

CITY OF FULTON
Fulton, New York
FINANCIAL REPORT
December 31, 2012

CITY OF FULTON, NEW YORK
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INDEPENDENT AUDITOR'S REPORT

Common Council
City of Fulton
Fulton, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We did not audit the Fulton Housing Authority, a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Fulton Housing Authority, is based on the reports of the other auditors.

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.

Auditor's Responsibility

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 from material misstatement.

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

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

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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 governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the year ended December 31, 2012, the City implemented Governmental Accounting Standards Board (GASB) Statement Number 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 3h and 28 through 31 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 Fulton's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the 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 18, 2013 on our consideration of the City of Fulton'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 City of Fulton's internal control over financial reporting and compliance.

Cianchi, D'Andrea, Little, McDevlin, & Company, LLP

September 18, 2013
Ithaca, New York

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Our discussion and analysis of the City of Fulton's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2012. Please read it in conjunction with the City's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

- ❖ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$13,391,488 (net position).
- ❖ During the year, the City had expenses that were \$2,851,264 more than the \$22,989,838 generated in tax and other revenues for governmental programs. This compares to last year when expenses exceeded revenues by \$2,844,361.
- ❖ The General Fund recorded a decrease of \$(350,818) in 2012. Fund balance at the end of the year was \$933,255.
- ❖ The City's debt and other long-term liabilities increased \$2,021,498 during the current fiscal year, for a total of \$18,183,974.
- ❖ The resources available for appropriation in the General Fund were \$22,509 less than budgeted and expenditures were \$(437,501) unfavorable when compared to budget.

USING THIS ANNUAL REPORT

The discussion and analysis provided here are intended to serve as an introduction to the City of Fulton's (the City's) basic financial statements. The City's financial statements consist of the three components: government-wide financial statements, fund financial statements and the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements.

The Statement of Net Position and the Statement of Activities (on pages 4 through 5a) provide information about the City as a whole and present a long-term view of the City's finances. Governmental Fund financial statements start on page 6. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. Governmental Fund financial statements also report the City's operations in greater detail than the Government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements, the annual report contains other information in the form of (1) combining statements for those funds that are not considered major funds and, therefore, are not presented individually in the basic financial statements, and (2) statements comparing results of operations to budgetary statements for the General Fund.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 4, with the Government-wide financial statements. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer the question of whether the City, as a whole, is better off or worse off, as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when the cash is received or paid.

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

These two statements report the City's net position and changes in it. One can think of the City's net position, the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, all of the City's activities, which are governmental in nature, are reported in one column, including public safety, transportation, home and community services, culture and recreation, and general administration. Property and sales taxes, and state and federal grants finance most of these activities. In addition to the Governmental Activities, the City also reports two discretely presented component units.

- ❖ **Fulton Public Library** - The Fulton Public Library was granted a charter by the Board of Regents as provided in Article 5 of the Education Law. Library trustees are appointed by the Mayor. The City funds the Library from taxes and holds title to real property used by the Library. Financial information for the Library can be obtained from the Fulton City Chamberlain, Municipal Building, Fulton, NY 13069.
- ❖ **Fulton Housing Authority** - The Fulton Housing Authority was established in 1948 by the New York State Department of Housing and Community Renewal to provide low income housing to qualified individuals and families. The Board members are appointed by the Mayor. The City provides the Authority with an exemption from local municipal taxes and is also contingently liable to New York State for debt repayment relative to State projects. Complete financial statements can be obtained from their administrative office at: Fulton Housing Authority, 1100 Emery Street, Fulton, NY 13069.

Reporting the City's Most Significant Funds

Governmental Fund Financial Statements

Analysis of the City's Major Funds begins on page 5. The Governmental Fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law. However, management establishes many other funds to help it control and manage money for particular purposes or to show it is meeting legal responsibilities for using certain taxes and grants.

Governmental Funds: All of the City's services are reported in the 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 *modified accrual accounting*, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the City's general governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between Governmental Activities (reported in the Government-wide financial statements) and Governmental Funds is explained in a reconciliation following the fund financial statements.

The City as Trustee: The City is the trustee, or fiduciary, for other assets that are held on behalf of others. All of the City's Fiduciary Activities are reported in a separate Statement of Net Position: Fiduciary Funds on page 10. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

THE CITY AS A WHOLE

The City's *combined* net position for fiscal year ended December 31, 2012 decreased \$(2,851,264) from \$16,242,752 to \$13,391,488. A portion of the City's net position (117.7%) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding amounted to \$15,764,322. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (31.2%) represents resources subject to external restrictions on how they may be used and are reported as restricted. The remaining category of total net position, unrestricted net (deficit) amounted to \$(6,549,026).

Our analysis below focuses on the net position (Figure 1), and changes in net position (Figure 2), of the City's governmental activities.

**Figure 1
Net Position**

	Governmental Activities		Dollar Change	Percent Change
	2011	2012	2011 - 2012	2011 - 2012
<i>Current assets</i>	\$ 8,263,346	\$ 7,830,037	\$ (433,309)	(5.2)%
<i>Noncurrent assets</i>	2,966,703	2,786,198	(180,505)	(6.1)%
<i>Capital assets, net</i>	22,527,135	22,274,120	(253,015)	(1.1)%
Total Assets	33,757,184	32,890,355	(866,829)	(2.6)%
<i>Current liabilities</i>	3,906,358	4,774,367	868,009	22.2%
<i>Noncurrent liabilities</i>	13,608,074	14,724,500	1,116,426	8.2%
Total Liabilities	17,514,432	19,498,867	1,984,435	11.3%
<i>Net investment in capital assets</i>	15,911,775	15,764,322	(147,453)	(0.9)%
<i>Restricted</i>	5,091,008	4,176,192	(914,816)	(17.9)%
<i>Unrestricted</i>	(4,760,031)	(6,549,026)	(1,788,995)	(37.6)%
Total Net Position	\$ 16,242,752	\$ 13,391,488	\$ (2,851,264)	(17.6)%

The decrease in current assets is primarily due to changes in cash and receivables of \$(299,465) and \$(148,717) at year end, respectively. The decrease in capital assets is mainly due to depreciation expenditures exceeding capital additions. The increase in current liabilities is mainly due to an increase of \$886,100 in Bond Anticipation Notes (BANs) payable offset by decrease in the current bond payable liability by \$(35,000). Increase in long term liabilities is mainly due to the increase in other postemployment benefit liabilities of \$1,231,861 and increase in long term portion of ERS and PFRS amortization amounts of \$383,980, offset by a decrease in long term bonds payable of \$(520,000).

The net position of the City's Governmental Activities decreased by 17.6%. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints - decreased \$(1,788,995) from \$(4,760,031) to \$(6,549,026), primarily as a result of the recognition of an additional \$1,231,861 of other postemployment benefit liabilities.

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Figure 2 demonstrates the operations of the City's activities.

Figure 2
Changes in Net Position

	Governmental Activities and Total Government		Dollar Change	Percent Change
	2011	2012	2011 - 2012	2011 - 2012
REVENUES				
<i>Program revenues:</i>				
Charges for services	\$ 4,945,860	\$ 4,423,016	\$ (522,844)	(10.6)%
Operating grants	3,917,432	3,336,400	(581,032)	(14.8)%
Capital grants	478,065	633,323	155,258	32.5%
<i>General revenues:</i>				
Property taxes and tax items	6,119,376	5,995,109	(124,267)	(2.0)%
Nonproperty taxes	6,451,951	6,407,819	(44,132)	(0.7)%
State sources	1,693,348	1,701,055	7,707	0.5%
Use of money and property	130,471	118,465	(12,006)	(9.2)%
Other general revenues	542,711	374,651	(168,060)	(30.9)%
Total Revenues	24,279,214	22,989,838	(1,289,376)	(5.3)%
PROGRAM EXPENSES				
General government	2,357,346	1,990,005	(367,341)	(15.6)%
Education	5,000	4,214	(786)	(15.7)%
Public safety	11,387,174	11,643,653	256,479	2.3%
Public health	145,179	-0-	(145,179)	(100.0)%
Transportation	3,101,701	2,880,794	(220,907)	(7.1)%
Economic assistance and opportunity	20,000	20,000	-0-	0.0%
Culture and recreation	1,005,076	924,270	(80,806)	(8.0)%
Home and community services	8,841,240	8,133,046	(708,194)	(8.0)%
Interest on long-term debt	260,859	245,120	(15,739)	(6.0)%
Total Expenses	27,123,575	25,841,102	(1,282,473)	(4.7)%
(DECREASE) IN NET POSITION	\$ (2,844,361)	\$ (2,851,264)	\$ (6,903)	(0.2)%

Governmental Activities

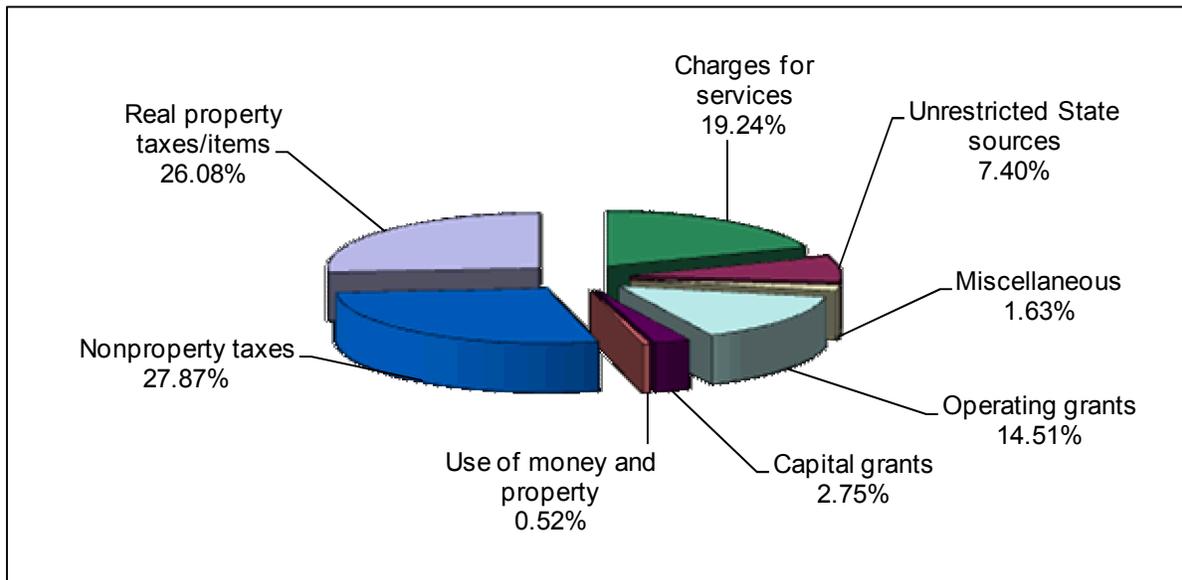
Revenues for the City's activities decreased overall by \$(1,289,376) or (5.3%). Charges for services were lower primarily due to lower water and sewer rents. The City's operating grants were lower in 2012 primarily due to a decrease of \$(646,291) in home and community grants, much of which is related to the weatherization program. Property taxes and tax items decreased by \$(124,267) or (0.5%) due to the expiration of certain PILOT agreements. Other general revenues decreased by 30.9% due to smaller insurance recoveries than the prior years.

Total expenses decreased \$(1,282,473) or 4.7%. General governmental support expenses decreased due to elimination of engineering expenses, and decreased maintenance expense. Public safety expenses increased 2.3% largely as a result of salary and benefit increases. Transportation decreased (7.1)% due to decreased depreciation expense offset by personnel expenses related to snow removal. Home and community services expenses decreased in proportion to the reduced operating grant revenue above.

CITY OF FULTON
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

Figure 3 shows the sources of revenue for 2012.

Figure 3
Revenue by Source
2012

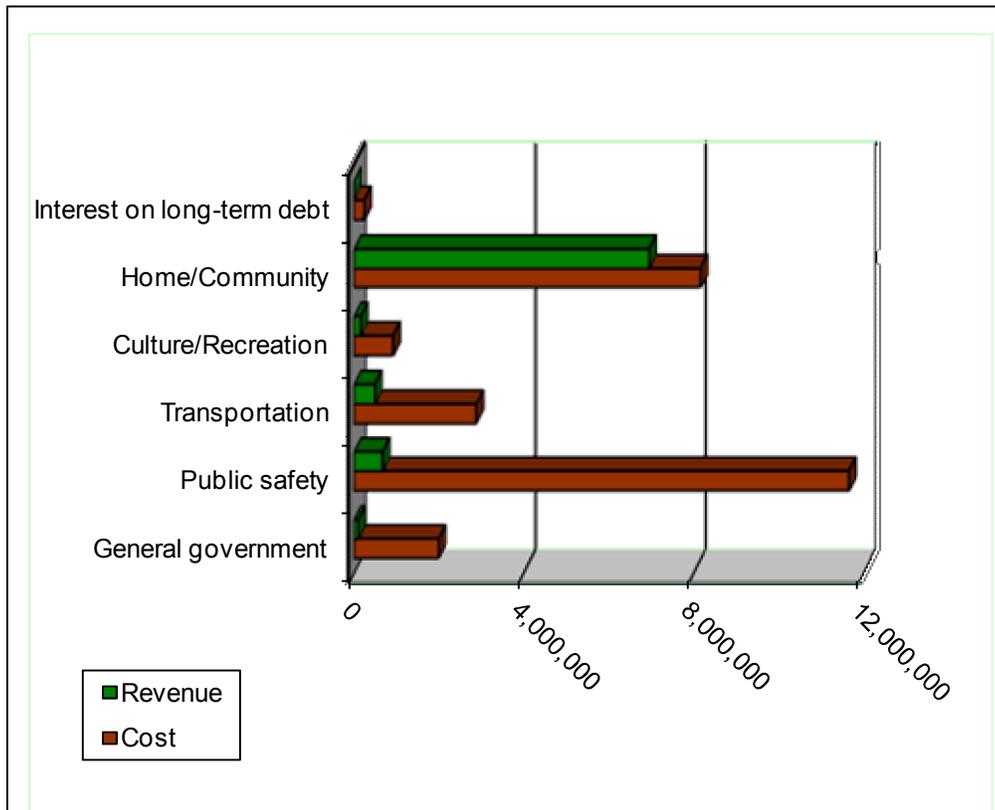


The cost of all Governmental Activities this year was \$25,841,102. However, as shown in the Statement of Activities, the net expense of those activities was \$17,448,363, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the City's governmental program revenues, including fees for services and grants, were \$8,392,739. The City paid for the remaining "public benefit" portion of Governmental Activities with \$14,597,099 in taxes and other revenues, such as interest and general entitlements.

The total cost and revenue comparison of the Governmental Activities for the City's largest programs follows. The difference between the cost and revenue shows the financial burden that was placed on the City's taxpayers by each of these functions. It should be noted that the City's home and community service activities, which provide water and sewer services include debt service costs in their fee structures. Because debt service costs are not expenses of this function, the excess revenue generated by these activities is used to make debt principal and interest payments.

CITY OF FULTON
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

Figure 4
Program Cost and Revenue Comparison
Governmental Activities
2012



THE CITY'S FUNDS

As the City completed the year, its Governmental Funds, as presented in the balance sheets on pages 6-6a, reported a combined fund balance of \$1,930,152; a decrease of (33.3%) from last year's total of \$2,892,664. Figure 5 shows the changes in fund balances during the year for the City's funds. The decrease in General Fund fund balance is due primarily to the increase in deferred tax revenue, and the increase in health insurance expenditures.

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Figure 5
Governmental Funds
Fund Balances at Year Ending

	2011	2012	Dollar Change	Percent Change
			2011 - 2012	2011 - 2012
General Fund	\$ 1,284,073	\$ 933,255	\$ (350,818)	(27.3)%
Capital Projects Fund	(1,155,336)	(1,592,880)	(437,544)	(37.9)%
Special Grant Fund	1,538,047	1,274,685	(263,362)	(17.1)%
<i>Non-major funds:</i>				
Water Fund	348,279	413,220	64,941	18.6%
Sewer Fund	797,742	794,894	(2,848)	(0.4)%
Recreation Fund	8,564	(1,234)	(9,798)	(114.4)%
Garbage Fund	26,995	54,513	27,518	101.9%
Debt Service Fund	44,300	53,699	9,399	21.2%
Totals	\$ 2,892,664	\$ 1,930,152	\$ (962,512)	(33.3)%

General Fund Budgetary Highlights

Over the course of the year, the City Council and management of the City revised the City budget several times. These budget amendments consisted of transfers between functions, encumbrances from the prior fiscal year and acceptance of grant awards.

Resources available for appropriation were \$(22,509) below the final budgeted amount. The most significant variances were related to sale of property and compensation for loss in the amount of \$50,864.

The actual charges to appropriations (expenditures) were above the final budgeted amounts by \$414,992. The most significant variance was related to employee benefits in the amount of \$501,146; medical insurance expenses exceeded appropriations by \$244,376.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of December 31, 2012, the City had \$22,274,120, net of accumulated depreciation of \$69,420,166, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a decrease of (1.1%) from last year.

Figure 6
Capital Assets at Year Ending

Historical Cost	Governmental Activities and Total Government		Dollar Change	Percent Change
	2011	2012	2011 - 2012	2011 - 2012
Land	\$ 706,860	\$ 706,860	\$ -0-	0.0%
Construction in progress	120,000	205,500	85,500	71.3%
Land improvements	777,848	777,848	-0-	0.0%
Buildings	13,397,916	13,416,112	18,196	0.1%
Equipment	9,041,672	9,832,481	790,809	8.8%
Infrastructure	66,287,004	66,755,485	468,481	0.7%
Totals	\$ 90,331,300	\$ 91,694,286	\$ 1,362,986	1.5%

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Depreciation expense during the year amounted to \$1,616,001, which increased \$51,556 from the prior year.

Debt Administration

Debt (bonds, BANs, loans payable, compensated absences and other postemployment benefit liabilities), considered a liability of Governmental Activities, increased by \$1,997,498, bringing total debt and long-term liabilities to \$18,159,974 as of December 31, 2012, as shown in Figure 7. Of the amount of bonds and notes outstanding, \$4,575,000 is subject to the constitutional debt limit and represented 20% of the City's statutory debt limit. The City's bond rating is currently Baa 2 from Moody's, which did not change from the prior year.

**Figure 7
Major Outstanding Debt and Long-term Liabilities at Year Ending**

	Governmental Activities and Total Government		Dollar Change	Percent Change
	2011	2012	2011 - 2012	2011 - 2012
<i>Serial Bonds</i>	\$ 5,325,000	\$ 4,770,000	\$ (555,000)	(10.4)%
<i>BANs</i>	1,927,190	2,813,290	886,100	46.0%
<i>State loans</i>	135,024	110,919	(24,105)	(17.8)%
<i>Installment purchase debt</i>	-0-	36,000	36,000	100.0%
<i>Due to retirement system</i>	323,559	748,205	424,646	131.2%
<i>Compensated absences</i>	774,163	796,159	21,996	2.8%
<i>Other postemployment benefit liabilities</i>	7,677,540	8,909,401	1,231,861	16.0%
Totals	\$ 16,162,476	\$ 18,183,974	\$ 2,021,498	12.5%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following is a summary of currently known facts, decisions, or conditions expected to have a significant effect on the Government's financial position.

- ❖ The closed New York Chocolate and Confections plant was liquidated and sold. A large part of the plant is being scrapped by the current owner for the scrap value. Property taxes on this plant for 2011 and 2012 have not yet been paid and the plant is not on the foreclosure list with the last day to pay or enter a payment agreement being September 5th. The impact of foreclosure is not yet known because there could be asbestos in the facility; but there has been interest with outside companies because of the location and size of the lots.
- ❖ Eight single family homes have been constructed under a grant from CDA to FCRC, and are now on the tax rolls.
- ❖ The City continues to try to rehabilitate tax-foreclosed properties and put them back on the tax rolls which so far have sold for more than anticipated. Reselling these properties has also helped stabilize the neighborhood. In 2013, the City is looking to sell at auction some of the properties with the stipulation that they be rehabilitated within one year and meet all specifications that are included with the bid packets to any bidders that may be interested in the properties. If not completed within one year, the property will revert back to the City. Reselling these properties that have been rehabilitated, continue to stabilize the neighborhood.

CITY OF FULTON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

- ❖ The closed Birdseye plant in Fulton has been sold and production under new ownership is expected to begin in the fall of 2013. The company is expected to employ about 180 employees when running at full operation. Concessions were made to assist in the opening of the plant, including a reduction of industrial pretreatment cost and a forgiveness of \$5,700,000 of assessed value for 2012 and 2013.
- ❖ The City is in the process of annexing the City-owned wastewater treatment facility located in the Town of Granby to reduce the current \$116,000 in property taxes as well as any assessment increase due to current construction. The current construction is the result of the NYSDEC consent decree, and is estimated to cost \$3,200,000. The City has reached an agreement with the Town with respect to annexation of the facility.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about the report or need any additional financial information contact James Laboda, City Chamberlain, Municipal Building, Fulton, New York 13069.

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

	<u>Component Units</u>		
	<u>Governmental Activities</u>	<u>Fulton Public Library</u>	<u>Fulton Housing Authority (March 31, 2012)</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 841,407	\$ 96,651	\$ 193,545
Restricted cash and cash equivalents	2,482,570		
Investments			16,446
Taxes receivable, net	2,258,478		
Due from State and Federal governments	131,640		
Due from other governments	508,397		
Other receivables, net	914,424		164,479
Prepaid expenses	512,860		9,666
Loans receivable, current portion	180,261		
Total Current Assets	<u>7,830,037</u>	<u>96,651</u>	<u>384,136</u>
Noncurrent assets:			
Restricted cash and cash equivalents	106,126		26,302
Long-term accounts receivable			
Loans receivable, long-term portion	2,680,072		
Land and construction in progress	912,360		
Capital assets, net of accumulated depreciation	21,361,760		358,643
Total Noncurrent Assets	<u>25,060,318</u>		<u>384,945</u>
 Total Assets	 <u>32,890,355</u>	 <u>96,651</u>	 <u>769,081</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	504,274		27,260
Accrued liabilities	193,608		
Due to other governments	397,061		
Due to fiduciary funds			
Interest payable	68,574		341
Overpayments	33,812		
Other liabilities	117,564		
Current portion of long-term liabilities:			
BAN payable	2,813,290		
State loans payable	24,471		
Bonds payable	520,000		44,388
Installment purchase debt	12,000		
Due to retirement systems	67,717		
Compensated absences	21,996		27,204
Total Current Liabilities	<u>4,774,367</u>	<u>-0-</u>	<u>99,193</u>

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK
STATEMENT OF NET POSITION
(CONTINUED)
DECEMBER 31, 2012

	Component Units		
	Governmental Activities	Fulton Public Library	Fulton Housing Authority (March 31, 2012)
Long-term Liabilities:			
State loans payable	\$ 86,448	\$	\$
Bonds payable	4,250,000		351,734
Installment purchase debt	24,000		
Other postemployment benefit liabilities	8,909,401		
Due to retirement systems	680,488		
Compensated absences	774,163		
Deferred revenues			26,302
Total Long-term Liabilities	14,724,500		378,036
Total Liabilities	19,498,867	-0-	477,229
<u>NET ASSETS</u>			
Net investment in capital assets	15,764,322		(37,479)
Restricted			
Restricted, expendable for community development	4,122,493		
Restricted, expendable for debt	53,699		
Restricted for various purposes		83,377	329,331
Unrestricted	(6,549,026)	13,274	
Total Net Position	\$ 13,391,488	\$ 96,651	\$ 291,852

CITY OF FULTON, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General governmental support	\$ 1,990,005	\$ 110,259	\$ 600	\$
Education	4,214			
Public safety	11,643,653	163,780	137,712	377,150
Transportation	2,880,794	138,001	100,000	255,402
Economic assistance and opportunity	20,000			
Culture and recreation	924,270	155,825	6,834	
Home and community services	8,133,046	3,855,151	3,091,254	771
Interest on long-term debt	245,120			
Total Governmental Activities	<u>\$ 25,841,102</u>	<u>\$ 4,423,016</u>	<u>\$ 3,336,400</u>	<u>\$ 633,323</u>
Component Units:				
Fulton Public Library	\$ 255,678	\$ 3,579	\$ 20,237	\$
Fulton Housing Authority	603,919	592,798		
Total Component Units	<u>\$ 859,597</u>	<u>\$ 596,377</u>	<u>\$ 20,237</u>	<u>\$ -0-</u>

GENERAL REVENUES

Real property taxes
Real property tax items
Nonproperty tax items
Use of money and property
Sale of property and compensation for loss
Miscellaneous local sources
City appropriation
State sources

Total General Revenues

Prior Period Adjustment

Change in Net Position

Net Position - Beginning

Net Position - Ending

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and Change in Net Position

Primary Government	Component Units	
Total Governmental Activities	Fulton Public Library	Fulton Housing Authority
\$ (1,879,146)	\$	\$
(4,214)		
(10,965,011)		
(2,387,391)		
(20,000)		
(761,611)		
(1,185,870)		
(245,120)		
(17,448,363)		
	(231,862)	
		(11,121)
	(231,862)	(11,121)
5,548,277	145,128	
446,832		
6,407,819		
118,465	8	63,653
327,516		
47,135		
	100,000	
1,701,055		
14,597,099	245,136	63,653
		84,588
(2,851,264)	13,274	52,532
16,242,752	83,377	239,320
\$ <u>13,391,488</u>	\$ <u>96,651</u>	\$ <u>291,852</u>

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

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund <u>Special Grant Fund</u>
<u>ASSETS</u>			
Assets:			
Cash and cash equivalents - Unrestricted	\$ 3,915	\$ 32,759	\$ 51,070
Taxes receivable, net	2,258,478		
Due from other funds	52,634		
Due from state and federal governments	122,863		8,777
Due from other governments	508,397		
Prepaid expenses	444,396		12,525
Other receivables, net	107,618		5,000
Cash and cash equivalents - Restricted	52,427	1,220,410	1,262,160
Loans receivable, net			2,860,333
 Total Assets	 \$ 3,550,728	 \$ 1,253,169	 \$ 4,199,865
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 262,550	\$ 32,759	\$ 1,233
Accrued liabilities	100,624		63,614
Due to other funds			
Due to other governments	397,061		
Bond Anticipation Notes payable		2,813,290	
Other liabilities	57,285		
Overpayments	33,812		
Deferred revenues	1,766,141		2,860,333
 Total Liabilities	 2,617,473	 2,846,049	 2,925,180
Fund Balances:			
Nonspendable	444,396		12,525
Restricted			1,262,160
Assigned	352,791		
Unassigned	136,068	(1,592,880)	
 Total Fund Balances	 933,255	 (1,592,880)	 1,274,685
 Total Liabilities and Fund Balances	 \$ 3,550,728	 \$ 1,253,169	 \$ 4,199,865

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$ 753,663	\$ 841,407
	2,258,478
	52,634
	131,640
	508,397
55,939	512,860
801,806	914,424
53,699	2,588,696
	2,860,333
<u>\$ 1,665,107</u>	<u>\$ 10,668,869</u>
\$ 207,732	\$ 504,274
29,370	193,608
52,634	52,634
	397,061
	2,813,290
60,279	117,564
	33,812
	4,626,474
350,015	8,738,717
55,939	512,860
53,699	1,315,859
1,206,688	1,559,479
(1,234)	(1,458,046)
1,315,092	1,930,152
<u>\$ 1,665,107</u>	<u>\$ 10,668,869</u>

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

Total Governmental Fund Balances \$ 1,930,152

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets, net of accumulated depreciation, used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 91,694,286	
Accumulated depreciation	<u>(69,420,166)</u>	22,274,120

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 4,626,474

Certain accrued expenses reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in Governmental Funds.

Accrued interest payable	\$ (68,574)	
Compensated absences	<u>(796,159)</u>	(864,733)

Long-term liabilities, including Bonds payable and State loans payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	\$ (4,770,000)	
Due to retirement systems	(748,205)	
State loans payable	(110,919)	
Installment debt purchase	(36,000)	
Other postemployment benefit liabilities	<u>(8,909,401)</u>	<u>(14,574,525)</u>

Net Position of Governmental Activities \$ 13,391,488

See Independent Auditor's Report and Notes to Financial Statements

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

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund Special Grant Fund
<u>REVENUES</u>			
Real property taxes	\$ 5,416,387	\$	\$
Real property tax items	446,832		
Nonproperty tax items	6,407,819		
Departmental income	147,928		235,715
Intergovernmental charges	248,239		
Use of money and property	77,763		25,796
Licenses and permits	48,715		
Fines and forfeitures	93,982		
Sale of property and compensation for loss	270,952		
Miscellaneous local sources	43,812		
State sources	1,935,509	256,173	3,664
Federal sources	10,692	377,150	3,087,590
Total Revenues	<u>15,148,630</u>	<u>633,323</u>	<u>3,352,765</u>
<u>EXPENDITURES</u>			
Current:			
General governmental support	1,213,186		
Education	4,214		
Public safety	6,469,687		
Transportation	1,765,315		
Economic assistance and opportunity	20,000		
Culture and recreation	493,857		
Home and community services	67,767		3,616,127
Employee benefits	5,154,307		
Debt Service:			
Principal	493,136		
Interest	161,910		
Capital outlay		1,218,267	
Total Expenditures	<u>15,843,379</u>	<u>1,218,267</u>	<u>3,616,127</u>
Excess of (Expenditures) Revenues	<u>(694,749)</u>	<u>(584,944)</u>	<u>(263,362)</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Interfund transfers in	59,500		
Interfund transfers (out)	(100,000)	(59,500)	
BANs redeemed from appropriations		206,900	
Proceeds from obligations	384,431		
Total Other Financing Sources (Uses)	<u>343,931</u>	<u>147,400</u>	<u>-0-</u>
Net Changes in Fund Balances	<u>(350,818)</u>	<u>(437,544)</u>	<u>(263,362)</u>
Fund Balances, Beginning	1,284,073	(1,155,336)	1,538,047
Fund Balances, Ending	<u>\$ 933,255</u>	<u>\$ (1,592,880)</u>	<u>\$ 1,274,685</u>

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$	\$
	5,416,387
	446,832
	6,407,819
3,867,885	4,251,528
	248,239
6,579	110,138
280	48,995
	93,982
56,564	327,516
19,310	63,122
	2,195,346
	3,475,432
3,950,618	23,085,336
168,288	1,381,474
	4,214
	6,469,687
	1,765,315
	20,000
41,796	535,653
2,423,729	6,107,623
947,347	6,101,654
256,869	750,005
99,309	261,219
	1,218,267
3,937,338	24,615,111
13,280	(1,529,775)
	59,500
	(159,500)
	206,900
75,932	460,363
75,932	567,263
89,212	(962,512)
1,225,880	2,892,664
\$ 1,315,092	\$ 1,930,152

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

Net Change in Fund Balances - Total Governmental Funds \$ (962,512)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Capital outlay	\$	1,362,986	
Depreciation expense		<u>(1,616,001)</u>	(253,015)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in deferred revenue from the prior year. (516,438)

Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of debt principal payments, net of Bond Anticipation Note redemptions.

Debt principal payments, net of redemptions 543,105

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds.

Net change in accrued interest payable	\$	16,099	
Net change in other postemployment benefit liabilities		(1,231,861)	
Net change in compensated absences		(21,996)	
Amounts due to employee retirement systems		<u>(424,646)</u>	<u>(1,662,404)</u>

Change in Net Position of Governmental Activities \$ (2,851,264)

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>ASSETS</u>	<u>Agency Funds</u>
Cash:		
Unrestricted		\$ <u>175,972</u>
Total Assets		\$ <u><u>175,972</u></u>
	<u>LIABILITIES</u>	
Other liabilities		\$ <u>175,972</u>
Total Liabilities		\$ <u><u>175,972</u></u>

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the City of Fulton (the City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Financial Reporting Entity

The City, which was established in 1902, is governed by its Charter, the General City Law, other general laws of the State of New York, and various local ordinances. The Common Council is the legislative body responsible for overall operations, the Mayor serves as chief executive officer and the Chamberlain serves as chief fiscal officer.

The following basic services are provided: public safety (police and fire), highways and streets, water, sanitation, health, culture and recreation, public improvements, planning and zoning, and general administration.

All Governmental Activities and functions performed for the City of Fulton, New York are its direct responsibility. The basic financial statements include all funds of the primary government, which is the City, organizations for which the primary government is financially accountable, and other organizational entities determined to be included in the City's reporting entity in accordance with GASB Statement Number 14, as amended by GASB Statement Number 39.

1. Discretely Presented Component Units

During the year ended December 31, 2004, the City implemented GASB Statement Number 39, "Determining Whether Certain Organizations are Component Units." This Statement amends GASB Statement Number 14, "The Financial Reporting Entity," to provide additional guidance to determine whether certain organizations for which the City is not financially accountable should be reported as component units based on the nature and significance of their relationship with the City. The decision to include a potential component unit in the City's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following are included as discretely presented component units:

a) Fulton Public Library

The Fulton Public Library was granted a charter by the Board of Regents as provided in Article 5 of the Education Law. Library trustees are appointed by the Mayor. The City funds the Library from taxes and holds title to real property used by the Library. Financial information for the Library can be obtained from the Fulton City Chamberlain, Municipal Building, Fulton, NY 13069.

b) Fulton Housing Authority

The Fulton Housing Authority was established in 1948 by the New York State Department of Housing and Community Renewal to provide low income housing to qualified individuals and families. The Board members are appointed by the Mayor. The City provides the Authority with an exemption from local municipal taxes and is also contingently liable to New York State for debt repayment relative to State projects.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The component unit information for the Fulton Housing Authority is audited by other auditors and is not audited in accordance with Government Auditing Standards. Complete financial statements can be obtained from their administrative office at: Fulton Housing Authority, 1100 Emery Street, Fulton, NY 13069.

The Fulton City School District does not meet the criteria for manifestation of oversight as defined by GASB and, therefore, is excluded from the City's reporting entity.

B. Basic Financial Statements

The City's basic financial statements include both Government-wide (reporting the City as a whole) and Governmental Fund financial statements (reporting the City's Major Funds). The Government-wide and Governmental Fund financial statements categorize primary activities as governmental. The City's general governmental support, education, public health, public safety, transportation, culture and recreation, economic assistance and opportunity and home and community services are classified as Governmental Activities.

1. Government-wide Statements

The Government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of activities for the primary government (Governmental and Business-type). Government-wide financial statements do not include the activities reported in the Fiduciary Funds. The focus of the Government-wide statements addresses the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

In the Government-wide Statement of Net Position, the Governmental Activities column is presented on a consolidated basis, and is 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 net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The Statement of Activities reports both the gross and net cost for each of the City's functions or programs. Gross expenses are direct expenses, including depreciation, specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. These expenses are offset by program revenues - charges paid by the recipients of the goods or services offered by the programs, grants, and contributions - restricted to meeting the program or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The net cost represents the extent to which each function or program is self-financing or draws from the general revenues of the City.

The City does not allocate indirect costs. Indirect costs are reported in the function entitled "general government."

2. Governmental Fund Financial Statements

The financial transactions of the City are reported in individual funds in the Governmental 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 or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The City records its transactions in the funds described below:

a. Governmental Funds

Governmental Funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources, and the related liabilities are accounted for through Governmental Funds. The measurement focus of the Governmental Funds is based upon determination of financial position and changes in financial position under the modified accrual basis of accounting. The following are the City's Governmental Funds:

1) Major Funds:

General Fund - Principal operating fund which includes all operations not required to be recorded in other funds.

Special Revenue Fund:

Special Grant Fund - Accounts for activities under the Housing and Community Development Act of 1974.

Capital Projects Funds - Account for financial resources to be used for the acquisition, construction, or renovation of major capital facilities.

2) Non-Major Funds:

Special Revenue Funds:

Water Fund - Accounts for revenues derived from charges for water consumption and the application of such revenues toward related operating expenditures and debt retirement.

Recreation Fund - Accounts for revenues derived from charges for recreation facility usage and the application of such revenues toward related operating expenditures.

Sewer Fund - Accounts for revenues derived from charges for sewer usage and the application of such revenues toward related operating expenditures and debt retirement.

Garbage Fund - Accounts for revenues derived from charges for refuse and garbage services and the application of such revenues toward related operating expenditures.

Debt Service Fund - Accounts for current payments of principal and interest on general obligation long-term debt (and for financial resources accumulated in a reserve for payment of future principal and interest on long-term indebtedness).

b. Fiduciary Fund Types

Fiduciary Fund types are used to account for assets held by the local government in a trustee or custodial capacity.

Agency Funds - Account for money and/or property received and held in the capacity of trustee, custodian or agent.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

C. Basis of Accounting/Measurement Focus

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

1. Accrual Basis

The Government-wide financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual Basis

The Governmental Fund financial statements are prepared using the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues that are accrued include real property taxes, state and federal aid, sales tax, and certain user charges. The City considers property tax receivables collected within 60 days after year end to be available and recognizes them as revenues of the current year. All other revenues that are deemed collectible within one year after year end are recognized as revenues in the current year. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made. Expenditures are recorded when incurred. The cost of capital assets is recognized as an expenditure when the asset is received. Exceptions to this general rule are 1) principal and interest on indebtedness are not recognized as an expenditure until due, and 2) compensated absences, such as vacation and sick leave, which vests or accumulates, are charged as an expenditure when paid.

D. Property Taxes

Real property taxes are levied annually by the City no later than January 1, and become a lien on January 1. City taxes are collected January 15th to February 28th, and are deposited directly to the credit of the City fiscal officer. City taxes are collected in two installments, the first during the month of January and the second during the month of June.

The collection of the County of Oswego's taxes levied on properties within the City is enforced by the City. The County receives the full amount of such taxes within the year of levy. Unpaid City taxes of the current year, plus advertising costs and accrued penalties, are enforced through the annual public tax sale held in November, pursuant to Article 10 of the Real Property Tax Law. If not redeemed within the times prescribed by statute, such certificates are subject to conversion to tax (quit claim) deeds vesting equivalent title and interest in the certificate holders.

E. Cash and Cash Equivalents

For financial statement purposes, all highly liquid investments having maturities of three months or less are considered cash equivalents.

F. Investments

Investments are stated at fair value.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

G. Receivables

Property tax receivables are stated net of the estimated allowance for uncollectible amounts. Amounts due from state and federal governments represent amounts owed to the City to reimburse it for expenditures incurred pursuant to state and federal programs. Other receivables represent amounts owed to the City, which include sewer rents, water rents, and assessments. No provision has been made for uncollectible accounts for amounts due from the state and federal governments and other receivables, as it is believed such amounts would be immaterial.

H. Capital Assets

All capital assets are valued 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 estimated useful lives of the assets. Governmental capital assets purchased or acquired with an original cost of at least \$1,000 and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

Buildings	40 years
Machinery and equipment	5-20 years
Infrastructure	15-60 years

I. Insurance and Risk Management

The City maintains insurance coverage for most risk including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. No settlements exceeded insurance coverage in any of the past three years.

J. Vacation, Sick Leave, and Compensatory Absences

The City employees are granted vacation, sick leave, and other leave benefits as defined in agreements between the City and employee representative units. Limited amounts of leave time may be accumulated and the cost, therefore, is recognized when payment is made to employees. In the event of termination, an employee is entitled to payment for accumulated vacation, unused compensatory absences, and one half of accumulated sick leave. The City accounts for all earned and unused time in the Government-wide financial statements under Governmental Activities.

K. Other Postemployment Benefits

In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors, in accordance with employee contracts. 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 survivor benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid. During the year, \$986,364 was paid on behalf of 56 recipients.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

L. Equity Classifications

1. Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of net resources with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation.

Unrestricted - Consists of all other net resources that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

2. Governmental Fund Financial Statements

In the year ending December 31, 2011, the City implemented GASB Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement Number 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

Constraints are broken into five classifications: nonspendable, restricted, committed, assigned, and unassigned. These classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor any constraints on specific purposes for which resources in a fund can be spent.

- **Nonspendable**
Consists of assets inherently nonspendable in the current period either because of their form or because they must be maintained intact; including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and endowments principal.
- **Restricted**
Consists of amounts subject to legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and enforced externally; or through constitutional provisions or enabling legislation. Most of the City's legally adopted reserves are reported here.
- **Committed**
Consists of amounts subject to a purpose constraint imposed by formal action of the government's highest level of decision-making authority prior to the end of the fiscal year, which requires the same level of formal action to remove said constraint.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

- **Assigned**
Consists of amounts subject to a purpose constraint representing an intended use established by the government's highest level of decision-making authority, or their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund. In funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.
- **Unassigned**
Represents the residual classification of the government's General Fund, and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should only be used to report a deficit balance resulting from overspending amounts restricted, committed, or assigned for specific purposes.

The City has not adopted any resolutions to commit fund balance. The City's policy is to apply expenditures against restricted fund balance, assigned fund balance, and unassigned fund balance.

M. 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. Transfers between Governmental or Proprietary Funds are netted as part of the reconciliation to the Government-wide financial statements.

N. Revenues

Substantially all Governmental Fund revenues are accrued. Property tax receivables expected to be received later than 60 days after year end are deferred. In applying GASB Statement Number 33 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.

O. Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net resources are available, it is the City's policy to apply restricted funds before unrestricted funds, unless otherwise prohibited by legal requirements.

P. Use of Estimates

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

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. The City's monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The Chamberlain is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit at 105% of all deposits 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 written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal government. Underlying securities must have a market value of at least 105% of the cost of the repurchase agreement.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. While the City does not have a specific policy for custodial credit risk, New York State statutes govern the City's investment policies, as discussed previously in these notes. GASB Statement Number 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, and the deposits are either uncollateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

The City's aggregate bank balances of \$3,732,664 are either insured or collateralized with securities held by the pledging financial institution in the City's name.

Restricted Cash

Restricted cash is composed of \$48,652 reserved for a Police Forfeiture Fund, \$3,775 reserved for Playground and Skateboard Park Funds, \$1,220,410 restricted for capital project expenditures, \$1,262,160 restricted for Special Grants, and \$53,699 restricted for debt service.

2. Property Taxes

At December 31, 2012, the total real property taxes receivable of \$3,098,137 is offset by an allowance for uncollectible taxes of \$839,659, deferred tax revenue of \$1,766,141, and amounts due to Fulton City School District of \$379,689.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

3. Other Receivables

	Description	Amount
General Fund	Assessments	\$ 3,840
	Utilities gross receipts taxes	29,656
	Insurance recoveries	51,303
	Reimbursement of expenses	15,677
	Clerk Fees	7,142
Total General Fund		107,618
Special Grant Fund	Fees	5,000
Water Fund	Rents	216,921
Sewer Fund	Rents	455,056
Garbage Fund	Fees	129,829
Total Governmental Activities		\$ 914,424

4. Capital Assets

A summary of changes in capital assets at December 31, 2012 follows:

	Balance at 12/31/11	Additions	Deletions	Balance at 12/31/12
<u>Governmental Activities</u>				
Non-depreciable Capital Assets:				
Land	\$ 706,860	\$	\$	\$ 706,860
Construction in process	120,000	85,500		205,500
Total Non-depreciable Capital Assets	826,860	85,500	-0-	912,360
Depreciable Capital Assets:				
Buildings	13,397,916	18,196		13,416,112
Land improvements	777,848			777,848
Machinery and equipment	9,041,672	790,809		9,832,481
Infrastructure	66,287,004	468,481		66,755,485
Total Depreciable Capital Assets	89,504,440	1,277,486	-0-	90,781,926
Total Historical Cost	90,331,300	1,362,986	-0-	91,694,286
Less Accumulated Depreciation:				
Buildings	(7,362,651)	(323,946)		(7,686,597)
Land Improvements	(400,298)	(59,508)		(459,806)
Machinery and equipment	(6,245,509)	(555,355)		(6,800,864)
Infrastructure	(53,795,707)	(677,192)		(54,472,899)
Total Accumulated Depreciation	(67,804,165)	(1,616,001)	-0-	(69,420,166)
Governmental Activities Capital Assets, Net	\$ 22,527,135	\$ (253,015)	\$ -0-	\$ 22,274,120

CITY OF FULTON, NEW YORK
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	
General governmental support	\$ 111,144
Public safety	181,184
Transportation	513,429
Culture and recreation	76,588
Home and community services	<u>733,656</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,616,001</u>

B. Liabilities

1. Pension Plans

The City 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 defined benefit 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, NY 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. Employees in the System more than ten years are no longer required to contribute. 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 is required to contribute at an actuarially determined rate. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows:

	<u>ERS</u>	<u>PFRS</u>
2012	\$ 551,666	\$ 1,145,415
2011	544,792	1,234,814
2010	390,210	871,574

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

For State fiscal year 2010-11, the amount in excess of the graded rate of 9.5% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.

For subsequent State fiscal years, the graded rate will increase or decrease by up to 1% depending on the gap between the increase or decrease in the NYSLRS's average rate and the previous graded rate.

For subsequent State fiscal years in which the NYSLRS's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the NYSLRS's fiscal years when the local employer opts to participate in the program. The total unpaid liability at the end of the fiscal year was \$748,205, which is reported in total in the Statement of Net Position. These amounts will be paid over a 10 year period, with interest accumulating at 3.75%.

2. Other Postemployment Benefit Liabilities

The City has adopted GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB) Other than Pensions." In the past, the City reported the cost of retiree health care on a "pay-as-you-go" basis. An actuarial valuation of the City Retiree Medical Plan (Plan) was performed as of January 1, 2012 for the fiscal year ending December 31, 2012.

The Plan is a single-employer defined benefit healthcare plan administered by the City. The Plan provides medical and dental benefits to eligible retirees and their spouses and can be amended by action of the City subject to applicable collective bargaining and employment agreements. The Plan does not issue a stand-alone financial report, as there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The contribution requirements of Plan members, employers and other entities are established by action of the City pursuant to applicable collective bargaining agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The costs of administering the Plan are paid by the City.

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement Number 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

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

Normal cost	\$	787,673
Amortization of Unfunded Actuarial Accrued Liability (UAAL)		<u>1,772,446</u>
Total Annual Required Contribution		2,560,119
Adjustment to annual required contribution		<u>(119,814)</u>
Annual OPEB Cost (Expense)		2,440,305
Expected employer contributions		<u>(1,208,444)</u>
Increase in Net OPEB Obligation		1,231,861
Net OPEB Obligation - December 31, 2011		<u>7,677,540</u>
Net OPEB Obligation - December 31, 2012	\$	<u><u>8,909,401</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/12	\$ <u>2,440,305</u>	49.5%	\$ <u>8,909,401</u>
12/31/11	\$ <u>3,100,114</u>	38.1%	\$ <u>7,677,540</u>
12/31/10	\$ <u>3,100,114</u>	38.1%	\$ <u>5,758,160</u>

Funded Status and Funding Progress - As of December 31, 2012 the Plan was not funded. The actuarial accrued liability for benefits was \$30,649,202, as there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was \$9,199,142 and the ratio of the UAAL to the covered payroll was 333.2%

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 funded status of the Plan and 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.

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 perspective of the calculations.

CITY OF FULTON, NEW YORK
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. Under this method, each participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial data and actuarial assumptions. The actuarial assumptions included an initial annual healthcare cost trend rate of 9%, reduced by decrements to an ultimate rate of 5% after twenty years. The discount rate used as of January 1, 2009 was 4% per year compounded annually. This is the rate used to discount future benefit liabilities into today's dollars.

3. Short-term Debt

Bond Anticipation Notes (BANs)

BANs issued in anticipation of proceeds from the subsequent sale of bonds are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of the bonds.

Such notes may be classified as long-term debt when (1) the intention is to refinance the debt on a long-term basis and (2) the intention can be substantiated through a post balance sheet issuance of long-term debt or by an acceptable financing agreement. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date. The City issues Bond Anticipation Notes to finance capital improvements.

The City's outstanding BAN in the amount of \$2,813,290 will mature November 29, 2013, with interest of 1.25% payable at maturity.

Interest expense on short-term debt for fiscal year 2012 was as follows:

Interest paid (expenditure)	\$ 21,436
Add accrued interest at December 31, 2012	2,987
Less accrued interest at December 31, 2011	<u>(1,800)</u>
Interest expense	<u>\$ 22,623</u>

4. Long-term Debt

At December 31, 2012, the total outstanding indebtedness of the City aggregated \$7,694,209. Of this amount, \$4,575,000 was subject to the constitutional debt limit and represented approximately 20% of its debt limit.

a. Serial Bonds and Notes

The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the government-wide financial statements. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

CITY OF FULTON, NEW YORK
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

The following is a summary of bonds outstanding at December 31, 2012 with corresponding maturity schedules:

<u>Description of Issue</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Balance Outstanding</u>
All Purpose	1997	3,805,000	5.0%	2016	300,000
NYS EFC Advanced:					
Refunding Bonds	1998	746,700	2.65-5.2%	2017	195,000
Various Capital Projects	2004	948,422	4.25-4.5%	2014	225,000
Snow Plows	2006	121,000	5.2%	2016	60,000
Various Capital Projects	2006	5,473,081	4.1%	2023	<u>3,990,000</u>
Total					<u>\$ 4,770,000</u>

Interest paid on certain serial bonds varies from year to year, in accordance with the interest rates specified in the bond agreements.

b. Other Long-term Obligations

In addition to the above long-term debt, the City had the following noncurrent liabilities:

Compensated Absences - Represents the liability for accumulated vacation, unused compensatory absences, and one half of accumulated sick leave. The City's General, Water, Sewer, Recreation, and Garbage Funds liquidate this liability.

State Loans - Represents the liability due to the New York State Environmental Facilities Corporation. The City's Water, Sewer, and Garbage Funds liquidate this liability.

Installment Purchase Debt - Represents liability under an installment purchase agreement for a Fire Department vehicle.

Other Postemployment Benefit Liabilities - Represents the expected obligation for the postretirement health care benefits program. See Note 2.B.2 for further information.

Due to Employee Retirement Systems - amounts amortized by the City in accordance with Chapter 57 of the Laws of 2010. (See note 2.B.1 for more information)

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

c. Changes in Indebtedness

The following is a summary of changes in the City's indebtedness for the year ended December 31, 2012.

	Balance 12/31/11	New Issues/ Additions	Maturities/ Payments	Balance 12/31/12	Amount Due Within One Year
<u>Governmental Activities:</u>					
BANs	\$ 1,927,190	\$ 2,813,290	\$ (1,927,190)	\$ 2,813,290	\$ 2,813,290
General obligation bonds	5,325,000		(555,000)	4,770,000	520,000
Total Long-Term Debt	7,252,190	2,813,290	(2,482,190)	7,583,290	3,333,290
<u>Other Long-term Obligations:</u>					
Compensated absences	774,163	21,996		796,159	21,996
State loans	135,024		(24,105)	110,919	24,471
Installment purchase debt	-0-	48,000	(12,000)	36,000	12,000
Due to retirement systems	323,559	452,036	(27,390)	748,205	67,717
Other postemployment benefit liabilities	7,677,540	2,440,305	(1,208,444)	8,909,401	
Total Other Long-term Liabilities	8,910,286	2,962,337	(1,271,939)	10,600,684	126,184
 Total Indebtedness -					
Governmental Activities	\$ 16,162,476	\$ 5,775,627	\$ (3,754,129)	\$ 18,183,974	\$ 3,459,474

d. Debt Maturity Schedule

The following is a summary of maturing debt service requirements for general obligation bonds and notes:

Year	Bonds Principal	Bonds Interest	State Loans	State Loans Interest	Due to Retirement Systems Principal	Due to Retirement Systems Interest	Installment Purchase Debt	Total
2013	\$ 520,000	192,087	24,471	1,707	67,717	24,679	12,000	842,661
2014	545,000	170,923	24,844	1,334	69,962	22,434	12,000	846,497
2015	445,000	148,809	25,316	954	72,283	20,114	12,000	724,476
2016	460,000	131,172	25,611	567	74,679	17,716		709,745
2017	385,000	113,259	10,677	234	77,159	15,238		601,567
2018-2022	1,970,000	339,535			386,405	35,998		2,731,938
2023	445,000	18,245						463,245
 Total	 \$ 4,770,000	 \$ 1,114,030	 \$ 110,919	 \$ 4,796	 \$ 748,205	 \$ 136,179	 \$ 36,000	 \$ 6,920,129

Interest expense on long-term debt for fiscal year 2012 was as follows:

Interest paid (expenditure)	\$ 239,783
Add accrued interest at December 31, 2012	65,587
Less accrued interest at December 31, 2011	(82,873)
Interest expense	<u>\$ 222,497</u>

CITY OF FULTON, NEW YORK
 NOTES TO FINANCIAL STATEMENTS
 (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

C. Interfund Receivables and Payables

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The General Fund annually provides support to the Fulton Public Library. The Governmental Funds financial statements generally reflect such transactions as transfers.

The City also loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

Interfund receivable and payable balances at December 31, 2012 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Transfer Revenue</u>	<u>Interfund Transfer Expense</u>
General Fund	\$ 52,634	\$	\$ 59,500	\$ 100,000
Capital Projects Fund				59,500
Non-Major Governmental Funds		<u>52,634</u>		
Total Governmental Activities	<u>52,634</u>	<u>52,634</u>	59,500	<u>159,500</u>
Fiduciary Funds			<u>100,000</u>	
Total	<u>\$ 52,634</u>	<u>\$ 52,634</u>	<u>\$ 159,500</u>	<u>\$ 159,500</u>

Note 3 - Stewardship, Compliance, Accountability

A. Deficit Fund Balance

The Capital Projects Fund reported a deficit fund balance of \$(1,592,880) as of December 31, 2012. This deficit will be eliminated when short-term financing is converted to general obligation bonds.

Note 4 - Departures from Generally Accepted Accounting Principles

Fulton Housing Authority, a Component Unit, is audited by another auditor and is not audited in accordance with *Government Auditing Standards*.

Note 5 - Contingencies

The local government, including the Community Development Agency, has received grants in excess of \$1,000,000, which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for return of funds to the State and/or Federal governments. Based on past audits, the local government administration believes disallowances, if any, will be immaterial.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past two years.

CITY OF FULTON, NEW YORK
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 6 - Impact of Future Standards of the Governmental Accounting Standards Board (GASB)

The City is in the process of assessing the future effects of the following GASB Statement: GASB Statement Number 65, Items Previously Reported as Assets and Liabilities, to be implemented in fiscal year ending December 31, 2013.

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

CITY OF FULTON, NEW YORK
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - NON-GAAP BUDGET BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Original Budget	Final Budget
<u>REVENUES</u>		
Real property taxes	\$ 5,552,131	\$ 5,552,131
Real property tax items	363,195	363,195
Nonproperty tax items	6,411,960	6,411,960
Departmental income	142,700	169,068
Intergovernmental charges	235,125	248,650
Use of money and property	93,820	93,820
Licenses and permits	45,200	45,200
Fines and forfeitures	106,000	106,000
Sale of property and compensation for loss	58,000	220,088
Miscellaneous local sources	2,300	1,724
State sources	1,854,017	1,954,017
Federal sources		5,286
Total Revenues	14,864,448	15,171,139
<u>EXPENDITURES</u>		
Current:		
General governmental support	1,292,769	1,263,521
Education	4,000	4,718
Public safety	6,282,505	6,303,674
Health	700	700
Transportation	1,826,888	1,941,114
Economic assistance and opportunity	20,000	20,000
Culture and recreation	490,452	517,640
Home and community services	85,236	85,234
Employee benefits	4,491,773	4,653,161
Debt service (principal and interest)	565,125	638,625
Total Expenditures	15,059,448	15,428,387
Excess of (Expenditures)	(195,000)	(257,248)
<u>OTHER FINANCING SOURCES (USES)</u>		
Interfund transfers in	5,000	64,500
Interfund transfers (out)	(100,000)	(100,000)
Proceeds from obligation		
Total Other Financing Sources (Uses)	(95,000)	(35,500)
Excess of (Expenditures) and Other (Uses)		
Over Revenues and Other Financing Sources	(290,000)	(292,748)
Appropriated Fund Balance	290,000	292,748
Net Change in Fund Balance	\$ -0-	\$ -0-
Fund Balance, Beginning		
Fund Balance, Ending		

See Independent Auditor's Report and Notes to Required Supplementary Information

<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
\$ 5,416,387	\$	\$ (135,744)
446,832		83,637
6,407,819		(4,141)
147,928		(21,140)
248,239		(411)
77,763		(16,057)
48,715		3,515
93,982		(12,018)
270,952		50,864
43,812		42,088
1,935,509		(18,508)
10,692		5,406
15,148,630	-0-	(22,509)
1,213,186		50,335
4,214		504
6,469,687		(166,013)
		700
1,765,315		175,799
20,000		
493,857		23,783
67,767		17,467
5,154,307		(501,146)
655,046		(16,421)
15,843,379		(414,992)
(694,749)	-0-	(437,501)
59,500		(5,000)
(100,000)		
384,431		384,431
343,931	-0-	379,431
(350,818) \$	<u>-0-</u>	<u>\$ (58,070)</u>
(350,818)		
1,284,073		
\$ <u>933,255</u>		

CITY OF FULTON, NEW YORK
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED DECEMBER 31, 2012

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2012	1/1/2012	\$ <u>-0-</u>	\$ <u>30,649,202</u>	\$ <u>30,649,202</u>	0.0%	\$ <u>9,199,142</u>	333.2%
12/31/2011	1/1/2009	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,478,633</u>	367.7%
12/31/2010	1/1/2009	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,489,200</u>	367.3%
12/31/2009	1/1/2009	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,167,960</u>	380.2%
12/31/2008	1/1/2009	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,020,041</u>	386.4%

See Independent Auditor's Report and Notes to Required Supplementary Information

CITY OF FULTON, NEW YORK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Budget Basis of Accounting

Except as indicated below, budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. Encumbrances are not considered a disbursement in the financial plan or an expenditure in GAAP based financial statements. Encumbrances reserve a portion of the applicable appropriation for purchase orders, contracts, and other commitments not expended at year end, thereby ensuring appropriations are not exceeded.

An annual legal budget is not adopted for the Special Grant Fund, which is one of the Special Revenue Funds. Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements.

Note 2 - Budget Policies

The budget policies are as follows:

1. Annual operating budgets are maintained for the following Governmental Fund Types:

General Fund
Special Revenue Funds (Water and Sewer Funds)

The Special Grant Fund (in Special Revenue Funds) and other Governmental Fund Types do not have annual budgets, as grant awards and revenues received under other contractual requirements recorded in these funds span more than a single fiscal year.

2. No later than September 15, the budget officer submits a tentative budget to the Common Council for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all funds.
3. After public hearings are conducted to obtain taxpayer comments, no later than October 15, the governing Board adopts the budget.
4. Annual budgets adopted represent the legal limit on expenditures for that period. At the end of each year unexpended, unencumbered appropriations lapse. Encumbered appropriations do not lapse and are carried forward.
5. Expenditures may not legally exceed appropriations at the fund level.
6. All modifications of the budget must be approved by the governing Board.
7. Common Council may increase the appropriations budget during the fiscal year when additional revenues or expenditures not involved in the original adopted budget are identified.

Note 3 - Reconciliation of the General Fund Budget Basis to GAAP

No adjustment is necessary to convert the General Fund's excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis, as a separate column for encumbrances outstanding is reported at December 31, 2012.

CITY OF FULTON, NEW YORK
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(CONTINUED)
DECEMBER 31, 2012

Note 4 - Stewardship, Compliance, and Accountability

A. Over-expended Appropriations

The following functions were overexpended in the General Fund:

	Final Budget	Actual Expenditures	Encumbrances	Over-expended
Public Safety	\$ 6,303,674	\$ 6,469,687	\$ -0-	\$ (166,013)
Employee benefits	4,653,161	5,154,307		(501,146)
Debt service	<u>638,625</u>	<u>655,046</u>		<u>(16,421)</u>
Total General Fund	<u>\$ 15,428,387</u>	<u>\$ 15,843,379</u>	<u>\$ -0-</u>	<u>\$ (414,992)</u>

Note 5 - Schedule of Funding Progress

The Schedule of Funding Progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The projections of benefits are based on types of benefits provided under the substantive plan at the time of the valuation date and on the pattern of cost-sharing between the City and Plan members. In addition, the projections do not explicitly incorporate potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the City and Plan members in the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

CITY OF FULTON, NEW YORK
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	Special Revenue Funds	
	Water Fund	Recreation Fund
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ 243,792	\$ _____
Prepaid expenses	23,974	_____
Other receivables, net	216,921	_____
Restricted cash and cash equivalents	_____	_____
 Total Assets	 \$ <u>484,687</u>	 \$ <u>-0-</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 32,816	\$ 23
Accrued liabilities	7,736	_____
Due to other funds	16	336
Other liabilities	30,899	875
 Total Liabilities	 71,467	 1,234
Fund Balances:		
Nonspendable	23,974	_____
Restricted	_____	_____
Assigned	389,246	_____
Unassigned	_____	(1,234)
 Total Fund Balances	 413,220	 (1,234)
 Total Liabilities and Fund Balances	 \$ <u>484,687</u>	 \$ <u>-0-</u>

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 509,871	\$	\$	\$ 753,663
21,310	10,655		55,939
455,056	129,829		801,806
		53,699	53,699
<u>\$ 986,237</u>	<u>\$ 140,484</u>	<u>\$ 53,699</u>	<u>\$ 1,665,107</u>
\$ 151,996	\$ 22,897	\$	\$ 207,732
10,828	10,806		29,370
14	52,268		52,634
28,505			60,279
191,343	85,971		350,015
21,310	10,655		55,939
		53,699	53,699
773,584	43,858		1,206,688
			(1,234)
794,894	54,513	53,699	1,315,092
<u>\$ 986,237</u>	<u>\$ 140,484</u>	<u>\$ 53,699</u>	<u>\$ 1,665,107</u>

CITY OF FULTON, NEW YORK
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Special Revenue Funds	
	Water Fund	Recreation Fund
<u>REVENUES</u>		
Departmental income	\$ 1,244,269	\$ 31,988
Use of money and property	4,973	
Licenses and permits		
Sale of property and compensation for loss	6,911	
Miscellaneous local sources	6,569	10
Total Revenues	1,262,722	31,998
<u>EXPENDITURES</u>		
Current:		
General governmental support	5,800	
Culture and recreation		41,796
Home and community services	660,641	
Employee benefits	320,110	
Debt Service:		
Principal	164,982	
Interest	75,222	
Total Expenditures	1,226,755	41,796
Excess of Revenues (Expenditures)	35,967	(9,798)
<u>OTHER FINANCING SOURCES (USES)</u>		
Proceeds from obligation	28,974	
Total Other Financing Sources (Uses)	28,974	-0-
Excess of Revenues and Other Financing Sources Over (Expenditures) and Other (Uses)	64,941	(9,798)
Fund Balances, Beginning	348,279	8,564
Fund Balances, Ending	\$ 413,220	\$ (1,234)

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 1,881,708	\$ 709,920	\$	\$ 3,867,885
534		1,072	6,579
280			280
29,211	20,442		56,564
46	12,685		19,310
1,911,779	743,047	1,072	3,950,618
162,488			168,288
			41,796
1,246,422	516,666		2,423,729
424,138	203,099		947,347
86,865	5,022		256,869
20,468	3,619		99,309
1,940,381	728,406	-0-	3,937,338
(28,602)	14,641	1,072	13,280
25,754	12,877	8,327	75,932
25,754	12,877	8,327	75,932
(2,848)	27,518	9,399	89,212
797,742	26,995	44,300	1,225,880
\$ 794,894	\$ 54,513	\$ 53,699	\$ 1,315,092

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**INDEPENDENT AUDITOR'S 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**

Common Council
City of Fulton
Fulton, 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, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 18, 2013. We did not audit the financial statements of the Fulton Housing Authority, a discretely presented component unit. Those financial statements were audited by other auditors; however, that audit was not conducted in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fulton'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 Fulton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Fulton's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We also identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 09-1 and 09-2 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fulton'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 an instance of noncompliance, described in the accompanying Schedule of Findings and Questioned Costs as 10-1, that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated September 18, 2013.

The City's responses to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 18, 2013
Ithaca, New York

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Common Council
City of Fulton
Fulton, New York

Report on Compliance for Each Major Federal Program

We have audited the City of Fulton's (the City) 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's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City'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'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's compliance.

Opinion on Each Major Federal Program

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

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Report on Internal Control Over Compliance

Management of the City 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'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'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.



September 18, 2013
Ithaca, New York

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

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal Catalog No.</u>	<u>Pass-Through Grantor No.</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A - Direct	\$ 2,147,626
Community Development Block Grant - Program Income	14.219	N/A - Direct	429,265
Passed Through NYS Division on Housing and Community Renewal:			
Home Investment Partnerships Program	14.239	Not available	250,530
Passed Through Governor's Office for Small Cities:			
Community Development Block Grant - State's Program	14.228	430-C-089-06	11,131
Community Development Block Grant - State's Program	14.228	430HO033-10	148,069
Total U. S. Department of Housing and Urban Development			<u>2,986,621</u>
<u>U.S. Department of Transportation</u>			
Passed Through NYS Department of Transportation:			
State and Community Highway Safety Cluster			
State and Community Highway Safety	20.600	PT-3801092	7,902
Occupant Protection Incentive Grants	20.602	PT-3801101	2,790
Total State and Community Highway Safety Cluster/ U.S. Department of Transportation			<u>10,692</u>
<u>U.S. Department of Energy</u>			
Passed Through NYS Division of Housing and Community Renewal:			
Weatherization Assistance for Low-Income Persons	81.042	C091053	92,162
Weatherization Assistance for Low-Income Persons - ARRA	81.042	C092253	358,191
Total U.S. Department of Energy			<u>450,353</u>
<u>Federal Emergency Management Agency</u>			
Direct Program:			
Assistance to Firefighters Grant	97.044	N/A - Direct	377,150
Total Federal Emergency Management Agency			<u>377,150</u>
<u>U.S. Department of Health & Human Services</u>			
Passed Through NYS Division of Housing and Community Renewal:			
Low-Income Home Energy Assistance	93.568	C091053	80,741
Total U.S. Department of Health and Human Services			<u>80,741</u>
Total Expenditures of Federal Awards			<u>\$ 3,905,557</u>

See Independent Auditor's Report and Notes to Schedule of Expenditures of Federal Awards

CITY OF FULTON, NEW YORK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial award programs administered by the City, an entity as defined in Note 1 to the City's basic financial statements. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through from other government agencies, is included on the Schedule of Expenditures of Federal Awards.

Note 2 - Basis of Accounting

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program. These records are periodically reconciled to the general ledger which is the source of the basic financial statements.

Note 3 - Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the federal financial reports used as the source for the data presented.

Note 4 - Program Income

The City received \$249,801 in program income from their Community Development Block Grant - Small Cities Program for the fiscal year ended December 31, 2012. The program income is comprised of principal and interest received on outstanding rehabilitation loans.

CITY OF FULTON, NEW YORK
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Assistance - Vouchers
81.042	Weatherization Assistance for Low-Income Persons
97.044	Assistance to Firefighters Grant

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee: yes no

CITY OF FULTON, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings:

09-1 Detailed Fixed Asset Listing

Condition:

During our current and prior year audits we noted the fixed asset listing maintained by the City which details individual assets, dates acquired, cost basis or accumulated depreciation is not up to date. Additionally, we noted a physical inventory of capital assets is not being performed on a regular basis. While a partial inventory of the City's capital assets is available, a complete inventory is not.

Criteria:

Fixed assets constitute a substantial investment. Detailed records of all capital assets of the City should be maintained to ensure accurate financial reporting as well as aid in safeguarding assets.

Effect:

By not having a detailed fixed asset listing, it is nearly impossible to maintain support for the value of the City's fixed assets or track disposals. The lack of periodic physical inventory verifications increases the risk City assets could be misappropriated and not discovered in a timely manner. Also, not reconciling the additions and disposals of capital assets with the general ledger could result in a material misstatement of capital assets.

Recommendation:

Our review of the City's capital asset records reveals there may be assets not correctly recorded in the City's records and assets recorded on the City's books no longer in use. We believe this indicates the need for a complete physical inventory of fixed assets, which will be the best and most efficient method for developing an accurate listing of all fixed assets. Additionally, this will allow the City to develop procedures whereby the fixed asset listing is reconciled to the general ledger, to ensure an accurate account for assets. Specifically, the listing should include the following:

- Description of the asset
- Cost, voucher number, and vendor name
- Date placed in service
- Estimated useful life
- Depreciation method
- Depreciation expense and accumulated depreciation for the year
- Date the asset was retired and selling price, if applicable

Complete information such as the above on all fixed assets would provide excellent control for the safeguarding of these assets, which are significant expenditures of the City. A better assessment and evaluation could also be made regarding the reliability of certain fixed assets, and the need for replacements.

City Response:

The City will attempt to conduct a physical inventory of its capital assets and reconcile that inventory to the reported amount of capital assets.

CITY OF FULTON, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

09-2 Bank Reconciliations

Condition:

Reconciliations of bank statements are not being properly performed for all accounts. Accounts are being reconciled; however, some items listed as outstanding on reconciliations cannot be located, and some items listed as deposits in transit should be deleted. The overall effect on the financial statements is not material.

Criteria:

Preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and cash disbursements.

Effect:

Not reconciling accounts with complete lists of outstanding items could increase the risk of misstatement of cash balances due to error or fraud.

Recommendation:

In order to ensure accurate financial reporting, a cash reconciliation reconciling the bank balance to the general ledger should be prepared monthly to determine all cash transactions have been recorded properly and discover any bank errors.

City Response:

The City will more completely document information needed to reconcile bank statements on a monthly basis and will clear old reconciling items.

10-1 Overexpenditure of General Fund Budget

Condition:

General Municipal Law requires the City adopt a budget for each fiscal year, and also requires expenditures be within the adopted budget. The City can modify the budget if needed for unforeseen expenditures or circumstances. The City overspent its budget in several functional areas; overall, the General Fund budget was overspent by \$414,992 in 2012 and \$572,613 in 2011.

Criteria:

Maintaining the budget, and containing spending within the budget, is an important aspect of fiscal monitoring.

Effect:

Continued overspending will result in a negative fund balance. The total fund balance of the General Fund decreased from \$1,578,006 to \$1,284,073 from December 31, 2010 to 2011, and declined further, to \$933,255 during 2012.

Recommendation:

The City should more closely monitor its budget, adjusting where necessary, in order to keep spending within authorized amounts.

City Response:

The City will more closely monitor its budget, will make adjustments when possible, and will endeavor to spend no more than is authorized.

CITY OF FULTON, NEW YORK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

Section III - Federal Award Findings and Questioned Costs:

None