

**CITY OF FULTON**  
**Fulton, New York**  
**FINANCIAL REPORT**  
**December 31, 2013**

CITY OF FULTON  
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FOR THE YEAR ENDED DECEMBER 31, 2013

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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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fulton Housing Authority, a discretely presented component unit, which represents 88%, 74%, and 67% of the assets, net position, and revenues of component units. 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. 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

During the year ended December 31, 2013, the City implemented Governmental Accounting Standards Board (GASB) Statement Number 65, "Items Previously Reported as Assets and Liabilities." 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 4 through 4h 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 23, 2014 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'Intino, Little, McKeown, & Company, LLP*

September 23, 2014  
Ithaca, New York

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which begin on page 5.

**FINANCIAL HIGHLIGHTS**

- ❖ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$9,673,436 (net position).
- ❖ During the year, the City had expenses that were \$3,718,052 more than the \$21,746,691 generated in tax and other revenues for governmental programs. This compares to last year when expenses exceeded revenues by \$2,851,264.
- ❖ The General Fund recorded a decrease of \$(1,125,072) in 2013. Fund balance (deficit) at the end of the year was \$(191,817). The decrease is due primarily to uncollected property taxes and health insurance expenditures that exceeded budgeted appropriations.
- ❖ The City's debt and other long-term liabilities increased \$1,922,462 during the current fiscal year, for a total of \$20,106,436.
- ❖ The resources available for appropriation in the General Fund were \$(346,769) less than budgeted and expenditures were \$(489,612) 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 5 through 6a) 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 7. 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.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

**Reporting the City as a Whole**

Our analysis of the City as a whole begins on page 5, 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.

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. During 2014, the Library began the process of reorganizing under the auspices of the Fulton City School District; when that process is complete, the Library will cease to be a component unit of the City.
- ❖ **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 6. 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.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

**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.

**THE CITY AS A WHOLE**

The City's *combined* net position for fiscal year ended December 31, 2013 decreased \$(3,718,052) from \$13,391,488 to \$9,673,436. A portion of the City's net position 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; this portion amounted to \$15,247,977. 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 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 \$(9,241,424).

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**

	<b>Governmental Activities</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2013</b>	<b>2012 - 2013</b>	<b>2012 - 2013</b>
Current assets	\$ 7,830,037	\$ 8,184,659	\$ 354,622	4.5%
Noncurrent assets	2,786,198	2,589,052	(197,146)	(7.1)%
Capital assets, net	22,274,120	21,439,339	(834,781)	(3.8)%
<b>Total Assets</b>	<b>32,890,355</b>	<b>32,213,050</b>	<b>(677,305)</b>	<b>(2.1)%</b>
Current liabilities	4,774,367	6,654,266	1,879,899	39.3%
Noncurrent liabilities	14,724,500	15,885,348	1,160,848	7.9%
<b>Total Liabilities</b>	<b>19,498,867</b>	<b>22,539,614</b>	<b>3,040,747</b>	<b>15.6%</b>
Net investment in capital assets	15,764,322	15,247,977	(516,345)	(3.3)%
Restricted	4,176,192	3,666,883	(509,309)	(12.2)%
Unrestricted (deficit)	(6,549,026)	(9,241,424)	(2,692,398)	(41.1)%
<b>Total Net Position</b>	<b>\$ 13,391,488</b>	<b>\$ 9,673,436</b>	<b>\$ (3,718,052)</b>	<b>(27.7)%</b>

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

The increase in current assets is primarily due to an increase in cash and receivables of \$839,301, offset by a decrease in prepaid expenses of \$389,708. The decrease in capital assets is due to depreciation expenditures exceeding capital additions. The increase in current liabilities is mainly due to an increase of \$678,000 in Bond Anticipation Notes (BANs) payable and an increase in retirement system liability of \$976,521. 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 \$488,835, offset by a decrease in long term bonds payable of \$(545,000).

The net position of the City's Governmental Activities decreased by 27.7%. Unrestricted net (deficit) - the part of net position that can be used to finance day-to-day operations without constraints - decreased \$(2,692,398) from \$(6,549,026) to \$(9,241,424), primarily as a result of the recognition of an additional \$1,231,861 of other postemployment benefit liabilities.

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

**Figure 2**  
**Changes in Net Position**

	<b>Governmental Activities and Total Government</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2013</b>	<b>2012 -2013</b>	<b>2012 - 2013</b>
<b>REVENUES</b>				
<i>Program revenues:</i>				
Charges for services	\$ 4,423,016	\$ 4,282,098	\$ (140,918)	(3.2)%
Operating grants	3,336,400	2,240,747	(1,095,653)	(32.8)%
Capital grants	633,323	489,061	(144,262)	(22.8)%
<i>General revenues:</i>				
Property taxes and tax items	5,995,109	6,278,960	283,851	4.7%
Nonproperty taxes	6,407,819	6,433,033	25,214	0.4%
State sources	1,701,055	1,699,664	(1,391)	(0.1)%
Use of money and property	118,465	129,745	11,280	9.5%
Other general revenues	374,651	193,383	(181,268)	(48.4)%
<b>Total Revenues</b>	<b>22,989,838</b>	<b>21,746,691</b>	<b>(1,243,147)</b>	<b>(5.4)%</b>
<b>PROGRAM EXPENSES</b>				
General government	1,990,005	2,055,954	65,949	3.3%
Education	4,214	3,690	(524)	(12.4)%
Public safety	11,643,653	12,094,360	450,707	3.9%
Transportation	2,880,794	3,097,300	216,506	7.5%
Economic assistance and opportunity	20,000	20,000	-0-	0.0%
Culture and recreation	924,270	968,531	44,261	4.8%
Home and community services	8,133,046	6,989,443	(1,143,603)	(14.1)%
Interest on long-term debt	245,120	235,465	(9,655)	(3.9)%
<b>Total Expenses</b>	<b>25,841,102</b>	<b>25,464,743</b>	<b>(376,359)</b>	<b>(1.5)%</b>
<b>(DECREASE) IN NET POSITION</b>	<b>\$ (2,851,264)</b>	<b>\$ (3,718,052)</b>	<b>\$ (866,788)</b>	<b>(30.4)%</b>

CITY OF FULTON  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2013

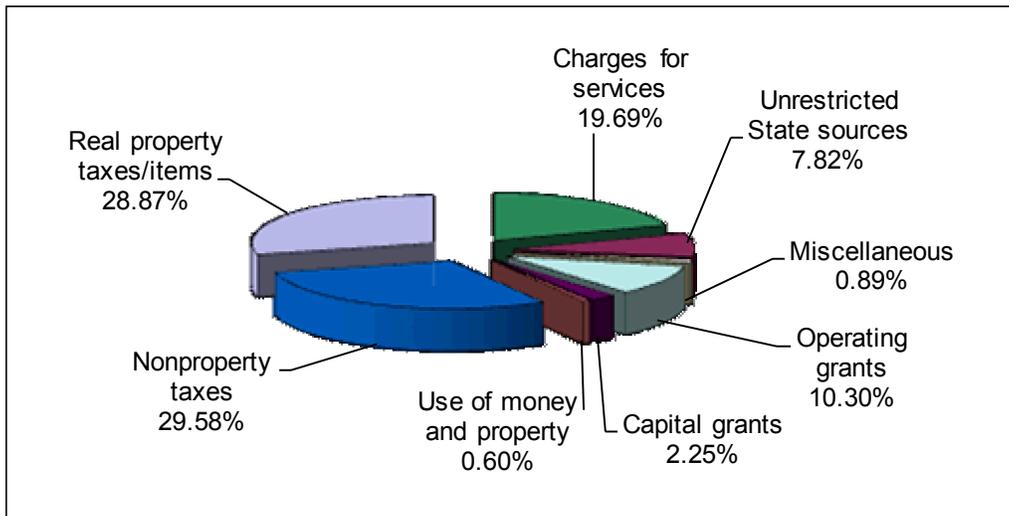
**Governmental Activities**

Revenues for the City's activities decreased overall by \$(1,243,147) or (5.4%). The City's operating grants were lower in 2013 primarily due to a decrease of \$(1,035,463) in home and community grants, related to weatherization and housing programs. Property taxes and tax items increased by \$283,851 due to overall property tax increases. Other general revenues decreased by 48.4% due to a property sale in 2012 that did not recur, and smaller insurance recoveries in 2013 than 2012.

Total expenses decreased \$(376,359) or 1.5%. Public safety expenses increased 3.9% largely as a result of salary and benefit increases. Home and community services expenses decreased in proportion to the reduced operating grant revenue above.

Figure 3 shows the sources of revenue for 2013.

**Figure 3  
 Revenue by Source  
 2013**

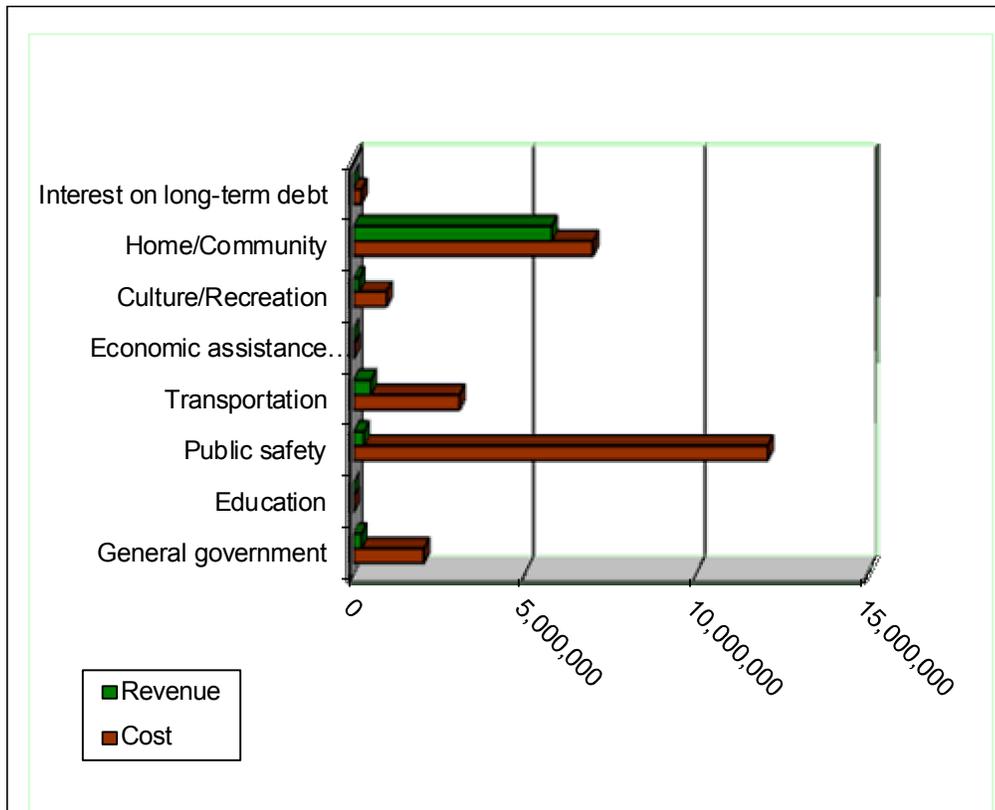


The cost of all Governmental Activities this year was \$25,464,743. However, as shown in the Statement of Activities, the net expense of those activities was \$18,452,837, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the City's governmental program revenues, including fees for services and grants, were \$7,011,906. The City paid for the remaining "public benefit" portion of Governmental Activities with \$14,734,785 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, a portion of the 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, 2013

**Figure 4**  
**Program Cost and Revenue Comparison**  
**Governmental Activities**  
**2013**



**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 \$48,005; a decrease of (97.5%) from last year's total of \$1,930,152. 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, 2013

**Figure 5**  
**Governmental Funds**  
**Fund Balances at Year Ending**

	2012	2013	Dollar Change	Percent Change
			2012 - 2013	2012 - 2013
General Fund	\$ 933,255	\$ (191,817)	\$ (1,125,072)	(120.6)%
Capital Projects Fund	(1,592,880)	(1,830,914)	(238,034)	(14.9)%
Special Grant Fund	1,274,685	941,784	(332,901)	(26.1)%
Non-major funds:				
Water Fund	413,220	436,503	23,283	5.6%
Sewer Fund	794,894	607,074	(187,820)	(23.6)%
Recreation Fund	(1,234)	2,661	3,895	315.6%
Garbage Fund	54,513	40,617	(13,896)	(25.5)%
Debt Service Fund	53,699	42,097	(11,602)	(21.6)%
<b>Totals</b>	<b>\$ 1,930,152</b>	<b>\$ 48,005</b>	<b>\$ (1,882,147)</b>	<b>(97.5)%</b>

**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 \$(346,769) below the final budgeted amount. The most significant variances were related to real property taxes and tax items in the amount of \$(211,331).

The actual charges to appropriations (expenditures) were above the final budgeted amounts by \$489,612. The most significant variance was related to employee benefits in the amount of \$490,978; medical insurance expenses exceeded appropriations by \$446,423.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of December 31, 2013, the City had \$21,439,339, net of accumulated depreciation of \$70,962,512, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a decrease of (3.8%) from last year.

**Figure 6**  
**Capital Assets at Year Ending**

Historical Cost	Governmental Activities and Total Government		Dollar Change	Percent Change
	2012	2013	2012 - 2013	2012 - 2013
Land	\$ 706,860	\$ 706,860	\$ -0-	0.0%
Construction in progress	205,500	442,926	237,426	115.5%
Land improvements	777,848	777,848	-0-	0.0%
Buildings	13,416,112	13,435,134	19,022	0.1%
Equipment	9,832,481	9,943,904	111,423	1.1%
Infrastructure	66,755,485	67,095,179	339,694	0.5%
<b>Totals</b>	<b>\$ 91,694,286</b>	<b>\$ 92,401,851</b>	<b>\$ 707,565</b>	<b>0.8%</b>

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

Depreciation expense during the year amounted to \$1,635,015, which increased \$19,014 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 \$1,922,462, bringing total debt and long-term liabilities to \$20,106,436 as of December 31, 2013, as shown in Figure 7. Of the amount of bonds and notes outstanding, \$4,090,000 is subject to the constitutional debt limit and represented 17% of the City's statutory debt limit. The City's bond rating is currently BBB+ from Standard and Poor's, and Baa 1 from Moody's.

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

	<b>Governmental Activities and Total Government</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2012</b>	<b>2013</b>	<b>2012 - 2013</b>	<b>2012 - 2013</b>
<i>Serial Bonds</i>	\$ 4,770,000	\$ 4,250,000	\$ (520,000)	(10.9)%
<i>BANs</i>	2,813,290	3,491,290	678,000	24.1%
<i>State loans</i>	110,919	86,448	(24,471)	(22.1)%
<i>Installment purchase debt</i>	36,000	24,000	(12,000)	(33.3)%
<i>Due to retirement system</i>	748,205	1,290,911	542,706	72.5%
<i>Compensated absences</i>	796,159	822,525	26,366	3.3%
<i>Other postemployment benefit liabilities</i>	8,909,401	10,141,262	1,231,861	13.8%
<b>Totals</b>	<b>\$ 18,183,974</b>	<b>\$ 20,106,436</b>	<b>\$ 1,922,462</b>	<b>10.6%</b>

**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. The owners of the plant entered into a payment agreement but have defaulted on that agreement, and the City has moved to foreclose. The impact of foreclosure is not yet known, because there could be asbestos in the facility; there has, however, been interest from outside companies, due to the location and size of lots.
- ❖ Based on issues noted in the 2013 general fund budgetary analysis, the City approved a 15.2% increase in the tax rate, and an 11.8% increase in property tax revenue for 2014.
- ❖ The City continues to try to rehabilitate tax-foreclosed properties and put them back on the tax rolls, a process which has so far been more successful than anticipated. Reselling these properties has also helped stabilize neighborhoods.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

- ❖ The closed Birdseye plant in Fulton was sold and startup operations began in the fall of 2013. The company is expected to employ approximately 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.
- ❖ In 2014, the City finalized the annexation of the City-owned wastewater treatment facility located in the Town of Granby, which will eliminate property taxes as well as any assessment increase based on current construction.

**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  
STATEMENT OF NET POSITION  
DECEMBER 31, 2013

	<u>Component Units</u>		
	<u>Governmental Activities</u>	<u>Fulton Public Library</u>	<u>Fulton Housing Authority (March 31, 2013)</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 1,680,708	\$ 101,265	\$ 269,115
Restricted cash and cash equivalents	2,372,861		
Investments			16,481
Taxes receivable, net	2,383,659		
Due from State and Federal governments	159,623		
Due from other governments	547,168		
Other receivables, net	743,361		93,126
Prepaid expenses	123,152		3,983
Loans receivable, current portion	174,127		
Total Current Assets	<u>8,184,659</u>	<u>101,265</u>	<u>382,705</u>
Noncurrent assets:			
Restricted cash and cash equivalents	80,177		21,921
Long-term accounts receivable			
Loans receivable, long-term portion	2,508,875		
Land and construction in progress	1,149,786		
Capital assets, net of accumulated depreciation	20,289,553		314,255
Total Noncurrent Assets	<u>24,028,391</u>		<u>336,176</u>
Total Assets	<u>32,213,050</u>	<u>101,265</u>	<u>718,881</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	649,600		29,375
Accrued liabilities	175,048		
Due to retirement systems	922,650		
Due to other governments	432,100		
Bond anticipation note payable	3,491,290		
Due to fiduciary funds	15,952		
Interest payable	65,384		285
Overpayments	54,824		
Other liabilities	117,620		21,921
Current portion of long-term liabilities:			
State loans payable	24,844		
Bonds payable	545,000		44,388
Installment purchase debt	12,000		
Due to retirement systems	121,588		
Compensated absences	26,366		
Total Current Liabilities	<u>6,654,266</u>	<u>-0-</u>	<u>95,969</u>

See Independent Auditor's Report and Notes to Financial Statements



CITY OF FULTON  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

<b><u>FUNCTIONS/PROGRAMS</u></b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General governmental support	\$ 2,055,954	\$ 104,891	\$ 41,102	\$ 86,285
Education	3,690			
Public safety	12,094,360	166,446	137,862	
Transportation	3,097,300	138,001		371,670
Economic assistance and opportunity	20,000			
Culture and recreation	968,531	168,158	5,992	
Home and community services	6,989,443	3,704,602	2,055,791	31,106
Interest on long-term debt	235,465			
Total Governmental Activities	<u>\$ 25,464,743</u>	<u>\$ 4,282,098</u>	<u>\$ 2,240,747</u>	<u>\$ 489,061</u>
Component Units:				
Fulton Public Library	\$ 278,794	\$ 4,672	\$ 14,558	\$
Fulton Housing Authority	595,697	476,980	97,448	
Total Component Units	<u>\$ 874,491</u>	<u>\$ 481,652</u>	<u>\$ 112,006</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
\$ (1,823,676)	\$	\$
(3,690)		
(11,790,052)		
(2,587,629)		
(20,000)		
(794,381)		
(1,197,944)		
(235,465)		
(18,452,837)		
	(259,564)	
		(21,269)
	(259,564)	(21,269)
5,710,030	164,480	
568,930		
6,433,033		
129,745	19	2,671
161,193		
32,190		8,295
	100,000	
1,699,664		
14,734,785	264,499	10,966
(3,718,052)	4,935	(10,303)
13,391,488	96,330	291,852
\$ <u>9,673,436</u>	\$ <u>101,265</u>	\$ <u>281,549</u>

CITY OF FULTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund Special Grant Fund
<b><u>ASSETS</u></b>			
Assets:			
Cash and cash equivalents - Unrestricted	\$ 500,603	\$ 229,644	\$ 74,487
Taxes receivable, net	2,383,659		
Due from other funds	234,641	46,504	
Due from state and federal governments	128,517	31,106	
Due from other governments	501,478		45,690
Prepaid expenses	67,640		14,488
Other receivables, net	125,336		9,200
Cash and cash equivalents - Restricted	38,080	1,542,979	867,928
Loans receivable, net			2,683,002
<b>Total Assets</b>	<b>\$ 3,979,954</b>	<b>\$ 1,850,233</b>	<b>\$ 3,694,795</b>
<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 354,602	\$ 117,411	\$ 11,827
Accrued liabilities	97,207		58,182
Due to other funds	69,902	72,446	
Due to other governments	432,100		
Due to employees' retirement system	922,650		
Bond Anticipation Notes payable		3,491,290	
Other liabilities	57,260		
Overpayments	54,430		
<b>Total Liabilities</b>	<b>1,988,151</b>	<b>3,681,147</b>	<b>70,009</b>
Deferred Inflows of Resources:			
Unavailable revenues	2,183,620		2,683,002
Fund Balances:			
Nonspendable	67,640		14,488
Restricted			927,296
Assigned	38,080		
Unassigned	(297,537)	(1,830,914)	
<b>Total Fund Balances (Deficit)</b>	<b>(191,817)</b>	<b>(1,830,914)</b>	<b>941,784</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,979,954</b>	<b>\$ 1,850,233</b>	<b>\$ 3,694,795</b>

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$ 875,974	\$ 1,680,708
	2,383,659
33,398	314,543
	159,623
	547,168
41,024	123,152
608,825	743,361
4,051	2,453,038
	2,683,002
<u>\$ 1,563,272</u>	<u>\$ 11,088,254</u>

\$ 181,712	\$ 665,552
19,659	175,048
172,195	314,543
	432,100
	922,650
	3,491,290
60,360	117,620
394	54,824
434,320	6,173,627
	4,866,622
41,024	123,152
42,097	969,393
1,045,831	1,083,911
	(2,128,451)
1,128,952	48,005
<u>\$ 1,563,272</u>	<u>\$ 11,088,254</u>

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

Total Governmental Fund Balances \$ 48,005

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	\$ 92,401,851	
Accumulated depreciation	<u>(70,962,512)</u>	21,439,339

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 4,866,622

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	\$ (65,384)	
Compensated absences	<u>(822,525)</u>	(887,909)

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	\$ (4,250,000)	
Due to retirement systems	(1,290,911)	
State loans payable	(86,448)	
Installment debt purchase	(24,000)	
Other postemployment benefit liabilities	<u>(10,141,262)</u>	<u>(15,792,621)</u>

Net Position of Governmental Activities \$ 9,673,436

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund Special Grant Fund
<b><u>REVENUES</u></b>			
Real property taxes	\$ 5,292,553	\$	\$
Real property tax items	568,930		
Nonproperty tax items	6,433,033		
Departmental income	171,760		177,330
Intergovernmental charges	227,240	86,285	
Use of money and property	71,737		20,878
Licenses and permits	43,038		
Fines and forfeitures	103,946		
Sale of property and compensation for loss	120,621		
Miscellaneous local sources	28,286		
State sources	1,874,816	370,800	24,899
Federal sources	9,804	31,976	2,030,892
Total Revenues	<u>14,945,764</u>	<u>489,061</u>	<u>2,253,999</u>
<b><u>EXPENDITURES</u></b>			
Current:			
General governmental support	1,242,280		
Education	3,690		
Public safety	6,485,194		
Transportation	1,730,740		
Economic assistance and opportunity	20,000		
Culture and recreation	504,958		
Home and community services	69,199		2,586,900
Employee benefits	5,358,811		
Debt Service:			
Principal	448,368		
Interest	132,596		
Capital outlay		838,095	
Total Expenditures	<u>15,995,836</u>	<u>838,095</u>	<u>2,586,900</u>
Excess of (Expenditures) Revenues	<u>(1,050,072)</u>	<u>(349,034)</u>	<u>(332,901)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Interfund transfers in	25,000		
Interfund transfers (out)	(100,000)		
BANs redeemed from appropriations		111,000	
Proceeds from obligations			
Total Other Financing (Uses) Sources	<u>(75,000)</u>	<u>111,000</u>	<u>-0-</u>
Net Changes in Fund Balances	<u>(1,125,072)</u>	<u>(238,034)</u>	<u>(332,901)</u>
Fund Balances (Deficit), Beginning	933,255	(1,592,880)	1,274,685
Fund Balances (Deficit), Ending	<u>\$ (191,817)</u>	<u>\$ (1,830,914)</u>	<u>\$ 941,784</u>

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$	\$
	5,292,553
	568,930
	6,433,033
3,701,484	4,050,574
	313,525
5,707	98,322
1,780	44,818
	103,946
40,824	161,445
36,501	64,787
	2,270,515
	2,072,672
3,786,296	21,475,120
167,638	1,409,918
	3,690
	6,485,194
	1,730,740
	20,000
28,995	533,953
2,567,946	5,224,045
889,118	6,247,929
219,103	667,471
106,059	238,655
	838,095
3,978,859	23,399,690
(192,563)	(1,924,570)
10,000	35,000
(35,000)	(135,000)
	111,000
31,423	31,423
6,423	42,423
(186,140)	(1,882,147)
1,315,092	1,930,152
\$ 1,128,952	\$ 48,005

CITY OF FULTON  
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ (1,882,147)

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	\$	800,234	
Depreciation expense		<u>(1,635,015)</u>	(834,781)

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 inflows of resources from the prior year. 240,148

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 556,471

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	\$	3,190	
Net change in other postemployment benefit liabilities		(1,231,861)	
Net change in compensated absences		(26,366)	
Amounts due to employee retirement systems		<u>(542,706)</u>	<u>(1,797,743)</u>

Change in Net Position of Governmental Activities \$ (3,718,052)

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
DECEMBER 31, 2013

	<u>ASSETS</u>	<u>Agency Funds</u>
Cash:		
Unrestricted		\$ <u>100,298</u>
Total Assets		\$ <u><u>100,298</u></u>
	<u>LIABILITIES</u>	
Other liabilities		\$ <u>100,298</u>
Total Liabilities		\$ <u><u>100,298</u></u>

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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, "The Financial Reporting Entity," as amended by GASB Statement Number 39, "Determining Whether Certain Organizations are Component Units," and GASB Statement Number 61, "The Financial Reporting Entity: Omnibus."

1. Discretely Presented Component Units

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. In 2014, the Library began the process of reorganizing under the auspices of the Fulton City School District. Voters of the District approved a charter for the Library. Once this process is completed, the Library will cease to be a component unit of the City. The City will maintain ownership and maintenance of the Library building.

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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

The Fulton Housing Authority is audited by other auditors. 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 - net investment in capital assets; restricted; and unrestricted. 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, deferred inflow of resources, 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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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 Fund - Accounts 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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenditures and the related assets, liabilities and deferred inflows of resources 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 foreclosure process pursuant to Article 11 of the Real Property Tax Law. The City receives a warrant deed upon foreclosure.

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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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, \$970,510 was paid on behalf of 51 recipients.

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

L. Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position and/or the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of deferred inflow of resources, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental fund Balance Sheet. The governmental funds report unavailable revenues from taxes receivable that remain uncollected collected after 60 days after year-end, and loans receivable that remain uncollected after year-end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

M. 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

The City reports fund balance in the governmental funds in accordance with 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.

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
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FOR THE YEAR ENDED DECEMBER 31, 2013

- **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.
- **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.

N. 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.

O. 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, time requirements, are met. Resources transmitted before the eligibility requirements other than time are met are reported as advances by the provider and unearned revenue by the recipient. Resources transmitted before time eligibility requirements met are reported as deferred inflows of resources by the provider and deferred inflows of resources by the recipient.

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

P. 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.

Q. 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.

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 \$4,307,630 are either insured or collateralized with securities held by the pledging financial institution in the City's name.

2. Restricted Cash

Restricted cash is composed of \$34,303 reserved for a Police Forfeiture Fund, \$3,777 reserved for Playground and Skateboard Park Funds, \$1,542,979 restricted for capital project expenditures, \$867,928 restricted for Special Grants, and \$4,051 restricted for debt service.

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

3. Property Taxes

At December 31, 2013, the total real property taxes receivable of \$3,070,395 is offset by an allowance for uncollectible taxes of \$686,736, unavailable tax revenue of \$2,183,620, and amounts due to Fulton City School District of \$415,972.

4. Other Receivables

	Description	Amount
General Fund	Assessments	\$ 3,646
	Utilities gross receipts taxes	31,457
	Insurance recoveries	66,308
	Reimbursement of expenses	15,249
	Clerk Fees	8,676
Total General Fund		125,336
Special Grant Fund	Fees	9,200
Water Fund	Rents	198,476
Sewer Fund	Rents	269,982
Garbage Fund	Fees	140,367
Total Governmental Activities		\$ 743,361

5. Capital Assets

A summary of changes in capital assets at December 31, 2013 follows:

	Balance at 12/31/12	Additions	Deletions	Balance at 12/31/13
<u>Governmental Activities</u>				
Non-depreciable Capital Assets:				
Land	\$ 706,860	\$	\$	\$ 706,860
Construction in process	205,500	237,426		442,926
Total Non-depreciable Capital Assets	912,360	237,426	-0-	1,149,786
Depreciable Capital Assets:				
Buildings	13,416,112	19,022		13,435,134
Land improvements	777,848			777,848
Machinery and equipment	9,832,481	204,092	(92,669)	9,943,904
Infrastructure	66,755,485	339,694		67,095,179
Total Depreciable Capital Assets	90,781,926	562,808	(92,669)	91,252,065
Total Historical Cost	91,694,286	800,234	(92,669)	92,401,851
Less Accumulated Depreciation:				
Buildings	(7,686,597)	(324,263)		(8,010,860)
Land Improvements	(459,806)	(59,508)		(519,314)
Machinery and equipment	(6,800,864)	(565,560)	92,669	(7,273,755)
Infrastructure	(54,472,899)	(685,684)		(55,158,583)
Total Accumulated Depreciation	(69,420,166)	(1,635,015)	92,669	(70,962,512)
Governmental Activities Capital Assets, Net	\$ 22,274,120	\$ (834,781)	\$ -0-	\$ 21,439,339

CITY OF FULTON  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

Depreciation expense was charged to functions as follows:

<u>Governmental Activities</u>	
General governmental support	\$ 111,461
Public safety	184,033
Transportation	521,921
Culture and recreation	76,588
Home and community services	<u>741,012</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,635,015</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

Plan members who joined the Systems before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute 3% of their annual salary. Those joining the Systems on or after January 1, 2010 and before April 1, 2012 are required to contribute 3% of their annual salary for their entire working career. Those joining the Systems on or after April 1, 2012 are required to contribute between 3% and 6%, dependent on salary, for their entire working career. Under the authority of the New York State Retirement and Social Security Law, 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 the employer 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>
2013	\$ 427,453	\$ 1,230,200
2012	551,666	1,145,415
2011	544,792	1,234,814

CITY OF FULTON  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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 \$1,290,911, 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 3.00-3.75%.

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, 2013.

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) and expected employer contributions are 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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2012	<u>8,909,401</u>
Net OPEB Obligation - December 31, 2013	<u>\$ 10,141,262</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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$ <u>2,440,305</u>	49.5%	\$ <u>10,141,262</u>
12/31/2012	\$ <u>2,440,305</u>	49.5%	\$ <u>8,909,401</u>
12/31/2011	\$ <u>3,100,114</u>	38.1%	\$ <u>7,677,540</u>

Funded Status and Funding Progress - As of December 31, 2013 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 \$9,263,589 and the ratio of the UAAL to the covered payroll was 330.9%

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding 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  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

In the January 1, 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, 2012 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 \$3,491,290 will mature November 26, 2014, with interest of 2.00% payable at maturity.

Interest expense on short-term debt for fiscal year 2013 was as follows:

Interest paid (expenditure)	\$ 35,068
Add accrued interest at December 31, 2013	5,930
Less accrued interest at December 31, 2012	<u>(2,987)</u>
Interest expense	<u>\$ 38,011</u>

4. Long-term Debt

At December 31, 2013, the total outstanding indebtedness of the City aggregated \$7,851,738. Of this amount, \$4,090,000 was subject to the constitutional debt limit and represented approximately 17% 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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

The following is a summary of bonds outstanding at December 31, 2013 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	\$ 225,000
NYS EFC Advanced:					
Refunding Bonds	1998	746,700	2.65-5.2%	2017	160,000
Various Capital Projects	2004	948,422	4.25-4.5%	2014	115,000
Snow Plows	2006	121,000	5.2%	2016	45,000
Various Capital Projects	2006	5,473,081	4.1%	2023	<u>3,705,000</u>
Total					<u>\$ 4,250,000</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  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

c. Changes in Indebtedness

The following is a summary of changes in the City's indebtedness for the year ended December 31, 2013.

	Balance 12/31/12	New Issues/ Additions	Maturities/ Payments	Balance 12/31/13	Amount Due Within One Year
<u>Governmental Activities</u>					
BANs	\$ 2,813,290	\$ 3,491,290	\$ (2,813,290)	\$ 3,491,290	\$ 3,491,290
General obligation bonds	4,770,000		(520,000)	4,250,000	545,000
Total Long-Term Debt	7,583,290	3,491,290	(3,333,290)	7,741,290	4,036,290
<u>Other Long-term Obligations:</u>					
Compensated absences	796,159	26,366		822,525	26,366
State loans	110,919		(24,471)	86,448	24,844
Installment purchase debt	36,000		(12,000)	24,000	12,000
Due to retirement systems	748,205	610,423	(67,717)	1,290,911	121,588
Other postemployment benefit liabilities	8,909,401	2,440,305	(1,208,444)	10,141,262	
Total Other Long-term Liabilities	10,600,684	3,077,094	(1,312,632)	12,365,146	184,798
 Total Indebtedness -					
Governmental Activities	\$ 18,183,974	\$ 6,568,384	\$ (4,645,922)	\$ 20,106,436	\$ 4,221,088

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
2014	\$ 545,000	\$ 170,923	\$ 24,844	\$ 1,334	\$ 121,588	\$ 44,837	\$ 12,000	\$ 920,526
2015	445,000	148,809	25,316	954	125,805	40,621	12,000	798,505
2016	460,000	131,172	25,611	567	130,164	36,260		783,774
2017	385,000	113,259	10,677	234	134,680	31,746		675,596
2018	360,000	98,645			139,352	27,073		625,070
2019-2023	2,055,000	259,135			639,322	60,824		3,014,281
 Total	 \$ 4,250,000	 \$ 921,943	 \$ 86,448	 \$ 3,089	 \$ 1,290,911	 \$ 241,361	 \$ 24,000	 \$ 6,817,752

Interest expense on long-term debt for fiscal year 2013 was as follows:

Interest paid (expenditure)	\$ 203,587
Add accrued interest at December 31, 2013	59,454
Less accrued interest at December 31, 2012	(65,587)
Interest expense	<u>\$ 197,454</u>

CITY OF FULTON  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Transfer Revenue</u>	<u>Interfund Transfer Expense</u>
General Fund	\$ 234,641	\$ 69,902	\$ 25,000	\$ 100,000
Capital Projects Fund	46,504	72,446		
Non-Major Governmental Funds	<u>33,398</u>	<u>172,195</u>	<u>10,000</u>	<u>35,000</u>
Total Governmental Activities	314,543	314,543	35,000	135,000
 Component Units	<u>                    </u>	<u>                    </u>	<u>100,000</u>	<u>                    </u>
 Total	<u>\$ 314,543</u>	<u>\$ 314,543</u>	<u>\$ 135,000</u>	<u>\$ 135,000</u>

Note 3 - Stewardship, Compliance, Accountability

A. Deficit Fund Balance

The General Fund reported a deficit fund balance of \$(191,817) as of December 31, 2013. Common Council approved a tax in 2014 which is expected to eliminate this deficit.

The Capital Projects Fund reported a deficit fund balance of \$(1,830,914) as of December 31, 2013. This deficit will be eliminated when short-term financing is converted to general obligation bonds.

Note 4 - 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  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND - NON-GAAP BUDGET BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>
<b><u>REVENUES</u></b>		
Real property taxes	\$ 5,720,374	\$ 5,720,374
Real property tax items	352,440	352,440
Nonproperty tax items	6,440,840	6,440,840
Departmental income	186,800	186,800
Intergovernmental charges	233,601	233,601
Use of money and property	70,820	70,820
Licenses and permits	46,700	46,700
Fines and forfeitures	106,000	106,000
Sale of property and compensation for loss	108,000	207,099
Miscellaneous local sources	2,300	2,700
State sources	1,859,222	1,925,159
Federal sources		
Total Revenues	<u>15,127,097</u>	<u>15,292,533</u>
<b><u>EXPENDITURES</u></b>		
Current:		
General governmental support	1,231,118	1,284,726
Education	4,000	4,150
Public safety	6,291,968	6,292,471
Health	700	700
Transportation	1,774,356	1,793,792
Economic assistance and opportunity	20,000	20,000
Culture and recreation	524,287	524,287
Home and community services	77,966	77,964
Employee benefits	4,778,480	4,867,833
Debt service (principal and interest)	649,222	649,222
Total Expenditures	<u>15,352,097</u>	<u>15,515,145</u>
Excess of (Expenditures)	<u>(225,000)</u>	<u>(222,612)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>		
Interfund transfers in	25,000	25,000
Interfund transfers (out)	(100,000)	(103,231)
Proceeds from obligation		
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(78,231)</u>
Excess of (Expenditures) and Other (Uses) Over Revenues and Other Financing Sources	<u>(300,000)</u>	<u>(300,843)</u>
Appropriated Fund Balance	<u>300,000</u>	<u>300,843</u>
Net Change in Fund Balance	<u>\$ -0-</u>	<u>\$ -0-</u>
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>
\$ 5,292,553	\$	\$ (427,821)
568,930		216,490
6,433,033		(7,807)
171,760		(15,040)
227,240		(6,361)
71,737		917
43,038		(3,662)
103,946		(2,054)
120,621		(86,478)
28,286		25,586
1,874,816		(50,343)
9,804		9,804
14,945,764	-0-	(346,769)
1,242,280	2,590	39,856
3,690		460
6,485,194	6,331	(199,054)
		700
1,730,740		63,052
20,000		
504,958		19,329
69,199		8,765
5,358,811		(490,978)
580,964		68,258
15,995,836	8,921	(489,612)
(1,050,072)	(8,921)	(836,381)
25,000		
(100,000)		3,231
(75,000)	-0-	3,231
<u>(1,125,072)</u>	<u>\$ (8,921)</u>	<u>\$ (833,150)</u>
<u>(1,125,072)</u>		
<u>933,255</u>		
<u>\$ (191,817)</u>		

CITY OF FULTON  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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
12/31/2013	1/1/2012	\$ <u>-0-</u>	\$ <u>30,649,202</u>	\$ <u>30,649,202</u>	0.0%	\$ <u>9,263,589</u>	330.9%
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  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013

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 ensuing 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 Common Council 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 Common Council.
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, 2013.

CITY OF FULTON  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(CONTINUED)  
DECEMBER 31, 2013

Note 4 - Stewardship, Compliance, and Accountability

A. Over-expended Appropriations

The following functions were overexpended in the General Fund:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Encumbrances</u>	<u>Over-expended</u>
Public Safety	\$ 6,292,471	\$ 6,485,194	\$ 6,331	\$ (199,054)
Employee benefits	4,867,833	5,358,811		(490,978)
Total General Fund	15,515,145	15,995,836	8,921	(489,612)

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  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	Special Revenue Funds	
	Water Fund	Recreation Fund
<b><u>ASSETS</u></b>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ 315,010	\$ 8,771
Due from other funds	5,000	
Prepaid expenses	17,429	
Other receivables, net	198,476	
Restricted cash and cash equivalents		
 Total Assets	 \$ <u>535,915</u>	 \$ <u>8,771</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities:		
Accounts payable	\$ 57,554	\$ 71
Accrued liabilities		
Due to other funds	10,459	5,189
Other liabilities	31,005	850
Overpayments	394	
 Total Liabilities	 <u>99,412</u>	 <u>6,110</u>
Fund Balances:		
Nonspendable	17,429	
Restricted		
Assigned	419,074	2,661
 Total Fund Balances	 <u>436,503</u>	 <u>2,661</u>
 Total Liabilities and Fund Balances	 \$ <u>535,915</u>	 \$ <u>8,771</u>

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 494,588	\$ 7,957	\$ 49,648	\$ 875,974
5,000		23,398	33,398
15,850	7,745		41,024
269,982	140,367		608,825
		4,051	4,051
<u>\$ 785,420</u>	<u>\$ 156,069</u>	<u>\$ 77,097</u>	<u>\$ 1,563,272</u>
\$ 94,969	\$ 29,118	\$	\$ 181,712
10,914	8,745		19,659
43,958	77,589	35,000	172,195
28,505			60,360
			394
178,346	115,452	35,000	434,320
15,850	7,745		41,024
		42,097	42,097
591,224	32,872		1,045,831
607,074	40,617	42,097	1,128,952
<u>\$ 785,420</u>	<u>\$ 156,069</u>	<u>\$ 77,097</u>	<u>\$ 1,563,272</u>

CITY OF FULTON  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Special Revenue Funds	
	Water Fund	Recreation Fund
<b><u>REVENUES</u></b>		
Departmental income	\$ 1,222,986	\$ 32,890
Use of money and property	4,980	
Licenses and permits		
Sale of property and compensation for loss	37,856	
Miscellaneous local sources	22,808	
Total Revenues	1,288,630	32,890
<b><u>EXPENDITURES</u></b>		
Current:		
General governmental support	5,880	
Culture and recreation		28,995
Home and community services	829,272	
Employee benefits	219,069	
Debt Service:		
Principal	145,838	
Interest	70,288	
Total Expenditures	1,270,347	28,995
Excess of Revenues (Expenditures)	18,283	3,895
<b><u>OTHER FINANCING SOURCES (USES)</u></b>		
Interfund transfers in	5,000	
Interfund transfers (out)		
Proceeds from obligation		
Total Other Financing Sources (Uses)	5,000	-0-
Excess of Revenues and Other Financing Sources Over (Expenditures) and Other (Uses)	23,283	3,895
Fund Balances, Beginning	413,220	(1,234)
Fund Balances, Ending	\$ 436,503	\$ 2,661

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 1,638,748	\$ 806,860	\$	\$ 3,701,484
425		302	5,707
1,780			1,780
	2,968		40,824
351	13,342		36,501
1,641,304	823,170	302	3,786,296
161,758			167,638
			28,995
1,195,822	542,852		2,567,946
385,683	284,366		889,118
68,061	5,204		219,103
22,800	4,644	8,327	106,059
1,834,124	837,066	8,327	3,978,859
(192,820)	(13,896)	(8,025)	(192,563)
5,000			10,000
		(35,000)	(35,000)
		31,423	31,423
5,000	-0-	(3,577)	6,423
(187,820)	(13,896)	(11,602)	(186,140)
794,894	54,513	53,699	1,315,092
\$ 607,074	\$ 40,617	\$ 42,097	\$ 1,128,952

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Frederick J. Ciaschi, C.P.A.

**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, 2013, 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 23, 2014. Our report includes a reference to other auditors who audited the financial statements of the Fulton Housing Authority, as described in our report on the City of Fulton's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

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

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 2009-001 and 2009-002 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City 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 2010-001, that is required to be reported under *Government Auditing Standards*.

### **The City's Response to Findings**

The City's responses to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. The City's response was not subject to the auditing procedures applied in the audit of the financial statements 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.

*Cianchi, Stutzman, Little, McIsaac, & Company, LLP*

September 23, 2014  
Ithaca, New York

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*Certified Public Accountants and Consultants*

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Frederick J. Ciaschi, C.P.A.

### 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, 2013. 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, 2013.

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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.

*Cianchi, D'Intino, Little, McLaughlin, & Company, LLP*

September 23, 2014  
Ithaca, New York

CITY OF FULTON  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

<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 Assistance - Choice Vouchers	14.871	N/A - Direct	\$ 2,135,672
Housing Counseling Assistance Program	14.169	N/A - Direct	16,690
Passed Through NYS Division on Housing and Community Renewal:			
Home Investment Partnerships Program	14.239	Not available	121,335
Community Development Block Grant - State's Program	14.228	430HO92-12	52,000
Community Development Block Grant - State's Program - Program Income	14.228	N/A	<u>125,254</u>
Total U.S. Department of Housing and Urban Development			<u>2,450,951</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	6,952
Occupant Protection Incentive Grants	20.602	PT-3801101	<u>2,852</u>
Total State and Community Highway Safety Cluster/ U.S. Department of Transportation			<u>9,804</u>
Total Expenditures of Federal Awards			<u>\$ 2,460,755</u>

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

CITY OF FULTON  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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 \$177,330 in program income from their Community Development Block Grant - Small Cities Program for the fiscal year ended December 31, 2013. The program income is comprised of principal and interest received on outstanding rehabilitation loans.

CITY OF FULTON  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**Section I - Summary of Auditor's Results:**

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

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:

CFDA Numbers	Name of Federal Program or Cluster
14.871	Section 8 Housing Assistance - Vouchers

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  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

**Section II - Financial Statement Findings:**

2009-001 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 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.

2009-002 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. These items that cannot be located and are not available are items that carried over from the City's previous accounting system, and are very stale. The overall effect on the financial statements is not material.

CITY OF FULTON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2013

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:

Stale reconciling items should be removed from the operating fund bank reconciliations. In order to ensure that total outstanding items remains proper, we recommend the City transfer the amount of these outstanding items to the Agency Fund. If subsequent determinations are made with respect to these items, the Agency Fund can be adjusted.

City Response:

The City will more completely document information needed to reconcile bank statements on a monthly basis and will consider clearing old reconciling items through the Agency Fund.

2010-001 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 \$489,612 in 2013 and \$414,992 in 2012.

Criteria:

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

Effect:

Continued overspending resulted in a negative fund balance at December 31, 2013. The total fund balance of the General Fund decreased from \$1,578,006 to \$1,284,073 from December 31, 2010 to 2011, declined to \$933,255 at December 31, 2012, and declined further, to \$(191,817) at December 31, 2013.

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.

**Section III - Federal Award Findings and Questioned Costs:**

None