd)

Public Housing (Cont'd)

The \$2,737 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 \$1,913 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, 2013, 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. 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	\$	1,913
Mortgages receivable - state program		7,500,000
Accrued interest on mortgages receivable		<u>3,552,644</u>
		<u><u>\$11,054,557</u></u>

14. Investments

Investments at March 31, 2013, consisted of the following:

		Category
Savings account yielding .05%	\$ 95,266	1
Certificate of Deposits yielding .75% - maturing 7/29/13	127,270	1
Certificate of Deposits yielding .50% - maturing 7/16/13	<u>95,279</u>	1
	<u><u>\$ 317,815</u></u>	

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

14. Investments (Cont'd)

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.

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, 2013, 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	\$ 1,937,240	\$ -	\$(152,520)	\$1,784,720	\$ 152,519	\$ 1,632,201
Other Liabilities:						
Compensated absences	127,764	-	(4,714)	123,050	6,152	116,898
OPEB payable	172,872	7,922	-	180,794	-	180,794
Escrow payable	98	1,091	-	1,189	-	1,189
Total Other Liabilities	<u>300,734</u>	<u>9,013</u>	<u>(4,714)</u>	<u>305,033</u>	<u>6,152</u>	<u>298,881</u>
Non Current Liabilities	<u>\$ 2,237,974</u>	<u>\$ 9,013</u>	<u>\$(157,234)</u>	<u>\$2,089,753</u>	<u>\$ 158,671</u>	<u>\$ 1,931,082</u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

15. Long-Term Liabilities (Cont'd)

Debt Maturity

Debt service requirements at March 31, 2013, were as follows:

<u>Year ended March 31</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 152,519	\$ 46,328
2015	152,519	42,240
2016	152,519	38,152
2017	152,519	34,065
2018	152,519	20,419
2019-2023	762,596	109,004
2024-2028	<u>259,529</u>	<u>16,348</u>
	<u>\$ 1,784,720</u>	<u>\$ 306,556</u>

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, 2013. 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

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 \$0 for its share of insurance premiums for 0 currently enrolled retirees.

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, 2013, the Authority contributed \$2,450 to the plan, representing 100% of the current premiums. No contributions to prefund benefits were made.

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	\$ 11,064
Annual OPEB cost (expense) and contributions made	(2,450)
Increase in net OPEB obligation	(692)
Net OPEB obligation - beginning of year	<u>172,872</u>
Net OPEB obligation - end of year	<u><u>\$ 180,794</u></u>

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

<u>Fiscal</u> <u>Year End</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
3/31/2011	\$ 62,987	8%	\$ 112,065
3/31/2012	\$ 67,156	10%	\$ 172,872
3/31/2013	\$ 10,372	24%	\$ 180,794

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

Funded Status and Funding Progress: As of March 31, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$76,416 and the actuarial value of assets was \$0, resulting in an underfunded actuarial accrued liability (UAAL) of \$76,416. The covered payroll (annual payroll of active employees covered by the plan) was \$873,489 and the ratio of the UAAL to the covered payroll was 9%. 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

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, 2013 was 30 years.

17. Economic Dependency

For the year ended March 31, 2013, 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 \$2,762,085 for the year ending March 31, 2013.

18. Prior Year Adjustments

The total net assets beginning April 1, 2012, have been adjusted as follows:

Total net assets - beginning	\$ 18,470,951
Prior years revenues	<u>14,258</u>
Total net assets - beginning	<u><u>\$ 18,485,209</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 2013 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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, 2013 consisted of P.I.L.O.T. in the amount of \$106,491 and water costs in the amount of \$77,764 and sewer in the amount of \$77,362.

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: two members of the board are members by virtue of their position on the Authority Board of Commissioners. In accordance with GASB 14, due to the Board of Directors of NECAP having two members of the Authority on its board, and the rest appointed by the Authority, 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

21. 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.

22. Administrative Fee Reserves

As of March 31, 2013, 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, 2013

NOTE K - Component Units (Cont'd.)

Poughkeepsie Industrial Development Agency

1. Organization and Summary of Significant Accounting Policies

Organization and Purpose:

The City of Poughkeepsie, New York 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.

The Agency’s policy is to apply, all GASB pronouncements; with the implementation of GASB 62, applicable Financial Accounting Standards Board standards are included.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

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 Agency include the following:

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

Income Taxes

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

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.

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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

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

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.

2. Industrial Revenue Bonds

Bonds authorized by the Agency and issued through various lending institutions are designated as special obligations of the Agency and payable solely from the revenues and other assets pledged as collateral against the bonds. While in most instances, the Agency 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 Agency does not act as a guarantor in the event of default. Accordingly, recourse on the part of the lending institution against the Agency is limited to collateralization properties and revenues as specified in the body of the applicable financing agreement. Additionally, in each of these financings, the Agency 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 Agency does not reflect such bonds or related properties on its financial statements. Industrial revenue bonds authorized by the Agency and outstanding at December 31, 2013, total \$3,679,074. See Other Supplemental Information on page 13 of this report for additional information on the Industrial Revenue Bonds.

3. Commitments

On January 10, 2011, the Agency, along with the City of Poughkeepsie (“City”), entered into a memorandum of understanding with Hudson River Housing, Inc. (“HRH”), a not-for-profit organization based in Poughkeepsie, NY. The Agency has been designated as the local re-development authority responsible for the re-development of the 2nd Lt. Glen Carpenter Army Reserve Center (“Center”). This agreement provided for the release of certain rights to the Center so that the re-development process could continue. In connection with that release the Agency and the City agreed to certain transfers and payments, including the transfers of certain properties to HRH in furtherance of its homeless assistance program, payments to HRH as rental support, at a minimum of \$6,300 per year, payment of \$50,000 to HRH for capital improvements, waiving City planning and building fees and providing bus passes to HRH at discounted rates. Payments made by the IDA under this agreement for 2013 amounted to \$5,820.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE K - Component Units (Cont'd.)

4. Assignment Consent

In 2013, the Agency consented to the assignment of an installment sale agreement between the former and current owner of The Manor at Woodside, an independent living facility for seniors located in the City of Poughkeepsie. This consent allowed the new owner to retain the property tax exemptions and payments in lieu of taxes (PILOT) benefits afforded the prior owner. The industrial revenue bonds issued for the benefit of the prior owner were paid as a consequence of the project facility transfer.

5. New Reporting Standards

In March 2012, GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. This Statement required the re-consideration of reporting of assets and liabilities. The Agency implemented this standard for the year ended December 31, 2013. The implementation of GASB Statement 65 did not have a substantive effect on the Agency's net position.

GASB has also issued Statements 68-71, none of which are expected to have any substantive effects on the Agency's net position.

NOTE L - Joint Ventures

1. Poughkeepsie Water Treatment Facility

In August 1995, the City entered into an inter-municipal agreement with the Town of Poughkeepsie to provide for the planning, design, technological enhancement, construction or expansion, and operation and maintenance of the above named water treatment facility. This agreement amended and superseded an agreement dated October 11, 1991 covering a joint water project. Under the terms of the 1995 agreement, the Town obtained a one-half interest in the City's Water treatment plant; the Town will finance studies for and upgrades and/or expansions to the plant to increase capacity; the Town will pay 50% of the cost to design and build an alum sludge treatment plant; and the Town will pay for administrative costs related to obtaining approvals to enable the project to proceed. The agreement also provides for the creation of a joint board to administer planning, design, construction, as well as operations and maintenance of the facility. It is made up of three members from each municipality. Water rates for each municipality are also described in the agreement. Operations as a joint venture began in 1996. The following is a summary of financial information included in the audited financial statements issued for the joint venture for the year ended December 31, 2013. These financial statements are issued separately and can be obtained from the Joint Water Project at 62 Civic Center Plaza, Poughkeepsie, NY 12601.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE L - Joint Ventures (Cont'd.)

1. Poughkeepsie Water Treatment Facility (Cont'd)

	Balances at December 31, 2013
Total Assets	\$ 16,128,585
Total Liabilities & Inflows	\$ 1,576,955
Joint Venture Net Assets	\$ 14,551,630
Total Revenues – 2013	\$ 3,439,331
Total Expenses - 2013	\$ 4,229,685

The City's net share of expenses amounted to \$326,423, which is included in Home and Community Service expenditures and received reimbursement of administrative costs of \$131,064 which is recorded as an Intergovernmental Revenue in the Water Fund. The City owes \$145,312 and is owed \$116,166 for the disinfection project described below for operations, which is reported as Due from Related Party as of December 31, 2013.

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, 2013 the outstanding balance is \$4,175,000.

An additional project related to disinfection product upgrades has been approved with the City's estimated share of \$10,353,000 (55%). For 2013 the City incurred \$294,450 in shared costs.

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, 2013, 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.

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013

NOTE L - Joint Ventures (Cont'd.)

2. Poughkeepsie-Wappingers-LaGrange Joint Landfill

	Unaudited Balances at <u>December 31, 2013</u>
Total Assets	\$ 51,196
Total Liabilities	\$ -
Total Venture Equity	\$ 51,196
Total Revenues	\$ 24
Total Expenditures	\$ 30,707

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 2013, the City has recorded a short-term liability amounting to \$9,148 and a long-term liability amounting to \$341,959 for a total liability of \$351,107 to account for the closure and monitoring liability.

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

NOTE M - Subsequent Events

1. New Debt Issues:

<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 Notes	02/13/14	04/22/14	3.75%	City Hall Roofs	\$ 630,000 *	2014A
Bond Anticipation Notes	02/13/14	02/13/15	2.00%	Hoffman Street	\$ 1,100,000 *	2014B
Bond Anticipation Notes	07/14/14	07/14/15	1.50%	Water Meter Replacement and Water Treatment Facility	\$ 5,510,656 *	2014C
Bond Anticipation Notes	07/31/14	07/14/15	2.38%	Purchase of Police Cars	\$ 162,205	2014D
Capital Lease	03/31/14	03/01/19	4.39%	Parking Meters	\$ 591,666	N/A
Public Improvement Serial Bonds	04/21/14	04/15/23	3.125-3.5%	Southern Waterfront and City Hall Roofs	\$ 6,145,000 *	2014A
Library Serial Bonds	04/21/14	06/15/38	4.5-5.0%	Library District Improvements	\$ 2,852,870	2014

**CITY OF POUGHKEEPSIE, NEW YORK
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
DECEMBER 31, 2013**

NOTE M - Subsequent Events (Cont'd)

* Denotes renewals of existing debt.

2. New Authorizations:

<u>PURPOSE</u>	<u>DATE AUTHORIZED</u>	<u>AMOUNT</u>
Purchase of Police Cars	June-14	162,205
Total		<u>\$ 162,205</u>

NOTE N – Prior Period Adjustment

The City has recorded an adjustment to opening net assets in the Statement of Activities, reducing opening net assets by \$1,917,119, to reflect the liability to the NYS Retirement Systems for unpaid required contributions. A corresponding liability was also recorded. See Note A.5.M for a description of the liability. This adjustment does not affect the City’s fund financial statements as this liability is due in future years.

NOTE O – New Reporting Standards

In June 2012, GASB issued Statement 68, *Accounting and Financial Reporting for Pensions, and amendment of GASB Statement 2*. When implemented, this Statement will require the recording of the City’s proportional share of the collective net pension liability of the NYS Local Government Employees Retirement System. The City is required to implement this standard for the year ending December 31, 2015. The implementation of this standard is expected to have a substantive effect on the City’s net position.

GASB has also issued Statements 69 through 71, none of which are expected to have any substantive effects on the City’s net position.

REQUIRED SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	GENERAL FUND			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Real property taxes	\$ 17,716,467	\$ 17,716,467	\$ 17,344,520	\$ (371,947)
Real property tax items	1,070,500	1,070,500	929,455	(141,045)
Non property tax items	10,450,000	10,450,000	11,091,393	641,393
Departmental income	2,810,687	2,810,687	2,901,965	91,278
Intergovernmental charges	95,400	95,400	89,664	(5,736)
Use of money and property	200,500	200,500	(23,070)	(223,570)
Licenses and permits	701,900	701,900	627,421	(74,479)
Fines and forfeitures	1,136,648	1,136,648	885,330	(251,318)
Sale of property and compensation for loss	281,000	281,000	2,024,968	1,743,968
Miscellaneous local sources	138,000	91,873	175,261	83,388
Interfund revenues	1,201,400	1,201,400	1,236,122	34,722
State aid	4,931,118	4,931,118	5,105,006	173,888
Federal aid	378,097	378,097	-	(378,097)
Total revenues	41,111,717	41,065,590	42,388,035	1,322,445
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriation of prior year's fund balance	41,111,717	41,065,590	42,388,035	1,322,445
EXPENDITURES AND ENCUMBRANCES				
General Government Support	5,495,889	5,497,604	5,913,426	(415,822)
Public safety	18,386,177	18,367,609	18,081,512	286,097
Health	50,593	50,593	173,501	(122,908)
Transportation	2,800,071	2,770,795	2,676,231	94,564
Economic assistance & opportunity	-	-	300	(300)
Culture and recreation	517,139	517,139	554,012	(36,873)
Home and community service	293,189	293,189	367,691	(74,502)
Employee benefits	9,904,755	9,904,755	10,026,800	(122,045)
Total expenditures and encumbrances	37,447,813	37,401,684	37,793,473	(391,789)
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	3,663,904	3,663,906	4,594,562	930,656
Other financing sources (uses):				
Operating transfers in	710,000	710,000	960,871	250,871
Operating transfers out	(4,373,904)	(4,373,906)	(4,924,934)	(551,028)
Total other financing sources	(3,663,904)	(3,663,906)	(3,964,063)	(300,157)
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances	\$ -	\$ -	\$ 630,499	\$ 630,499
Explanation of Differences between Budgetary and GAAP Basis:				
Excess of revenues over/(under) expenditures - Budgetary basis			\$ 630,499	
Expenditures do not include encumbrances			183,302	
Excess of revenue under expenditures - GAAP Basis			\$ 813,801	

OTHER SUPPLEMENTAL INFORMATION

**CITY OF POUGHKEEPSIE, NEW YORK
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2013**

<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>
12/31/2013	1/1/2012	\$ -	\$71,613,500	\$ 71,613,500	0.0%	\$22,208,210	322.46%
12/31/2012	1/1/2012	\$ -	\$66,898,100	\$ 66,898,100	0.0%	\$24,634,939	271.56%
12/31/2011	1/1/2010	\$ -	\$52,537,200	\$ 52,537,200	0.0%	\$25,789,228	203.72%

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

<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	\$ 4,895,320
Community Development		
Block Grant Program-		
Entitlement Grants	14.218	1,005,803
Housing Opportunities		
For Persons With Aids	14.241	711,728
Total Housing and Urban Development		<u>6,612,851</u>
U.S. Department of Homeland Security		
Assistance to Firefighters	97.044	8,000
Total - U.S. Department of Homeland Security		<u>8,000</u>
U.S. Department of Justice		
Edward Byrne Memorial Justice Assistance		
Grant Program	16.738	21,314
Edward Byrne Memorial Justice Assistance		
Grant Program (ARRA)	16.804	36,303
Total - U.S. Department of Justice		<u>57,617</u>
U.S. Department of Transportation		
Pass-thru Programs From:		
New York State Department of Transportation (NYSDOT):		
* Federal Transit - Formula Grants		
(Urbanized Area Formula Grant)	20.507	1,238,360
* Highway Planning and Construction (ARRA)	20.205	2,146,560
Total - U.S. Department of Transportation		<u>3,384,920</u>
Total Federal Awards Expended		<u>\$ 10,063,388</u>
* Major Program		

CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
DECEMBER 31, 2013

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, 2013, 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, 2013</u>	<u>Amount Outstanding December 31, 2013</u>
Community Development Block Grant Program	14.218	\$ 156,720	\$ 470,545
Urban Development Action Grants	N/A	\$ -	\$ 182,679

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	\$ 81,844
Housing Opportunities For Persons With Aids	14.241	\$ 794,113

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF EXPENDITURES OF NEW YORK STATE
TRANSPORTATION ASSISTANCE
DECEMBER 31, 2013**

<u>Program Title</u>	<u>Funded NYS DOT Contract Ref. Number</u>	<u>Expenditures December 31, 2013</u>
Consolidated Highway Improvement Program	822046	\$ 474,849
State Transit Operation Assistance Program	822046	<u>461,114</u>
		<u>\$ 935,963</u>

**CITY OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF NEW YORK STATE TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statement

Type of Auditors' report issued:	<u>Adverse/Unmodified</u>
Internal control over financial reporting:	
Material Weakness identified:	<u>None Noted</u>
Significant deficiencies:	<u>One Noted</u>
Noncompliance material to financial statements noted:	<u>One 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>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	<u>None Noted</u>

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS, AND RESPONSES (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2013**

SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)

Identification of Major Programs:

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM</u>
14.871	Section 8 Housing – Choice Vouchers
20.507	Federal Transit – Formula Grants
20.205	Highway Planning and Construction (ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee classified as a low-risk auditee:	No

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2013**

SECTION II - FINANCIAL STATEMENT FINDINGS

Continuing Findings:

Significant Deficiencies:

Finding 1: Fixed Assets:

The City implemented GASB Statement No.34 as of 12/31/03, which required the City to record all of its fixed assets, construction in progress and the corresponding accumulated depreciation and depreciation expense. As noted in footnote A.5.E, the City had elected to defer retroactive recording of its infrastructure assets, those placed in service prior to January 1, 2003, until on or before the period ending December 31, 2007, as required. While the City completed a calculation and recording of its infrastructure assets, the supporting documentation could not be verified. While there has been ongoing improvements in the City's tracking and recording of fixed assets, 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 resolve differences with the New World report and what is on record as the City's fixed assets. The report writer module of the New World system has not been implemented. Alternatively, schedules of fixed assets have been prepared by the City and depreciation expense has been calculated.

Effect:

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

Cause:

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

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

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Recommendation:

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

Response:

During 2014, City personnel have begun a project to compile the necessary information to prepare for a complete physical inventory of City owned assets. We anticipate completing the asset schedule and the valuation in time for the 2014 audit. 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. The City is aware of its obligation to comply with GASB #34 and continues to review options to best fulfill this requirement. With the help of the New World Software upgrade, the Finance Department has been implementing proper procedures to account for capital acquisitions.

Reportable Non-Compliance

Finding 2: Budget Modifications:

The City over-expended its budget in certain areas by material amounts, although revenues exceeded expectations. 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.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Recommendation:

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

Response:

During the past few years, the City of Poughkeepsie has taken note of where the variances have been and developed the 2014 budget to hold each department accountable for all of their expenditures in the proper budget lines. During the later part of 2014, budget lines will be reviewed and appropriate adjustments will be made to budget lines to keep them in line with actual expenditures if necessary.

Continuing Findings:

Other Matters:

Finding 3: General Ledger Adjustments:

A significant effort has been made over the past five years to complete certain financial reconciliations. Such financial reconciliations include reconciling the General Ledger to underlying documentation in order to provide a basis for accurate reporting to members of management, the Common Council, federal and state agencies, and for the audited financial statements. During this process staff reviews balance sheet amounts in each fund (cash, investments, receivables, accounts payable, deferred revenues, etc.) and makes appropriate adjustments. Such reconciliations include an analysis of the City's capital projects on an individual basis as well. We note old capital projects and old capital projects fund balances should be reconciled, including determining whether additional funding is needed in order to close completed projects.

Effect:

Asset and liability balances may be inaccurate.

Cause:

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

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2013**

Recommendation:

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

Response:

The Finance Department has made significant progress in its effort of reconciling general ledger accounts with underlying documentation in order to produce accurate and timely information for management. With the continued assistance of a contracted consultant with extensive background in municipal accounting, we are working on reconciling the long standing "old balances" in each capital project to make the appropriate adjustments.

Finding 4: General Ledger Cash Balances:

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

Effect:

On an individual fund basis, cash can be over or under stated.

Cause:

The City uses two bank accounts whose balances include cash owned by more than one 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.

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. The City made progress on addressing this issue and will work on clearing these general ledger accounts to leave only those with current balances that relate more directly to specific bank accounts. Currently, bank reconciliations are done the following month and cash deposits are reconciled daily.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding 5: Interfund Balances:

As of December 31, 2013 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:

Old outstanding interfund loans have not been repaid and true interfund receivables and payables have been obscured by the cash allocations described above.

Recommendation:

The City should make analyze the cash balances as noted above, making corresponding adjustments to inter-fund receivables and/or payables as appropriate. The City should further consider the ability of the respective funds which have interfund liabilities to be able to pay those liabilities and determine the timing of those repayments.

Response:

The Finance Department continues to make improvements in researching and resolving interfund balances. In conjunction with the above mentioned cash balances, the City has determined steps and procedures that have been put into place to address the variances throughout the current year and is working on resolving prior balances.

**CITY OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS,
RECOMMENDATIONS AND RESPONSES, CONT'D.
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Finding 6: Trust and Agency Balances:

As of December 31, 2013, the City's Trust and Agency (fiduciary) balances contained many old escrows and tax sale monies. The City is holding \$513,000 in such funds, documentation for which needs to be researched.

Effect:

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

Cause:

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

Recommendation:

The City should continue to research these funds, determining whether the City's General Fund should receive amounts for fees or expense reimbursements, return monies to project applicants as their projects have been completed and all related expenses have been paid or continue to retain amounts in an agency capacity because the projects are still ongoing.

Response:

Of the \$818,000 in escrow and trust & agency balances, \$305,000 is for the current year tax lien premiums that will be resolved as each lien is redeemed, another \$55,000 is for prior tax lien redemptions and premiums that need to be researched and resolved. The Finance Department has made considerable effort on the remainder of old balances. In 2008 there were in excess of \$1,000,000 in old escrow balances and now under \$500,000 remain.

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SCHEDULE OF FINDINGS, QUESTIONED COSTS,
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Status of Prior Year Findings:

Satisfied/No Longer Applicable: - Prior Year Reportable non-compliance Finding #3 and Other Matter Finding #4.