

CITY OF LITTLE FALLS, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2011

CITY OF LITTLE FALLS, NEW YORK

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BARONE, HOWARD & Co., CPAs, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Common Council
City of Little Falls, New York

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Little Falls, New York, (the "City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As more fully described in Note 1A to the financial statements, the City has not determined the cost of its postemployment benefits other than pensions (health care) in accordance with accounting principles generally accepted in the United States of America, which requires the cost of employees' postemployment benefits other than pensions (health care) to be recognized over the employees' respective service periods and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. The effects of the departure on the financial statements are not reasonably determinable.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material effects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Honorable Mayor and
Members of the Common Council
City of Little Falls, New York

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012, on our consideration of the City'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 - 4 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements taken as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting records and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Barone, Howard & Co., CPAs, P.C.
Barone, Howard & Co., CPAs, PC

August 30, 2012

**CITY OF LITTLE FALLS, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011**

Our discussion and analysis of the City of Little Falls, New York's (the "City") financial performance provides an overview of the City's financial activities for the year ended December 31, 2011. This document should be read in conjunction with the City's financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

Governmental Activities

The assets of the City's Governmental activities exceeded its liabilities at December 31, 2011, by \$916,196, which is shown in the Statement of Net Assets on page 5.

At December 31, 2011, the City's governmental fund types reported combined ending fund balances of \$930,374, which is shown on page 7. The reconciliation between the governmental activities net assets, as shown on page 5 and the net assets for all of the governmental funds is demonstrated on page 7.

At the end of 2011, the unrestricted fund balance for the General Fund was \$291,150, as shown on page 7.

Business-Type Activities

The assets of the City's Business-Type activities exceeded its liabilities at December 31, 2011 by \$6,811,310, which is shown in the Statement of Net Assets on page 5 and 10. The total net assets attributable to Business-Type activities increased by \$459,082, as shown on page 11.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the City through the use of government-wide financial statements and fund financial statements. Each view will be explained in more detail to follow in this narrative. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the City.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole, and can be found on pages 5 and 6.

**CITY OF LITTLE FALLS, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2011**

GOVERNMENT-WIDE FINANCIAL STATEMENTS – continued

The two government-wide statements report the City's net assets and how they have changed. Net assets are the difference between the City's total assets and total liabilities. Measuring net assets is one way to gauge the City's financial condition.

The government-wide statements are divided into two components: 1) governmental activities and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, economic assistance and opportunity and general government support. Property taxes, sales tax, and State and Federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide services. These include water, sewer and golfing activities offered by the City.

FUND FINANCIAL STATEMENTS

Most of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the differences between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in the reconciliation on page 9.

CAPITAL ASSET AND DEBT ADMINISTRATION

At December 31, 2011, the City had \$25,680,492 invested in a broad range of capital assets including equipment, buildings, roads, bridges, a golf course, water treatment facilities, and sewer lines and plant. Further detail of these amounts can be seen in footnote 6. At this same time the City had debt associated with these capital assets of \$7,858,970. Detail of these borrowings can be seen in footnote 9.

During 2011, the primary capital expenditures were the purchases of vehicles for the Water and Sewer departments.

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF NET ASSETS
December 31, 2011

Assets	Governmental Activities	Business Type Activities	Total Primary Government
Current assets:			
Cash and cash equivalents	\$ 665,504	\$ 695,242	\$ 1,360,746
Restricted cash and cash equivalents	351,472	-	351,472
Receivables - User fees and rents	53,454	779,920	833,374
Receivables - RLF loans	587,278	-	587,278
Due from other governments	628,288	-	628,288
Prepaid expenses	58,566	8,000	66,566
Total current assets	2,344,562	1,483,162	3,827,724
Capital assets:			
Capital assets	8,069,802	17,610,690	25,680,492
Less accumulated depreciation	6,763,691	5,349,864	12,113,555
Total net capital assets	1,306,111	12,260,826	13,566,937
Total Assets	\$ 3,650,673	\$ 13,743,988	\$ 17,394,661
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 111,781	\$ 149,299	\$ 261,080
Accrued liabilities	406,724	16,765	423,489
Deferred revenues	660,683	4,558	665,241
Long-term debt:			
Due within one year	470,168	351,032	821,200
Due in more than one year	1,085,121	6,411,024	7,496,145
Total liabilities	2,734,477	6,932,678	9,667,155
Net assets:			
Invested in capital assets (net of related debt)	209,197	5,498,770	5,707,967
Restricted:			
Expendable	434,022	-	434,022
Nonexpendable	90,841	-	90,841
Unrestricted	182,136	1,312,540	1,494,676
Total net assets	916,196	6,811,310	7,727,506
Total Liabilities and Net Assets	\$ 3,650,673	\$ 13,743,988	\$ 17,394,661

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business Type Activities		Total
					Governmental Activities	Business Type Activities	
Primary Governmental Activities:							
General governmental support	\$ 456,857	\$ 12,060	\$ -	\$ -	\$ (444,797)	\$ -	\$ (444,797)
Public safety	1,602,835	201,280	-	-	(1,401,555)	-	(1,401,555)
Public health	141,063	269,953	-	-	128,890	-	128,890
Transportation	1,169,096	12,000	130,014	-	(1,027,082)	-	(1,027,082)
Culture and recreation	188,054	-	-	-	(188,054)	-	(188,054)
Home and community services	519,950	115,447	-	-	(404,503)	-	(404,503)
Employee benefits	1,215,369	-	-	-	(1,215,369)	-	(1,215,369)
Interest on long-term debt (excludes direct expenses of the various programs)	61,558	-	-	-	(61,558)	(65,194)	(126,752)
Unallocated depreciation (excludes direct depreciation expenses of the various programs)	200,076	-	-	-	(200,076)	-	(200,076)
Total Primary Governmental Activities	<u>5,554,858</u>	<u>610,740</u>	<u>130,014</u>	<u>-</u>	<u>(4,814,104)</u>	<u>(65,194)</u>	<u>(4,879,298)</u>
Business Type Activities:							
Water Fund	1,006,362	1,134,022	-	-	-	127,660	127,660
Sewer Fund	1,505,073	1,787,481	-	-	-	282,408	282,408
Golf Fund	105,663	106,282	-	-	-	619	619
Total Business Type Activities	<u>2,617,098</u>	<u>3,027,785</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>410,687</u>	<u>410,687</u>
Total Government Activities	<u>\$ 8,171,956</u>	<u>\$ 3,638,525</u>	<u>\$ 130,014</u>	<u>\$ -</u>	<u>(4,814,104)</u>	<u>345,493</u>	<u>(4,468,611)</u>
General Revenues and Transfers:							
Real property taxes, levied for general purposes					2,912,837	-	2,912,837
Real property tax items					8,140	-	8,140
Nonproperty tax items					1,029,264	-	1,029,264
Sale of property and compensation for losses					67,397	-	67,397
Federal and State grants and other contributions not restricted to specific functions					907,268	-	907,268
Use of money and property					20,761	7	20,768
Transfers					(3,066)	1,582	(1,484)
Total general revenues and transfers					<u>4,942,601</u>	<u>1,589</u>	<u>4,944,190</u>
Change in net assets					<u>128,497</u>	<u>347,082</u>	<u>475,579</u>
Net assets, beginning of year					<u>899,699</u>	<u>6,352,228</u>	<u>7,251,927</u>
Prior period adjustment					<u>(112,000)</u>	<u>112,000</u>	<u>(112,000)</u>
Net assets, end of year					<u>\$ 916,196</u>	<u>\$ 6,811,310</u>	<u>\$ 7,727,506</u>

See notes to financial statements.
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CITY OF LITTLE FALLS, NEW YORK
BALANCE SHEET - GOVERNMENTAL FUNDS
(INCLUDING THE RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO NET ASSETS OF GOVERNMENTAL ACTIVITIES)
December 31, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Fund</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Assets					
Cash and cash equivalents	\$ 533,921	\$ -	\$ 114,361	\$ 17,222	\$ 665,504
Restricted cash and cash equivalents	17,206	250,181	-	84,085	351,472
Receivables:					
Other	53,454	587,278	-	-	640,732
Due from other governments	628,288	-	-	-	628,288
Due from other funds	50,000	30,000	-	-	80,000
Prepaid expenses	58,566	-	-	-	58,566
Total Assets	<u>\$ 1,341,435</u>	<u>\$ 867,459</u>	<u>\$ 114,361</u>	<u>\$ 101,307</u>	<u>\$ 2,424,562</u>
Liabilities and Net Assets					
Liabilities:					
Accounts payable	\$ 81,810	\$ 23,111	\$ -	\$ 6,860	\$ 111,781
Accrued liabilities	401,044	2,074	-	3,606	406,724
Note payable	-	235,000	-	-	235,000
Due to other funds	30,000	50,000	-	-	80,000
Deferred revenues	520,225	140,458	-	-	660,683
Total liabilities	<u>1,033,079</u>	<u>450,643</u>	<u>-</u>	<u>10,466</u>	<u>1,494,188</u>
Net assets:					
Restricted:					
Expendable	17,206	416,816	-	-	434,022
Nonexpendable	-	-	-	90,841	90,841
Unrestricted	291,150	-	114,361	-	405,511
Total net assets	<u>308,356</u>	<u>416,816</u>	<u>114,361</u>	<u>90,841</u>	<u>930,374</u>
Total Liabilities and Net Assets	<u>\$ 1,341,435</u>	<u>\$ 867,459</u>	<u>\$ 114,361</u>	<u>\$ 101,307</u>	
Amounts reported for governmental activities in the statement of net assets are different due to the following:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the above funds.					1,306,111
Long-term liabilities are not due and payable in the current period and therefore are not reported in the above funds.					<u>(1,320,289)</u>
Net Assets of Governmental Activities					<u>\$ 916,196</u>

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the year ended December 31, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Fund</u>	<u>Other Gov't Funds</u>	<u>Total</u>
Revenues:					
Real property taxes	\$ 2,912,837	\$ -	\$ -	\$ -	\$ 2,912,837
Real property tax items	8,140	-	-	-	8,140
Nonproperty tax items	1,029,264	-	-	-	1,029,264
Departmental income	524,451	17,305	-	-	541,756
Use of money and property	5,461	15,228	-	72	20,761
Licenses and permits	13,716	-	-	-	13,716
Fines and forfeitures	51,806	-	-	-	51,806
Sale of property and compensation for loss	67,397	-	-	-	67,397
Miscellaneous local sources	1,439	703	-	1,320	3,462
State and federal aid	<u>1,037,282</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,037,282</u>
Total revenues	<u>5,651,793</u>	<u>33,236</u>	<u>-</u>	<u>1,392</u>	<u>5,686,421</u>
Other Financing Sources:					
Transfers from other funds	(1,582)	-	-	(1,484)	(3,066)
Proceeds from bond anticipation note	<u>-</u>	<u>-</u>	<u>158,365</u>	<u>-</u>	<u>158,365</u>
Total revenues and other financing sources	<u>5,650,211</u>	<u>33,236</u>	<u>158,365</u>	<u>(92)</u>	<u>5,841,720</u>
Expenditures:					
General governmental support	456,857	-	-	-	456,857
Public safety	1,622,224	-	-	-	1,622,224
Public health	141,063	-	-	-	141,063
Transportation	1,169,096	-	-	-	1,169,096
Culture and recreation	182,341	-	5,713	-	188,054
Home and community services	292,699	145,000	82,251	-	519,950
Employee benefits	1,246,213	18,942	-	-	1,265,155
Debt service:					
Principal retirement	414,816	-	-	-	414,816
Interest expense	<u>48,839</u>	<u>12,719</u>	<u>-</u>	<u>-</u>	<u>61,558</u>
Total expenditures	<u>5,574,148</u>	<u>176,661</u>	<u>87,964</u>	<u>-</u>	<u>5,838,773</u>
Other Financing Uses:					
Transfers to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures and other financing uses	<u>5,574,148</u>	<u>176,661</u>	<u>87,964</u>	<u>-</u>	<u>5,838,773</u>
Net change in fund balances	76,063	(143,425)	70,401	(92)	2,947
Fund balance, beginning of year	<u>232,293</u>	<u>560,241</u>	<u>43,960</u>	<u>90,933</u>	<u>927,427</u>
Fund balance, end of year	<u>\$ 308,356</u>	<u>\$ 416,816</u>	<u>\$ 114,361</u>	<u>\$ 90,841</u>	<u>\$ 930,374</u>

CITY OF LITTLE FALLS, NEW YORK
RECONCILIATION OF THE STATEMENT OF REVENUES AND EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

Net changes in fund balances - Governmental funds		\$	2,947
<p>Capital outlays to purchase or build capital assets are reported in Governmental Funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their useful lives as depreciation expense in the Statement of Activities. This is the amount by which capital outlays exceeds depreciation in the period.</p>			
	Depreciation expense	\$ (200,076)	
	Capital outlays	<u>19,389</u>	(180,687)
<p>Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The repayment amount includes both loan indebtedness and workmens compensation owed. The net amount is the amount by which repayments exceeded debt proceeds.</p>			
	Debt proceeds	(158,365)	
	Repayment of debt	<u>464,602</u>	<u>306,237</u>
Change in net assets of governmental activities			<u>\$ 128,497</u>

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
December 31, 2011

Assets	Water Enterprise Fund	Sewer Enterprise Fund	Golf Enterprise Fund	Total
Current assets:				
Cash and cash equivalents	\$ 216,047	\$ 469,450	\$ 9,745	\$ 695,242
Accounts receivable	284,220	495,700	-	779,920
Prepaid expenses	3,000	5,000	-	8,000
Total current assets	503,267	970,150	9,745	1,483,162
Fixed assets:				
Fixed assets	8,346,384	9,123,047	141,259	17,610,690
Less accumulated depreciation	1,289,601	3,995,005	65,258	5,349,864
Total net fixed assets	7,056,783	5,128,042	76,001	12,260,826
Total Assets	\$ 7,560,050	\$ 6,098,192	\$ 85,746	\$ 13,743,988
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	\$ 172,365	\$ 174,000	\$ 4,667	\$ 351,032
Accounts payable	52,904	95,566	829	149,299
Accrued liabilities	-	1,780	14,985	16,765
Deferred revenues	-	-	4,558	4,558
Total current liabilities	225,269	271,346	25,039	521,654
Long-term debt	4,707,691	1,680,000	23,333	6,411,024
Net assets:				
Invested in capital assets (Net of related debt)	2,176,727	3,274,042	48,001	5,498,770
Unrestricted	450,363	872,804	(10,627)	1,312,540
Total net assets	2,627,090	4,146,846	37,374	6,811,310
Total Liabilities and Net Assets	\$ 7,560,050	\$ 6,098,192	\$ 85,746	\$ 13,743,988

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
For the year ended December 31, 2011

	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Golf Enterprise Fund</u>	<u>Total</u>
Operating revenues:				
Departmental income	\$ 1,035,788	\$ 1,787,481	\$ 102,714	\$ 2,925,983
Miscellaneous	98,234	-	3,568	101,802
Total operating revenues	<u>1,134,022</u>	<u>1,787,481</u>	<u>106,282</u>	<u>3,027,785</u>
Operating expenses:				
Personnel services	262,634	315,104	39,764	617,502
Employee benefits	197,569	325,644	3,003	526,216
Contractual expenses	438,732	752,064	59,870	1,250,666
Depreciation	107,427	112,261	3,026	222,714
Total operating expenses	<u>1,006,362</u>	<u>1,505,073</u>	<u>105,663</u>	<u>2,617,098</u>
Net operating gain (loss)	<u>127,660</u>	<u>282,408</u>	<u>619</u>	<u>410,687</u>
Nonoperating revenue (expense):				
Interest expense	-	(63,809)	(1,385)	(65,194)
Use of money and property	-	-	7	7
Transfers to other funds	1,582	-	-	1,582
Total nonoperating revenue	<u>1,582</u>	<u>(63,809)</u>	<u>(1,378)</u>	<u>(63,605)</u>
Net gain	129,242	218,599	(759)	347,082
Net assets, beginning of year	2,459,348	3,854,747	38,133	6,352,228
Prior period adjustment	<u>38,500</u>	<u>73,500</u>	<u>-</u>	<u>112,000</u>
Net assets, end of year	<u>\$ 2,627,090</u>	<u>\$ 4,146,846</u>	<u>\$ 37,374</u>	<u>\$ 6,811,310</u>

See notes to financial statements.

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the year ended December 31, 2011

	Water Enterprise Fund	Sewer Enterprise Fund	Golf Enterprise Fund	Total
Cash flows provided by operating activities:				
Cash flows from providing services	\$ 797,076	\$ 1,600,061	\$ 102,714	\$ 2,499,851
Cash payments contractual expenses	(268,887)	(644,839)	(33,849)	(947,575)
Cash payments personal services and benefits	(460,203)	(626,049)	(42,767)	(1,129,019)
Other operating revenues	98,234	-	3,568	101,802
Net cash flows from operating activities	<u>166,220</u>	<u>329,173</u>	<u>29,666</u>	<u>525,059</u>
Cash flows provided (used) by non-capital financing activities:				
Transfer from (to) other funds	1,582	-	-	1,582
Net cash flows from non-capital financing activities	<u>1,582</u>	<u>-</u>	<u>-</u>	<u>1,582</u>
Cash flows provided (used) by capital and related financing activities:				
Payments on debt	(208,173)	(242,500)	(4,667)	(455,340)
Interest expense	-	(65,014)	(1,385)	(66,399)
Payments for capital assets	(50,198)	(23,202)	(18,731)	(92,131)
Net cash flows used by capital and related financing activities	<u>(258,371)</u>	<u>(330,716)</u>	<u>(24,783)</u>	<u>(613,870)</u>
Cash flows provided (used) by investing activities:				
Interest income	-	-	7	7
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>7</u>	<u>7</u>
Net increase (decrease) in cash and cash equivalents	(90,569)	(1,543)	4,890	(87,222)
Cash and cash equivalents, beginning of year	<u>306,616</u>	<u>470,993</u>	<u>4,855</u>	<u>782,464</u>
Cash and cash equivalents, end of year	<u>\$ 216,047</u>	<u>\$ 469,450</u>	<u>\$ 9,745</u>	<u>\$ 695,242</u>

Reconciliation of operating income to net cash flows from operating activities:

Operating gain (loss)	\$ 166,160	\$ 355,907	\$ 619	\$ 522,686
Adjustments to reconcile operating income to net cash flows from operating activities:				
Depreciation	107,427	112,261	3,026	222,714
(Increase) decrease in assets other than cash:				
Receivables	(120,271)	(187,420)	-	(307,691)
Prepaid expenses	-	-	8,202	8,202
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	12,904	48,425	15,811	77,140
Deferred revenue	-	-	2,008	2,008
Total adjustments	<u>60</u>	<u>(26,734)</u>	<u>29,047</u>	<u>2,373</u>
Net cash flows from operating activities	<u>\$ 166,220</u>	<u>\$ 329,173</u>	<u>\$ 29,666</u>	<u>\$ 525,059</u>

CITY OF LITTLE FALLS, NEW YORK
STATEMENT OF NET ASSETS - FIDUCIARY FUND
December 31, 2011

Assets

Cash and cash equivalents	<u>\$ 101,307</u>
Total Assets	<u><u>\$ 101,307</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable	\$ 6,860
Accrued liabilities	3,606
Due to other funds	-
Total liabilities	<u>10,466</u>

Net assets:

Nonexpendable	<u>90,841</u>
Total net assets	<u>90,841</u>

Total Liabilities and Net Assets	<u><u>\$ 101,307</u></u>
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CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The City of Little Falls, New York (the "City"), is governed by the Charter of the City of Little Falls, other general laws of the State of New York, and various local laws and ordinances.

The City Common Council, which is the legislative body responsible for the overall operation of the City, consists of eight elected district aldermen, who represent the four wards within the City. The Mayor is the Chief Executive of the City. The City Treasurer is the Chief Fiscal Accounting and Auditing Officer of the City. The Mayor and City Treasurer are elected for a four-year term.

The City provides the following basic services: public safety (police and fire), highways and streets, water and sewer, golf, and economic assistance and opportunity.

A. Financial Reporting Entity

The accompanying basic financial statements of the City (except as described below) have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) which is the primary standard setting body for establishing governmental accounting and financial reporting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing U.S. GAAP for State and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in U.S. GAAP and used by the City are discussed below.

The cost of postemployment benefits (health care), 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. This cost of this postemployment benefit is to be recognized 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. This accounting change, GASB Statement No. 45, has not been adopted by the City.

Basic Financial Statements – Government Wide Statements

The City's basic financial statements include both government-wide (reporting for 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, fire, maintenance of roads and general administrative services are classified as governmental activities. The City's water, sewer and golf funds are classified as business-type activities.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use 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 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. All direct expenses incurred are charged to the corresponding function. The net costs (by function or business-type activity) are normally covered by general revenue (property, sales taxes, intergovernmental revenues, interest income, etc.).

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

Basic Financial Statements – Fund Financial Statements

The financial transactions of the City are reported in the individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the City.

B Fund Types

Governmental Fund Types–

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance to be properly reported within one of the fund balance categories as follows:

1. Nonspendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. It includes fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

2. Restricted fund balance - Includes amounts with constraints that can be spent only for specific purposes stipulated by constitution, external providers, or through enabling legislation.
 3. Committed fund balance - Includes the amounts that can be used only for the specific purposes determined by a formal action of the Common Council.
 4. Assigned fund balance – includes amounts intended to be used by the Common Council for specific purposes but do not meet the criteria to be classified as restricted or committed.
 5. Unassigned fund balance – Includes all other General Fund balance that does not meet the definition of the above four classifications and are deemed to be available for general use by the City.
- b. Proprietary Fund Types (Business-Types) – The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. These funds adhere to U.S. generally accepted accounting principles that are comparable to what businesses in the private sector use. Operating and non-operating revenues are defined based on how individual transactions are categorized for purposes of preparing a statement of cash flows using GASB No. 9. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities normally would not be reported as components of operating income. The following is a description of the proprietary funds of the City:

Golf Fund – This fund is used to account for operations of the municipal golf course.

Water Fund – This fund is used to account for the usage of water in the City and its corresponding revenues and expenses.

Sewer Fund – This fund is used to account for the handling of sewage in the City and its corresponding revenues and expenses.

These 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.

The emphasis in fund financial statements is on the major funds of either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. The nonmajor funds are combined in a column in the fund financial statements.

Order of Use of Fund Balance

The city's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted, or assigned fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

- C. 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 measures made, regardless of the measurement focus applied.

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.

Modified Accrual – The governmental fund 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.

D. Budgetary Data

1. Budget Policies - The budget policies are as follow:

- a) Budgets are adopted annually on a basis consistent with U.S. generally accepted accounting principles. No later than March 15th, the various boards and departments submit estimates of required resources for the current calendar year to the Mayor. The Mayor submits to the Common Council the estimates of the amount deemed necessary to be raised by taxes, on or before April 1st. The Common Council, on or before April 15th, determines the amount to be included in the annual city tax levy.
- b) Public hearings are conducted to obtain taxpayer comments.
- c) The budget is legally established through passage of an ordinance. Subsequent revisions that materially alter appropriations of any department or fund must be approved by the Common Council. The budgetary information presented has been amended as approved by the Common Council for the year ended December 31, 2011.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

d) The General, Water, Sewer, and Golf Funds have legally adopted budgets. Appropriations for all budgets lapse at fiscal year end. The budgets are adopted on a departmental and object level of expenditure in which expenditures may not be legally exceed appropriations on a departmental and object of expenditure level. Individual governmental fund comparisons of budget and actual data at the legal level of control established by the adopted budget (i.e., minimally at the department and object level) are not presented in this report for those funds with annual adopted budgets due to the excessive detail involved. However, a separate budgetary comparison report is available which contains this information.

E. Interfund Activity

Interfund activity is reported as 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.

G. Inventories

Expenditures for street maintenance materials, gasoline, and office supplies are charged to operations as acquired. Supplies on hand are not accounted for as assets.

H. Compensated Absences

City employees are granted vacation leave in varying amounts based on service and may accrue, depending on the contract, up to 150 or 170 days of sick leave. Although employees are not paid for the accumulated sick leave upon retirement or other termination, credits are allowed for this sick leave against post-retirement health insurance costs. The City incurs a liability for these compensated absences which meet the following criteria:

1. The City's obligation to employees' rights to receive compensation for future absences is attributable to employees' services already performed.
2. The obligation relates to rights which either vest or accumulate.
3. Payment of the compensation is probable.
4. The accrued amount owing that existed at the end of 2011 was not determined by management. Therefore, the City did not accrue a liability for vacation pay and sick leave which has been earned but not taken by City employees.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

I. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the City considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include all unrestricted as well as restricted assets with the exception of those held by the City.

J. Cash, Cash Equivalents and Investments

State statutes require that collateral be pledged at 100 percent of all deposits not covered by Federal Deposit Insurance Corporation insurance for demand deposits, time deposits, repurchase agreements, and certificates of deposit. Obligations of the United States Treasury and its agencies as well as obligations of New York State and its municipalities and school districts may be pledged. Investments are carried at market value.

K. Capital Assets - Property, Plant, and Equipment

Capital assets purchased or acquired with an original cost of \$1,000 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 for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following useful lives:

Infrastructure	10 - 65 Years
Vehicles	8 Years
Machinery and equipment	5 - 30 Years
Land improvements	20 Years
Building improvements, additions, and renovations	20 – 50 Years

L. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB No. 34. In applying GASB No. 34 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

M. Expenditures

Expenditures are recognized when the related fund liability is incurred.

N. Subsequent Events

Management has conducted an evaluation of potential subsequent events occurring after the statement of financial position through August 30, 2012, the date the financial statements were available to be issued. A bond will be issued in 2012 for \$1,400,000 to cover the City's portion of a bridge replacement project. A barn and several pieces of equipment were destroyed by fire on July 12, 2012. The financial effect of this fire is not thought to significantly affect the City's financial resources. No other subsequent events requiring disclosure were noted.

O. Other Significant Accounting Policies

Other significant accounting policies are set forth in the following notes.

Note 2 CASH

The City's investment policies are governed by New York State statutes. City monies must be deposited in commercial banks or trust companies insured by the Federal Deposit Insurance Corporation (FDIC) and located within New York State. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance coverage. Section 10 of General Municipal Law and the City's investment policy detail the security options that are allowable to be pledged against deposits. The carrying amount of cash and cash equivalents aggregated \$2,181,031 at December 31, 2011 in three financial institutions. Deposits with financial institutions were entirely covered by Federal Deposit Insurance Corporation insurance or by collateral held in the pledging bank's trust department or agent in the City's name.

Note 3 PROPERTY TAXES AND COLLECTION

Real property taxes are levied no later than April 15th for the calendar year and are due and payable when levied. They become a lien on property on May 1st. They are expected to finance expenditures of the current year. Unpaid taxes are turned over to Herkimer County for enforcement responsibility. Any such taxes remaining unpaid at year-end are re-levied as Herkimer County taxes and are paid in full to the City in March of the following year by Herkimer County.

Property taxes are recognized as revenue when they are levied because they are considered both measurable and available. Real property taxes, including interest and penalties, scheduled to be paid by Herkimer County to the City in 2012 total \$413,936 (included in amount shown as receivables from other governments) and is recognized as 2011 revenue.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 4 SALES TAX REVENUES

The City's share of total sales tax receipts collected in 2011 to be paid by Herkimer County in 2011 is \$214,352. This amount has been included in amounts shown as receivables from other governments and is recognized as 2011 revenue.

Note 5 HEALTH INSURANCE

In addition to the pension benefits provided through the New York State Retirement System, the City provides certain health care benefits for retired employees. Substantially all the City's employees may become eligible for such benefits if they reach normal retirement age while working for the City. These and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year.

The City recognizes the cost of providing these benefits by expensing the annual insurance premiums, which for 2011 were approximately \$38,111, net of participant contributions, if required. Approximately five retirees participated in 2011.

Note 6 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Not Being Depreciated:				
Land	\$ 334,243	\$ -	\$ -	\$ 334,243
Capital Assets:				
Building and improvements	9,906,552	-	-	9,906,552
Infrastructure	13,790,421	-	-	13,790,421
Machinery and equipment	1,537,756	111,520	-	1,649,276
	<u>25,234,729</u>	<u>111,520</u>	<u>-</u>	<u>25,346,249</u>
Total Land and Capital Assets	<u>25,568,972</u>	<u>111,520</u>	<u>-</u>	<u>25,680,492</u>
Accumulated Depreciation:				
Buildings and improvements	1,547,335	32,151	-	1,579,486
Infrastructure	7,977,950	217,227	-	8,195,177
Machinery and equipment	2,165,480	173,412	-	2,338,892
	<u>11,690,765</u>	<u>422,790</u>	<u>-</u>	<u>12,113,555</u>
Net Capital Assets	<u>\$ 13,878,207</u>	<u>\$ (311,270)</u>	<u>\$ -</u>	<u>\$ 13,566,937</u>

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 6 CAPITAL ASSETS – continued

Depreciation expense was charged to functions as follows:

	2011	2010
Governmental activities	\$ 200,076	\$ 219,866
Business type activities	222,714	308,363
	\$ 422,790	\$ 528,229

Note 7 PENSION PLAN

Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement Systems (PFRS) and the Public Employees' Group Life Insurance Plan. 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, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

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 total pension expense has been recorded in the following manner:

General Fund	\$ 412,625
Water Fund	50,000
Sewer Fund	57,645
Special Revenue Fund	8,772
	\$ 529,042

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

In 2008, the City adopted a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Employees can voluntarily contribute. The City does not match the contributions.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 8 DEFERRED REVENUE

Deferred revenue shown in each fund is as follows:

General Fund:

In 2011, the City received its annual State Aid payment of \$520,225 before the end of the year that was due to be paid in 2012. Therefore, the City has classified this amount as deferred revenue at December 31, 2011. This amount will be recognized as revenue in 2012.

Special Revenue Fund

The amount of \$140,458 represents the portion of the revolving loans receivable caused by the use of Federal Community Development Block Grants. As this amount is repaid to the City it will be shown as part of departmental revenue in the Special Revenue Fund.

Golf Fund

Memberships paid in advance for golfing privileges in the next year are deferred until used. At December 31, 2011, this amount was \$4,558.

Note 9 LONG-TERM DEBT

The City borrows funds on a long-term basis primarily for the purpose of financing the acquisition of land, equipment and construction of buildings and improvements. This policy 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 for governmental funds are maintained separately and represent a reconciling item between the fund and government-wide statements except for those amounts, which relate to and therefore, are accounted for in the business type funds.

The Special Revenue Fund has incurred debt that directly relates to its revolving loan fund with local homeowners and businesses. This debt is paid down as the related loans receivable are repaid to the City.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made. The BANs bear interest rates ranking from 2.50% - 3.19%.

Interest associated with long-term debt is recorded as an expenditure when such amounts are due. Interest expense for governmental and business type activities for the year ended December 31, 2011, was \$126,752.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 9 LONG-TERM DEBT - continued

The following is a summary of the City's long-term debt transactions for the year ended December 31, 2011:

	Governmental Types		
	General	Special Revenue	Business Types
Borrowings outstanding at January 01, 2011	\$ 1,535,275	\$ 256,000	\$ 7,194,994
Additions	158,385	-	-
Retirements and repayments	(596,746)	(21,000)	(432,938)
Borrowings outstanding at December 31, 2011	1,096,914	235,000	6,762,056
Accrued workers' compensation	223,375	-	-
	\$ 1,320,289	\$ 235,000	\$ 6,762,056

Borrowings outstanding as of December 31, 2011 consisted of the following:

<u>Description of Issue</u>	<u>Date Issued</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance 12/31/11</u>
<u>Governmental Type Activities</u>				
<u>General Fund</u>				
Notes payable - UDC	7/92	6/12	3.00%	\$ 3,246
Cemetery Creek	5/97	5/12	5.90%	26,662
Building improvements	9/03	9/13	3.20%	197,939
BAN - DPW	5/08	5/13	3.19%	51,393
BAN - DPW	6/09	6/14	3.16%	150,470
BAN - Pool	6/09	6/22	3.16%	276,945
BAN - DPW	1/10	1/15	2.50%	231,874
BAN - Tax Refunding	4/11	4/16	2.75%	158,385
				1,096,914
<u>Special Revenue Fund</u>				
Sec. 108 revolving loan note	8/03	8/20	4.53%	235,000
<u>Business Type Activities</u>				
Waste water treatment plant*	3/11	19-Jun	0% - 3.5910%	1,340,000
Waste water treatment plant	3/00	1/31	3.80 - 5.96%	514,000
Golf Clubhouse	3/02	2/17	4.24%	28,000
Water filtration plant	8/04	8/35	0.00%	4,880,056
				6,762,056
Total				\$ 8,093,970

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements - continued
For the year ended December 31, 2011

Note 9 LONG-TERM DEBT - continued

Presented below is a summary of debt service requirements to maturity by year:

<u>Governmental Types</u>				
<u>Fiscal Year Ending</u>	<u>General</u>	<u>Special Revenue</u>	<u>Business Types</u>	<u>Total Government</u>
2012	\$ 408,168	\$ 22,000	\$ 351,032	\$ 781,200
2013 - 2017	688,746	124,000	902,221	1,714,967
2018 - 2022	-	89,000	1,460,548	1,549,548
2023 - 2027	-	-	1,168,875	1,168,875
2028 - 2032	-	-	1,212,205	1,212,205
2033 - 2037	-	-	1,667,175	1,667,175
Thereafter	-	-	-	-
Total	<u>\$ 1,096,914</u>	<u>\$ 235,000</u>	<u>\$ 6,762,056</u>	<u>\$ 8,093,970</u>

Note 10 SIGNIFICANT CLAIMS AND CONTINGENT LIABILITIES

Judgments and Claims

The City is a defendant in various lawsuits. In the opinion of the City's management, after considering all relevant facts and the opinion of outside counsel in certain instances, such litigation will not in the aggregate have a materially adverse effect on the financial position of the City.

The City's Police, Fire, Sewage Treatment Plant, Police Dispatcher, Chief of Police, Fire Chief, Clerical Employees Group, and the Department of Public Works personnel are all covered by separate collective bargaining agreements. All agreements were renewed through December 31, 2013 except for the Codes Department that expired December 31, 2011. The Codes Department renewed the agreement.

Workers Compensation Insurance

The City participated in a self-insurance fund established by Herkimer County for workers' compensation. In 2005, the County of Herkimer ended its workers compensation fund. Each municipality is responsible for its own coverage starting in 2007. The County has estimated a liability for "tail coverage" of approximately \$700,000 to be due from the City. This amount will be paid over ten years. In 2011, \$48,135 was paid towards this liability.

Federal and State Funded Programs

The City participates in a number of Federal and New York State grant and assistance programs. These programs are subject to financial and compliance audits by grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

CITY OF LITTLE FALLS, NEW YORK
Notes to Financial Statements – continued
For the year ended December 31, 2011

Note 11 PRIOR PERIOD ADJUSTMENT

Effective January 1, 2011 the General Fund will be paying the remaining tail end of the portion of the Water and Sewer Funds workmens compensation owed to Herkimer County. The Water Fund and the Sewer Fund, being a Business-Type activity, recorded a total of \$112,000 as an estimated liability as of December 31, 2010. This amount has been eliminated from these two Funds and will be the responsibility of the General Fund. Since the General Fund is a Government-Type activity this liability is not recorded on its accounting records. However, it is reflected on the Statement of Net Assets, shown on page 5, as a component of long term debt.



BARONE, HOWARD & Co., CPAs, PC
CERTIFIED PUBLIC ACCOUNTANTS

**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 Honorable Mayor and
Members of City Common Council
City of Little Falls, New York

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Little Falls, New York, (the "City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Little Falls, New York, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered on the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. According we do not express an opinion on the effectiveness of the City of Little Falls, New York's internal control over financial reporting,

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency, is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

We noted other matters involving internal control over financial reporting that we have reported to the management of the City in a separate letter dated August 30, 2012.

This report is intended solely for the information and use of the City's Common Council, management, and grantors and is not intended to be and should not be used by anyone other than these specified parties.

Barone, Howard & Co., CPAs, P.C.
Barone, Howard & Co., CPAs, PC

August 30, 2012



BARONE, HOWARD & Co., CPAs, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and
Members of City Common Council
City of Little Falls, New York

Compliance

We have audited the City of Little Falls, New York, (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2011. The City's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB 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's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our

opinion on compliance and to test and report on internal control over compliance in accordance with 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'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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in the internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs.. A significant deficiency in internal control over compliance is a deficiency, or 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.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City's Common Council, management, and grantors and is not intended to be and should not be used by anyone other than those specified parties.

Barone, Howard & Co., CPAs, P.C.
Barone, Howard & Co., CPAs, PC

August 30, 2012

CITY OF LITTLE FALLS, NEW YORK
Schedule of Expenditures of Federal Awards
For the year ended December 31, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Community Development Block Grants	14.228	\$ 806,086

Note A - Basis of Presentation

The accompanying schedule of Expenditures of Federal Awards presents the activity of all Federal awards administered by the City of Little Falls, New York, an entity as defined in Note 1 to the City's financial statements.

Note B - Basis of Accounting

The accompanying schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

Note C – Federal Expenditure Calculation

Total federal expenditures are calculated as follows at December 31, 2011:

Balance of RLF loans outstanding	\$ 594,515
Balance of RLF cash	34,910
Federal program and administration expenditures	176,661
	<u>\$ 806,086</u>

CITY OF LITTLE FALLS, NEW YORK
Schedule of Findings and Questioned Costs
For the year ended December 31, 2011

I. SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses a qualified opinion on the financial statements of the City of Little Falls, New York (the "City").
2. There was one significant deficiency noted during the audit of the financial statements as described in the Report on Internal Control or Financial Reporting and in Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards." This condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit as described in the Report on Internal Control or Financial Reporting and in Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards."
4. There was one significant deficiency noted during the audit of the major federal award program of City of Little Falls that was reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance with OMB Circular A-133. This condition is not reported as a material weakness.
5. The auditors' report on compliance for major federal award programs for the City of Little Falls, New York expresses an unqualified opinion.
6. Audit findings of major programs that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

7. The program tested as a major program was:

<u>Program Name</u>	<u>CFDA#</u>	<u>Program Type</u>	<u>Expenditures</u>
Community Development Block Grant	14.228	Type A	<u>\$ 806,086</u>
Total tested			<u>\$ 806,086</u>
Percent of total Federal award programs tested			<u>100%</u>

8. The threshold for distinguishing Type A programs was \$300,000.
9. City of Little Falls was determined to be a low-risk auditee.

II. FINANCIAL STATEMENT AUDIT – FINDINGS

A. INTERNAL CONTROL OVER FINANCIAL REPORTING

Year ended December 31, 2011

2011-1 Adjusting Journal Entries, Required Disclosures and Draft Financial Statements

Condition and Criteria: During the current year, adjusting journal entries, along with footnote disclosures were proposed by the auditors and accepted by the City to properly reflect the financial statements in accordance with generally accepted accounting principles. In addition, the draft of the financial statements was prepared by the auditors and approved by the City.

Effect: The American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Standards Number 115, entitled Communicating Internal Control Related Matters in an Audit. This new standard considers the need for significant adjusting journal entries and assistance when preparing financial statements to be indicative of an internal control deficiency.

Auditors' Recommendation: Although auditors may continue to provide such assistance both now and in the future, under the new pronouncement, the City should continue to review and approve both proposed adjusting journal entries and footnote disclosures, along with the draft financial statements.

City of Little Falls Response: The City will continue to review and approve proposed adjusting journal entries, footnote disclosures and draft financial statements prepared by our auditors. Additionally, the City will continue to seek routine advice from its independent certified public accounting firm in providing journal entries and in preparation of its financial statements.

Year ended December 31, 2010

This same finding was reported upon for the year ended December 31, 2010.

B. COMPLIANCE AND OTHER MATTERS

Year ended December 31, 2011

There were no instances of noncompliance reported during the year ended December 31, 2011.

Year ended December 31, 2010

There were no instances of noncompliance reported during the year ended December 31, 2010.

III. MAJOR FEDERAL AWARD PROGRAMS AUDIT – FINDINGS AND QUESTIONED COSTS

A. COMPLIANCE

Year ended December 31, 2011

There were no instances of noncompliance reported during the year ended December 31, 2011.

Year ended December 31, 2010

There were no instances of noncompliance reported during the year ended December 31, 2010.

B. INTERNAL CONTROLS OVER COMPLIANCE

Community Development Block Grant CFDA #14.228

2011-2 Adjusting Journal Entries and Required Disclosures to the Financial Statements

Year ended December 31, 2011

Same findings as II.A.2011-1 above.

Year ended December 31, 2010

Same findings as above.



BARONE, HOWARD & Co., CPAs, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of City Common Council
City of Little Falls, New York

Compliance

We have audited the compliance of the City of Little Falls, New York (the "City") with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to each state transportation assistance program tested for the year ended December 31, 2011. The program tested is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards; 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 non-compliance with the types of compliance requirements referred to above, that could have a direct and material effect on a state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the City of Little Falls, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its state transportation assistance program for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state transportation assistance programs tested.

To the Honorable Mayor and
Members of City Council
City of Little Falls, New York
Page Two

In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on state transportation assistance programs tested in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, or material weaknesses, as described below. However, as discussed on page 33, we identified one deficiency in the internal control over compliance that we consider to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a state transportation assistance program will not be prevented or detected by the City's internal control. We do not consider the deficiency described on page 33 be a material weakness.

Schedule of State Transportation Assistance Expended

We have audited the financial statements of the City of and for the year ended December 31, 2011, and have issued our report thereon dated August 30, 2012. Our audit was performed for the purpose of forming an opinion on the City's financial statements taken as a whole. The accompanying schedule of state transportation assistance is presented for purposes of additional analysis as required by Draft Part 43 of NYCRR, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, City Common Council, and the New York State Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

Barone Howard & Co, CPAs, P.C.
BARONE, HOWARD & CO., CPAS, PC

August 30, 2012

CITY OF LITTLE FALLS, NEW YORK
Schedule of State Transportation Assistance Expended
For the year ended December 31, 2011

<u>Program Title</u>	<u>NYS DOT Contract/ Reference Number</u>	<u>Current Year Expenditures</u>
Consolidated Local Street and Highway Improvement Program	D089876	<u>\$ 121,409</u>

Note A - Basis of Presentation

The accompanying Schedule of State Transportation Assistance Expended presents the activity of all New York State Department of Transportation awards administered by the City, an entity as defined in Note 1 to the City's financial statements.

Note B - Basis of Accounting

The accompanying Schedule of State Transportation Expended is presented using the accrual basis of accounting.

CITY OF LITTLE FALLS, NEW YORK
Schedule of Findings and Questioned Costs
State Transportation Assistance Expended
For the year ended December 31, 2011

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the basic financial statements of the City of Little Falls, New York (the "City").
2. There was one significant deficiency noted during the audit of the financial statements as described in the Report on Internal Control and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. This condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. The auditors' report on compliance for the State award program tested for the City expresses an unqualified opinion.
5. There was one significant deficiency noted during the audit of the financial statements as described in the Report on Compliance and Controls Over State Transportation Assistance Expended Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. See page 33 for a detailed description of this significant deficiency.
6. Audit findings required to be reported relative to the State award program tested for the City are reported on this schedule.
7. The City was determined to be a low-risk auditee.
8. State Transportation Assistance Program Tested:
Consolidated Local Street and Highway Improvement Program

Compliance Findings and Questioned Costs

See page 33.