

CITY OF UTICA

**Financial Statements and Required Reports
Under OMB Circular A-133 as of
March 31, 2013**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

May 16, 2014

To the Honorable Mayor and
Common Council of the City of Utica, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Utica, New York (City), as of and for the year ended March 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of March 31, 2013, and the respective changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 48 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's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

CITY OF UTICA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED MARCH 31, 2013

This Management Discussion and Analysis (MD&A) of the City of Utica, New York (the City) provides a financial performance overview of the City's activities for the year ended March 31, 2013. This document should be read in conjunction with the City's financial statements which begin on page 11.

Following the MD&A are the basic financial statements of the City together with the notes thereto which are essential to a full understanding of the data contained in the financial statements.

The City has a land area of approximately 16.6 square miles and a population of approximately 62,000, and is located in the Mohawk Valley of New York State.

FINANCIAL HIGHLIGHTS

- The City's governmental net position decreased by \$243,000 as a result of this year's governmental activity, which is illustrated in the Statement of Activities.
- The City's \$78.9 million in governmental expenses were funded by charges for services, grants, and general revenue as illustrated in the Statement of Activities.
- The Capital Projects Fund and the Debt Service Fund ended the year with a deficit of \$4.3 million and \$200 thousand, respectively.
- The Other Post-Employment Benefit (OPEB) obligation for the City as of March 31, 2013 increased to \$15.6 million which is detailed in Note 14 to the financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a set of financial statements. The Statement of Net position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements begin thereafter. For governmental activities, these statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more 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 of the government.

REPORTING THE CITY AS A WHOLE

Our analysis of the City as a whole begins with the Statement of Net position. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps answer this question. 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 revenue and expenses are taken into account regardless of when cash is received or paid.

REPORTING THE CITY AS A WHOLE (Continued)

These two statements report the City's net position and changes in them. You 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. You 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, we divide the City into two kinds of activities:

- Governmental activities – The City's basic services are reported here, including police, fire, DPW, sewer, recreation, transportation, and economic assistance and opportunity. Property taxes, sales taxes, franchise fees, and state and federal grants finance most of these activities.
- Business type activities – The City's business type activities are those that the City charges customers to provide. These include sewer and the business park services offered by the City.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Our analysis of the City's major funds provides detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. Additionally, the City Common Council may establish other funds to help it control and manage resources for particular purposes. The City has three types of funds – Governmental, Fiduciary, and Proprietary.

- Governmental funds – Most of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for expenditure. These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash, as well as liabilities that will be paid using these resources. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be expended in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds in reconciliations to the fund financial statements.
- Fiduciary funds - Used to account for assets held by the City as an agent for individuals, private organizations, other governmental units, and/or other funds.
- Proprietary funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net position and the Statement of Activities. In fact, the City's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position decreased from \$88.8 million to \$88 million. Net position may serve over time as one useful indicator of a government's financial condition. This reflects a \$900 thousand decrease from the 2012 net asset amount. A significant portion of the City's net position is capital assets (e.g. land, buildings, infrastructure, machinery, and equipment) less any related outstanding debt used to acquire those assets. The City uses these assets to provide services to citizens; consequently these assets are not available for future spending.

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Table 1 Net Position (In Millions)

	<u>Governmental Activities</u>		<u>Business- Type Activities</u>		<u>Total 2013</u>	<u>2012</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>		
Current and other assets	\$ 40.2	\$ 33.3	\$ 3.0	\$ 1.3	\$ 43.2	\$ 34.6
Capital assets	<u>131.5</u>	<u>131.2</u>	<u>23.0</u>	<u>19.5</u>	<u>154.6</u>	<u>150.7</u>
Total assets	<u>\$ 171.7</u>	<u>\$ 164.5</u>	<u>\$ 26.0</u>	<u>\$ 20.8</u>	<u>\$ 197.8</u>	<u>\$ 185.3</u>
Deferred outflows of resources	<u>\$ 1.2</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.2</u>	<u>\$ -</u>
Long-term debt outstanding	\$ 68.8	\$ 69.2	\$ 5.9	\$ 6.0	\$ 74.7	\$ 75.2
Other liabilities	<u>29.6</u>	<u>20.8</u>	<u>6.7</u>	<u>0.4</u>	<u>36.3</u>	<u>21.2</u>
Total liabilities	<u>\$ 98.4</u>	<u>\$ 90.0</u>	<u>\$ 12.6</u>	<u>\$ 6.4</u>	<u>\$ 111.0</u>	<u>\$ 96.4</u>
Deferred inflows of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.1</u>	<u>\$ -</u>	<u>\$ 0.1</u>	<u>\$ -</u>
Net position:						
Investment in capital assets, net of related debt	\$ 83.2	\$ 83.8	\$ 17.2	\$ 13.5	\$ 100.4	\$ 97.3
Restricted	1.6	1.6	(0.05)	-	1.6	1.6
Unrestricted	<u>(10.3)</u>	<u>(10.9)</u>	<u>(3.7)</u>	<u>0.9</u>	<u>(14.0)</u>	<u>(10.0)</u>
Total net position	<u>\$ 74.6</u>	<u>\$ 74.5</u>	<u>\$ 13.4</u>	<u>\$ 14.4</u>	<u>\$ 88.0</u>	<u>\$ 88.9</u>

THE CITY AS A WHOLE (Continued)

Table 2 Changes in Net Position (In Millions)

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenue:						
Charges for services	\$ 4.0	\$ 4.5	\$ 2.2	\$ 1.7	\$ 6.1	\$ 6.2
Operating grants	9.0	11.2	-	-	9.0	11.2
Capital grants	6.1	4.3	-	-	6.1	4.3
General revenue:						
Real property taxes	23.7	22.5	-	-	23.7	22.5
Real property tax items	2.2	2.0	-	-	2.2	2.0
Non-property tax items	13.9	13.7	-	-	13.9	13.7
Use of money and property	0.9	0.9	-	-	0.9	0.9
Sale of property and compensation for loss	0.6	0.7	-	-	0.6	0.7
Miscellaneous local sources	0.3	0.7	-	-	0.3	0.7
Interfund revenue	0.3	0.3	-	-	0.3	0.3
Transfers from other funds	-	0.1	-	-	-	0.1
State and federal aid	17.8	27.4	-	-	17.8	27.4
Other sources	-	-	-	-	-	-
Total revenues	<u>78.7</u>	<u>88.3</u>	<u>2.2</u>	<u>1.7</u>	<u>80.9</u>	<u>90.0</u>
Program expenses:						
General governmental support	13.2	9.2	-	-	13.2	9.2
Public safety	39.4	45.4	-	-	39.4	45.4
Health	-	0.2	-	-	-	0.2
Transportation	5.9	11.2	-	-	5.9	11.2
Culture and recreation	4.1	5.2	-	-	4.1	5.2
Home and community services	14.7	16.3	2.8	2.3	17.5	18.6
Interest	1.7	2.6	-	-	1.7	2.6
Total expenses	<u>78.9</u>	<u>90.1</u>	<u>2.8</u>	<u>2.3</u>	<u>81.7</u>	<u>92.4</u>
Change in net position	<u>\$ (0.2)</u>	<u>\$ (1.8)</u>	<u>\$ (0.6)</u>	<u>\$ (0.6)</u>	<u>\$ (0.8)</u>	<u>\$ (2.4)</u>

THE CITY AS A WHOLE (Continued)

Table 3 presents the cost of each of the City's four largest governmental programs: public safety, home and community services, general support and transportation – as well as each program's net cost (total cost less revenue generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3
Governmental Activities (In Millions)

	2013		2012	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Public safety	\$ 39.4	\$ 36.8	\$ 45.4	\$ 42.5
Home and community services	14.7	5.9	16.3	6.1
General support	13.2	12.1	9.2	8.3
Transportation	<u>5.9</u>	<u>(0.4)</u>	<u>11.2</u>	<u>5.5</u>
Totals	<u>\$ 73.2</u>	<u>\$ 54.4</u>	<u>\$ 82.1</u>	<u>\$ 62.4</u>

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet) reported a combined deficit fund balance of \$1,206,289 which was \$1,826,413 less than last year's total of \$620,124. Included in this year's total fund balance are deficits of \$4,251,596 and \$222,818 in the City's Capital Projects and Debt Service Fund, respectively.

An overview of the Governmental Funds results for 2013 follows. This includes more detailed information about sources and uses of funds.

THE CITY'S FUNDS (Continued)

**Table 4 - Governmental Funds
Summary of Revenue and Expenditures (In Millions)**

	2013 Revenue	2013 % of Total	2012 Revenue	2012 % of Total
Real property taxes	\$ 23.5	29.8%	\$ 22.3	28.5%
Real property tax items	2.2	2.8%	2.0	2.6%
Sales and use taxes	13.9	17.6%	13.8	17.6%
Departmental income	3.3	4.1%	3.4	4.3%
Intergovernmental charges	0.2	0.2%	0.2	0.3%
Use of money and property	0.9	1.1%	0.9	1.1%
Licenses and permits	0.3	0.4%	0.3	0.4%
Fines and forfeitures	0.7	0.9%	0.6	0.8%
Sale of property and comp. for loss	0.7	0.8%	0.6	0.8%
Miscellaneous local sources	0.4	0.5%	0.7	0.9%
Federal and state aid	32.9	41.7%	33.5	42.8%
Total revenue	\$ 79.0	100.0%	\$ 78.3	100.0%
	2013	2013	2012	2012
	Expenditures	% of Total	Expenditures	% of Total
General governmental support	\$ 11.0	13.3%	\$ 6.0	7.2%
Public safety	25.3	30.6%	26.6	32.0%
Transportation	4.6	5.6%	8.2	9.9%
Culture and recreation	2.8	3.4%	3.4	4.1%
Home and community services	12.6	15.2%	13.6	16.3%
Employee benefits	18.7	22.7%	18.1	21.8%
Debt service - principal	5.5	6.6%	4.7	5.6%
Debt service - interest	2.1	2.6%	2.6	3.1%
Total expenditures	\$ 82.6	100.0%	\$ 83.2	100.0%

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual charges to appropriations (expenditures) were \$182 thousand less than the final budget amounts.

Resources available for appropriation were \$191 thousand more than the final budgeted amount. The most significant unfavorable variance occurred in the City's Local, State and Federal Revenues which was \$570 thousand less than budgeted.

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At March 31, 2013, the City had \$131.4 million invested in a broad range of capital assets including equipment, buildings, roads, and bridges (see Table 5 below).

Table 5 Capital Assets at Year End (In Millions)

	Governmental <u>Activities</u>
	<u>2013</u>
Assets not depreciated	\$ 42.5
Land improvements	28.2
Construction	60.1
Infrastructure	175.6
Machinery and equipment	12.0
Vehicles	13.0
Accumulated depreciation	<u>(200.0)</u>
 Totals	 <u><u>\$ 131.4</u></u>

Debt

The City's long term debt activity is as follows:

	Balance at April 1, <u>2012</u>	<u>Increase</u>	<u>Decrease</u>	Balance at March 31, <u>2013</u>
Governmental activity:				
Serial Bonds	\$ 44,802,887	\$ 14,591,460	\$ 17,505,112	\$ 41,889,235
Capital leases	2,573,759	1,343,837	320,548	3,597,048
Loans payable	2,594,000	-	844,000	1,750,000
Remediation costs	6,148,000	-	-	6,148,000
Retirement incentive loans	2,669,306	1,653,158	483,871	3,838,593
Other post employment benefits	14,048,994	1,507,945	-	15,556,939
Compensated absences	<u>2,105,019</u>	<u>-</u>	<u>176,183</u>	<u>1,928,836</u>
 Total governmental long-term debt	 <u>\$ 74,941,965</u>	 <u>\$ 19,096,400</u>	 <u>\$ 19,329,714</u>	 <u>\$ 74,708,651</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City weighs a multitude of factors when preparing budget estimates and setting fees for services. A number of these factors deal with the economy. Though individual unemployment statistics are not available for the City, the most current unemployment rate for the Utica-Rome Metropolitan Statistical Area stood at 8.7 % as of March 2013. This compared unfavorably with New York State's average of 7.9% for the same period. Inflationary trends for the City remain in line with national indices.

The City continues to be exposed to rapidly accelerating health care and retirement costs, and these issues have had a major impact on the current budget and will continue to affect future budget estimates. Actual General Fund expenditures for the City, for the 2012-13 fiscal year, included \$5,697,068.85 for retirement expenditures and \$9,841,341.54 for health care. Additionally, the City opted to amortize \$1,653,158.00 of its retirement obligation under the NYS Original Contribution Stabilization Program. General Fund budget figures for the 2013-14 City budget include \$5,347,949.30 in anticipated retirement costs and \$10,302,491.75 in health care costs.

Non-management employees are represented by four labor unions. The Teamsters Association contract expired on March 31, 2010, while the Fire Fighters Association contract expired on March 31, 2013 and the C.S.E.A. contract expired on March 31, 2014. The Police Benevolent Association contract expires on March 31, 2016. Current medical coverage for employees is provided as dictated by the union contracts.

Sales tax proceeds for the 2012-13 fiscal year totaled \$12,441,269.38, representing a favorable variance of approximately 1.3% above the \$12,280,000 budgeted for the year. The City's sales tax estimate for the 2013-14 fiscal year has been budgeted at \$12,587,000, approximately 1.1% over prior year actuals. A property tax increase of 1.99% has been budgeted for the 2013-14 fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 this report or need additional financial information, contact the:

City of Utica
Office of the City Comptroller
1 Kennedy Plaza
Utica, NY 13502
(315) 792-0100

CITY OF UTICA

**STATEMENT OF NET POSITION
MARCH 31, 2013**

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
ASSETS:		
CURRENT ASSETS:		
Cash	\$ 14,127,779	\$ 1,107,635
Taxes receivable, net of allowance for doubtful accounts	4,832,887	-
Accounts receivable, net of allowance for doubtful accounts	-	184,207
Loans receivable	11,874,023	-
State and federal receivables, net of allowance for uncollectible amounts	3,143,686	-
Due from other governments	6,098,071	1,145,770
Due from other funds	-	559,792
Prepaid expenses	70,195	-
Inventory	31,549	-
	<u>40,178,190</u>	<u>2,997,404</u>
NONCURRENT ASSETS:		
Capital assets, net	<u>131,549,172</u>	<u>23,036,288</u>
Total assets	<u>171,727,362</u>	<u>26,033,692</u>
DEFERRED OUTFLOWS OF RESOURCES		
Advance refunding deposit with escrow agent	<u>1,248,146</u>	<u>-</u>
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	12,068,617	1,365,812
Accrued expenses	937,257	13,887
Accrued interest	416,947	-
Other liabilities	57,041	-
Current portion of long term debt	5,875,837	420,355
Due to other funds	358,754	179,718
Due to other governments	4,774,028	-
Bond anticipation notes payable	<u>5,088,100</u>	<u>4,706,376</u>
Total current liabilities	<u>29,576,581</u>	<u>6,686,148</u>
LONG-TERM LIABILITIES:		
Bonds and notes payable	40,545,697	5,841,985
Remediation	6,148,000	-
Capital leases	3,153,342	-
HUD section 108 loans	1,500,000	-
Compensated absences	1,928,836	31,586
Other post-employment benefits	<u>15,556,939</u>	<u>-</u>
Total long-term liabilities	<u>68,832,814</u>	<u>5,873,571</u>
Total liabilities	<u>98,409,395</u>	<u>12,559,719</u>
DEFERRED INFLOWS OF RESOURCES		
Relieved sewer rents	<u>-</u>	<u>52,385</u>
NET POSITION		
Net investment in capital assets	83,222,442	17,194,303
Restricted	1,631,418	(52,385)
Unrestricted	<u>(10,287,747)</u>	<u>(3,720,330)</u>
TOTAL NET POSITION	<u>\$ 74,566,113</u>	<u>\$ 13,421,588</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013**

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business Type Activities
PRIMARY GOVERNMENT:						
Governmental activities:						
General governmental support	\$ 13,191,873	\$ 680,894	\$ 449,392	\$ -	\$ (12,061,587)	\$ -
Public safety	39,370,626	2,560,555	-	-	(36,810,071)	-
Transportation	5,875,757	253,727	-	6,028,720	406,690	-
Culture and recreation	4,083,603	237,048	-	-	(3,846,555)	-
Home and community services	14,713,553	224,409	8,518,703	24,924	(5,945,517)	-
Interest	<u>1,684,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,684,715)</u>	<u>-</u>
Total governmental activities	78,920,127	3,956,633	8,968,095	6,053,644	(59,941,755)	-
BUSINESS TYPE						
Sewer and Business Park	<u>2,779,829</u>	<u>2,185,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(594,587)</u>
Total	<u>\$ 2,779,829</u>	<u>\$ 2,185,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (594,587)</u>
GENERAL REVENUE:						
Real property taxes					23,681,679	-
Real property tax items					2,233,928	-
Non-property tax items					13,914,646	-
Use of money and property					864,877	-
Sale of property and compensation for loss					562,679	-
Miscellaneous local sources					293,067	-
Interfund revenue					337,661	-
State and federal aid					17,810,825	-
Other sources					<u>-</u>	<u>298</u>
Total general revenue					<u>59,699,362</u>	<u>298</u>
Change in net position					(242,393)	(594,289)
Net position - beginning of year, as restated, see Note 17					<u>74,808,506</u>	<u>14,015,877</u>
Net position - end of year					<u>\$ 74,566,113</u>	<u>\$ 13,421,588</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2013

	General	Community Development	Capital Projects	Debt Service	Non-major Funds	Total
ASSETS:						
Cash	\$ 9,507,918	\$ 2,260,279	\$ 818,552	\$ 1,424	\$ 1,539,606	\$ 14,127,779
Taxes receivable, net of an allowance for uncollectible taxes of \$1,644,074	4,832,887	-	-	-	-	4,832,887
Accounts receivable	622,799	-	-	-	-	622,799
Loans receivable	-	10,742,760	-	-	44,005	10,786,765
Due from other funds	2,536,982	108,636	1,767,879	616,498	36,192	5,066,187
State and federal receivables	3,143,686	-	464,459	-	-	3,608,145
Due from other governments	6,098,071	-	-	-	-	6,098,071
Prepaid expenditures	70,195	-	-	-	-	70,195
Inventory	31,549	-	-	-	-	31,549
	<u>\$ 26,844,087</u>	<u>\$ 13,111,675</u>	<u>\$ 3,050,890</u>	<u>\$ 617,922</u>	<u>\$ 1,619,803</u>	<u>\$ 45,244,377</u>
LIABILITIES:						
Accounts payable	\$ 11,496,431	\$ 155,838	\$ 436,127	\$ -	\$ 37,260	\$ 12,125,656
Accrued expenses	668,588	16,329	8,734	239,942	3,664	937,257
Due to other funds	1,981,540	857,335	1,769,525	600,798	215,743	5,424,941
Due to other governments	4,757,531	-	-	-	16,497	4,774,028
Bond anticipation notes payable	-	-	5,088,100	-	-	5,088,100
Total liabilities	<u>18,904,090</u>	<u>1,029,502</u>	<u>7,302,486</u>	<u>840,740</u>	<u>273,164</u>	<u>28,349,982</u>
DEFERRED INFLOWS OF RESOURCES:	<u>6,290,640</u>	<u>11,810,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,100,684</u>
FUND BALANCE:						
Nonspendable						
Inventory	31,549	-	-	-	-	31,549
Prepaid expenditures	70,195	-	-	-	-	70,195
Total nonspendable fund balance	<u>101,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>101,744</u>
Restricted						
Restricted for special purposes	-	309,000	-	-	1,322,418	1,631,418
Total restricted fund balance	<u>-</u>	<u>309,000</u>	<u>-</u>	<u>-</u>	<u>1,322,418</u>	<u>1,631,418</u>
Assigned						
Other assigned	-	1,225,686	-	-	24,221	1,249,907
Total assigned fund balance	<u>-</u>	<u>1,225,686</u>	<u>-</u>	<u>-</u>	<u>24,221</u>	<u>1,249,907</u>
Unassigned						
	<u>1,547,613</u>	<u>(1,262,557)</u>	<u>(4,251,596)</u>	<u>(222,818)</u>	<u>-</u>	<u>(4,189,358)</u>
Total fund balance	<u>1,649,357</u>	<u>272,129</u>	<u>(4,251,596)</u>	<u>(222,818)</u>	<u>1,346,639</u>	<u>(1,206,289)</u>
	<u>\$ 26,844,087</u>	<u>\$ 13,111,675</u>	<u>\$ 3,050,890</u>	<u>\$ 617,922</u>	<u>\$ 1,619,803</u>	<u>\$ 45,244,377</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND EQUITY - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	General	Community Development	Capital Projects	Debt Service	Non-major Funds	Total
REVENUE:						
Real property taxes	\$ 23,533,372	\$ -	\$ -	\$ -	\$ -	\$ 23,533,372
Real property tax items	2,233,928	-	-	-	-	2,233,928
Non-property tax items	13,914,646	-	-	-	-	13,914,646
Departmental income	2,800,399	-	-	-	466,462	3,266,861
Intergovernmental charges	171,996	-	-	-	-	171,996
Use of money and property	362,594	1,377	-	11	500,895	864,877
Licenses and permits	336,023	-	-	-	-	336,023
Fines and forfeitures	724,238	-	-	-	-	724,238
Sale of property and compensation for loss	346,126	-	-	-	216,553	562,679
Miscellaneous local sources	279,040	-	-	3,362	10,665	293,067
Interfund revenues	337,661	-	-	-	-	337,661
State aid	17,544,408	3,059	2,214,284	-	-	19,761,751
Federal aid	715,809	8,515,644	3,839,360	-	-	13,070,813
Total revenue	<u>63,300,240</u>	<u>8,520,080</u>	<u>6,053,644</u>	<u>3,373</u>	<u>1,194,575</u>	<u>79,071,912</u>
EXPENDITURES:						
General governmental support	6,693,673	-	4,317,071	541	-	11,011,285
Public safety	25,172,085	-	92,097	-	-	25,264,182
Transportation	2,494,322	-	2,100,648	-	-	4,594,970
Culture and recreation	2,330,354	-	1,200	-	449,530	2,781,084
Home and community services	2,206,101	8,447,338	1,496,954	-	442,722	12,593,115
Employee benefits	18,742,850	-	-	-	-	18,742,850
Debt service - principal	-	844,000	-	4,645,399	-	5,489,399
Debt service - interest	229,505	-	-	1,886,121	-	2,115,626
Total expenditures	<u>57,868,890</u>	<u>9,291,338</u>	<u>8,007,970</u>	<u>6,532,061</u>	<u>892,252</u>	<u>82,592,511</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>5,431,350</u>	<u>(771,258)</u>	<u>(1,954,326)</u>	<u>(6,528,688)</u>	<u>302,323</u>	<u>(3,520,599)</u>
OTHER SOURCES (USES):						
Proceeds from issuance of refunding bond	-	-	-	14,591,460	-	14,591,460
Payment to escrow agent	-	-	-	(14,591,460)	-	(14,591,460)
Proceeds from issuance of capital lease	1,343,837	-	-	-	-	1,343,837
Interfund transfers in	687,464	-	465,296	6,544,514	-	7,697,274
Interfund transfers (out)	(6,531,316)	(491,299)	(13,207)	-	(661,452)	(7,697,274)
Total other sources (uses)	<u>(4,500,015)</u>	<u>(491,299)</u>	<u>452,089</u>	<u>6,544,514</u>	<u>(661,452)</u>	<u>1,343,837</u>
REVENUE AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES	931,335	(1,262,557)	(1,502,237)	15,826	(359,129)	(2,176,762)
FUND EQUITY (DEFICIT) - beginning of year, as previously presented	<u>718,022</u>	<u>1,534,686</u>	<u>(3,099,708)</u>	<u>(238,644)</u>	<u>1,705,768</u>	<u>620,124</u>
Prior period adjustment	-	-	350,349	-	-	350,349
FUND EQUITY (DEFICIT) - beginning of year, as restated	718,022	1,534,686	(2,749,359)	(238,644)	1,705,768	970,473
FUND EQUITY (DEFICIT) - end of year	<u>\$ 1,649,357</u>	<u>\$ 272,129</u>	<u>\$ (4,251,596)</u>	<u>\$ (222,818)</u>	<u>\$ 1,346,639</u>	<u>\$ (1,206,289)</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2013

Fund balance - All governmental funds	\$ (1,206,289)
Amounts reported for governmental activities in the statement of net position are different due to the following:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	131,549,172
Long-term liabilities, including bonds payable and other debt, are not due and payable in the current period and are, therefore, not reported in the funds.	(57,222,878)
Deferral of income earned in the current year is recognized as revenue under the accrual basis of accounting.	18,100,684
Deposit with escrow agent	1,248,146
Other post employment benefits are recognized as a liability under full accrual accounting.	(15,556,939)
Long-term compensated absences are not due and payable in the current period and, therefore, not reported in the funds	(1,928,836)
Debt interest expenditures are recorded on cash basis in the funds but on the accrual basis of accounting for government activities.	<u>(416,947)</u>
Net position of governmental activities	<u>\$ 74,566,113</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

**RECONCILIATION OF THE STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND EQUITY
- GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013**

Net changes in fund equity - Total governmental funds	\$ (2,176,762)
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net position	7,341,860
Depreciation is not recorded as a expenditure in the governmental funds, but is recorded in the statement of activities	(6,925,413)
Proceeds from refunding of long-term debt are recorded as an other source in the governmental funds but are recorded as additional liabilities in the statement of net position	(14,591,460)
Repayments of long-term debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position	19,153,261
Advanced refunding deposit with escrow agent	1,248,146
Deferred loan revenue is recognized in full	(542,485)
Property tax revenue is recorded to the extent it is received within 60 days of year-end for governmental funds, but in the statement of activities, this revenue is recorded as earned upon levy	148,307
ERS loan proceeds	(1,653,158)
Proceeds from issuance of capital leases	(1,343,837)
Accrued post employment benefits, long-term portion of compensated absences, and settlements and claims do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds	(1,331,762)
Interest is accrued on the outstanding bonds on the statement of net position but is not recorded as an expenditure in the government funds	<u>430,910</u>
Change in net position - Governmental activities	<u>\$ (242,393)</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA**STATEMENT OF NET POSITION - PROPRIETARY FUNDS
MARCH 31, 2013**

ASSETS:	<u>Sewer Fund</u>	<u>Business Park</u>	<u>Total</u>
Current assets:			
Cash	\$ 963,023	\$ 144,612	\$ 1,107,635
Due from other governments	1,145,770	-	1,145,770
Accounts receivable	184,207	-	184,207
Due from other funds	<u>559,792</u>	<u>-</u>	<u>559,792</u>
Total current assets	<u>2,852,792</u>	<u>144,612</u>	<u>2,997,404</u>
Capital assets	<u>23,006,288</u>	<u>30,000</u>	<u>23,036,288</u>
	<u>\$ 25,859,080</u>	<u>\$ 174,612</u>	<u>\$ 26,033,692</u>
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 1,365,812	\$ -	\$ 1,365,812
Accrued liabilities	13,887	-	13,887
Due to other funds	<u>179,718</u>	<u>-</u>	<u>179,718</u>
Total current liabilities	<u>1,559,417</u>	<u>-</u>	<u>1,559,417</u>
Bond anticipation notes payable	4,706,376	-	4,706,376
Bonds payable	6,262,340	-	6,262,340
Compensated absences	<u>31,586</u>	<u>-</u>	<u>31,586</u>
Total long term liabilities	<u>11,000,302</u>	<u>-</u>	<u>11,000,302</u>
Total liabilities	<u>12,559,719</u>	<u>-</u>	<u>12,559,719</u>
DEFERRED INFLOWS OF RESOURCES			
Relieved sewer rents	<u>52,385</u>	<u>-</u>	<u>52,385</u>
NET POSITION:			
Unassigned	<u>13,246,976</u>	<u>174,612</u>	<u>13,421,588</u>
Total net position	<u>13,246,976</u>	<u>174,612</u>	<u>13,421,588</u>
	<u>\$ 25,859,080</u>	<u>\$ 174,612</u>	<u>\$ 26,033,692</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2013

	Sewer Fund	Business Park	Total
Operating revenue:			
Charges for services	\$ 2,185,242	\$ -	\$ 2,185,242
Total operating revenue	<u>2,185,242</u>	<u>-</u>	<u>2,185,242</u>
Operating expenses:			
Personal services	407,220	-	407,220
Employee benefits	326,635	-	326,635
Contractual services	956,688	-	956,688
Depreciation	798,053	-	798,053
Total operating expenses	<u>2,488,596</u>	<u>-</u>	<u>2,488,596</u>
Income (Loss) from operations	<u>(303,354)</u>	<u>-</u>	<u>(303,354)</u>
Non-operating revenue (expense):			
Debt principal	(4,600)		(4,600)
Interest expense	(286,633)	-	(286,633)
Interest income	-	298	298
Total non-operating revenue	<u>(291,233)</u>	<u>298</u>	<u>(290,935)</u>
Excess (deficiency) of revenue over expenses before transfers	(594,587)	298	(594,289)
Net position - beginning of year, as previously presented	<u>14,178,706</u>	<u>174,314</u>	<u>14,353,020</u>
Prior period adjustment	<u>(337,143)</u>	<u>-</u>	<u>(337,143)</u>
Net position, as restated	<u>13,841,563</u>	<u>174,314</u>	<u>14,015,877</u>
Net position - end of year	<u>\$ 13,246,976</u>	<u>\$ 174,612</u>	<u>\$ 13,421,588</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

**STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPES
FOR THE YEAR ENDED MARCH 31, 2013**

	Sewer <u>Fund</u>	Business <u>Park</u>	<u>Total</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Cash received from providing services	\$ 1,037,318	\$ -	\$ 1,037,318
Cash payments for contractual expenses	(871,503)	-	(871,503)
Cash payments for personal services and benefits	<u>(733,855)</u>	<u>-</u>	<u>(733,855)</u>
Net cash provided (used) by operating activities	<u>(568,040)</u>	<u>-</u>	<u>(568,040)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on debt	(299,161)	-	(299,161)
Transfers from other funds	429,574	-	429,574
BAN issuance	4,706,376	-	5,873,183
Purchase of capital assets	<u>(3,354,620)</u>	<u>-</u>	<u>(3,354,620)</u>
Net cash used by capital and related financing activities	1,482,169	-	1,482,169
CASH FLOW FROM INVESTING ACTIVITIES:			
Investment and other income	<u>-</u>	<u>298</u>	<u>298</u>
Net cash flow from investing activities	<u>-</u>	<u>298</u>	<u>298</u>
CHANGE IN CASH	914,129	298	914,427
CASH - beginning of year	<u>48,894</u>	<u>144,314</u>	<u>193,208</u>
CASH - end of year	<u>\$ 963,023</u>	<u>\$ 144,612</u>	<u>\$ 1,107,635</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
(Loss) from operations	\$ (303,354)	\$ -	\$ (303,354)
Depreciation	798,053	-	798,053
Change in:			
Accounts receivable	(1,188,348)	-	(1,188,348)
Prepaid expenses	155,544	-	155,544
Accounts payable	(71,940)	-	(71,940)
Accrued expenses	1,581	-	1,581
Deferred revenue	<u>40,424</u>	<u>-</u>	<u>40,424</u>
Net cash flow provided (used by) operating activities	<u>\$ (568,040)</u>	<u>\$ -</u>	<u>\$ (568,040)</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

**STATEMENT OF FIDUCIARY NET POSITION
MARCH 31, 2013**

	<i>Private Purpose Trusts</i>	<i>Agency</i>
	<u> </u>	<u> </u>
ASSETS:		
Cash	\$ 110,644	\$ 1,303,511
Due from other funds	-	805
Total assets	<u>110,644</u>	<u>1,304,316</u>
 LIABILITIES:		
Due to other funds	-	22,125
Other liabilities	-	1,282,191
Total liabilities	<u>\$ -</u>	<u>\$ 1,304,316</u>
 NET ASSETS:		
Unassigned	<u>\$ 110,644</u>	

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2013**

	<i>Private Purpose Trusts</i>
	<u> </u>
ADDITIONS:	
Investment earnings	\$ 29,644
Total additions	<u>29,644</u>
 DEDUCTIONS:	
Expenditures	<u>-</u>
 NET INCREASE	29,644
 NET ASSETS - beginning of year	<u>81,000</u>
 NET ASSETS - end of year	<u>\$ 110,644</u>

The accompanying notes are an integral part of these statements.

CITY OF UTICA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2013

1. NATURE OF OPERATIONS

City of Utica, New York (the City) was incorporated in 1832, and is governed by its Charter, General Municipal Law and other laws of the State of New York (and various local laws and ordinances).

The Common Council, which consists of nine elected council members, serves as the legislative body and carries out certain administrative duties for the City. The Mayor serves as chief executive officer and the Comptroller serves as chief fiscal officer of the City. The Mayor and Comptroller are each elected for four- year terms.

The Board of Estimate and Apportionment (E & A) serves as the administrative body responsible for overseeing the overall operations of the City. The Board of E & A consists of the Mayor, an appointed Common Council member, the City's chief engineer, the City's Comptroller, and the President of the Common Council.

The following basic services are provided: police, fire, public works, sewer, recreation, parks, and economic assistance and opportunity grants. All governmental activities and functions performed for the City are its direct responsibility.

Reporting Entity

The reporting entity consists of (a) the primary government which is City of Utica, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The decision to include a potential component in the City's reporting entity is based on several criteria set forth in generally accepted accounting principles including legal standing, fiscal dependency, and financial accountability, selection of governing authority, ability to significantly influence operations, and the primary government's economic benefit from resources of the affiliated entity.

Based on the application of these criteria, the following is a brief review of certain entities considered in determining the City's reporting entity as a whole. These activities are included as component units of the primary government.

Blended Component Unit

Blended Component Units, although legally separate entities, are, in substance, part of the government's operations, therefore, data from these units are combined with data of the primary government.

Utica Urban Renewal Agency – The Utica Urban Renewal Agency (the Agency) provides redevelopment and stabilization programs to properties and communities within the City. Properties are either acquired by the Agency or rehabilitated on the City's behalf. Funding for programs is obtained through Federal grants and loans, and proceeds from sale or rental of properties owned by the Agency.

1. NATURE OF OPERATIONS (Continued)

The Agency is considered a component unit of the City since a voting majority of the Agency's governing body consists of City officials and the Agency provides financial benefits or may impose financial burdens on the City. The Mayor is the chairman of the Agency and may appoint two other board members. The City Engineer and the chairman of the Planning Board are also board members. The Common Council has authority to designate two of its members to sit on the Agency's board. The Agency recognizes a March 31 fiscal year end.

Other Component Unit

The Utica Industrial Development Agency (IDA) is a component unit of the City. However, it is not considered material to the City as a whole and therefore is not presented as a part of the City's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. 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.

The City's basic financial statements consist of government-wide financial statements, including a Statement of Net position and a Statement of Activities; and fund level financial statements which provide a more detailed level of information.

Government-Wide Financial Statements

The Statement of Net position and the Statement of Activities present financial information about the City's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, state aid, intergovernmental revenue, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenue for each function of the City's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenue includes charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue, including all taxes, is presented as general revenue.

Fund Financial Statements

The City uses funds to maintain its accounting records. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued)

The fund statements provide information about the City's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The accounts of the City are organized into funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures. The various funds are summarized by type in the financial statements. Significant transactions between funds within a fund type have been eliminated. The fund types and account groups used by the City are as follows:

Governmental Fund Types

Governmental funds are those in which most governmental functions of the City are reported. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary and fiduciary funds) are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial position rather than upon determination of net income. The following are the City's governmental fund types:

The City utilizes the following major funds:

- General Fund - The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds.
- Community Development Fund - Established to account for the expenditures relating to the restricted resources from the Department of Housing and Urban Development.
- Debt Service Fund - Established to account for current payments of principal and interest on long-term debt, other than that accounted for in the business type activities.
- Capital Projects - The capital projects fund is used to account for financial resources used for the acquisition or construction of major capital projects (other than those reported in the proprietary fund type).

The City utilizes the following non-major funds:

- Permanent Fund – Established to account for the capital trust funds which the City is able to use the earnings on the principal for capital improvements.
- Recreation Fund - The recreation fund is used to account for the activities of the City's golf course.
- Urban Renewal Agency Fund – Established to account for the proceeds from sales or rentals of Agency owned property as well as state and federal grants and loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Fund Types

Proprietary funds are used to account for the City's on-going activities that are similar to those often found in the private sector. The measurement focus is upon determination of net income. The City maintains the following proprietary funds:

- Business Park

The Fund accounts for the development and leasing of commercial properties and land sales for private commercial development of the City's Business Park.

Capital grants are a non-revenue source of funds for the Business Park and are recorded as additions to contributed capital. Fixed assets are recorded at cost and depreciated on a straight-line basis over their estimated useful lives from 5 to 50 years. Infrastructure costs are removed from the Fund as a charge to unreserved fund balance for those infrastructure costs financed with capital grants or loans. The City has previously sold a majority of its assets in the Business Park to a private realty company.

- Sewer Fund

The Fund accounts for sewer services to residents and businesses in the City. The fund recognizes capital grants as a non-revenue source of funds. Fixed assets are depreciated on a straight-line basis over their estimated useful lives of 5 to 50 years.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City as an agent for individuals, private organizations, other governmental units, and/or other funds.

The City's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, deferred compensation participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City has two types of fiduciary funds:

- Private Purpose Trust Funds

The Fund accounts for trust arrangements in which principal and income benefits third parties.

- Agency Funds

The Fund accounts for those activities that are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the City as agent for various payroll or employee withholding.

Basis of Accounting and Measurement Focus

Measurement focus refers to what is being measured, whereas basis of accounting refers to when revenues and expenditures are recognized. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources focus means all assets and all liabilities associated with the operation (whether current or non-current) of the City are included in the Statement of Net position and the Statement of activities presents increases (revenues) and decreases (expenses) in total assets. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions in which the City gives or receives value without directly receiving or giving equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are included in the balance sheet. Under the modified accrual basis of accounting, revenue is recorded when it is susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter (within 60 days of year-end) to be used to pay liabilities of the current period. Expenditures, other than interest on long-term debt, pension contributions, and compensated absences, are recorded when the liability is incurred, if measurable.

In applying the susceptible-to-accrual concept to state and federal aid, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of this revenue. In one, monies must be expended on the specific purpose or project before any amounts are recorded as revenue by the City; therefore, revenue is recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenue at the time of receipt.

Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Other revenue, except for property taxes (see Note 6), is recorded when received in cash because it is generally not measurable until actually received.

The accrual basis of accounting is used by the proprietary funds. Under the accrual basis of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The City-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions in which the City gives or receives value without directly receiving or giving equal value in exchange include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data

General Budget Process

Annual budgets are adopted annually on a basis generally consistent with U.S. GAAP, except for Community Development Fund and Capital Projects which adopt project length budgets. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. The budget is amended by the Legislature for increased grants or State aid received during the year.

The General, Community Development, Permanent, and Other Governmental Funds have legally adopted budgets. Appropriations for all budgets lapse at fiscal year-end. The General Fund's budget is adopted on a departmental and object level of expenditure basis in which expenditures may not legally exceed appropriations on a departmental and object of expenditure level. The Debt Service Fund's budget consists primarily of transfers from the General and the Other Fund budgets for its debt service requirements under related City debt obligations.

Individual governmental fund comparisons of budget and actual data at the legal level of control established by the adopted budget (i.e., minimally at the department and object level) are not presented in this report for those funds with annual adopted budgets due to the excessive detail involved.

The budget policies are as follows:

1. Budgets are adopted annually on a basis consistent with the U.S. generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.
2. No later than February 20 of each year, the Mayor submits a tentative budget to the Board of Estimate and Appropriation for the fiscal year commencing the following April 1. The tentative budget includes proposed expenditures and the means of financing them.
3. Public hearings are conducted to obtain taxpayer comments.
4. The budget as proposed or amended is approved by the Common Council.
5. All budget modifications and transfers require approval from the Board of Estimate and Appropriation.
6. Encumbrance Accounting – Purchase orders, contracts, and other commitments for expenditure of monies for budgetary control purposes are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balance if neither expenditures nor liabilities exist.

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are reported as assigned reservations of fund balances since the commitments do not constitute expenditures or liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	General Fund
Original adopted budget	\$ 63,273,327
Encumbrances carried forward	62,714
Appropriation adjustments	<u>645,222</u>
Amended budget	<u>\$ 63,981,263</u>

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For purposes of reporting the statement of cash flows, the City includes all cash accounts and certificates of deposit that are not subject to withdrawal restrictions or penalties as cash on the accompanying balance sheet.

Accounts Receivable

Governmental Funds

The City establishes an allowance for doubtful accounts based on a review of outstanding amounts and the past history of collections. All trade accounts and property taxes receivable are shown net of an allowance for doubtful accounts.

Due To/From Other Funds

The amounts reported on the Government Funds Balance Sheet for due to and due from other funds represents amounts due between different fund types (general, community development, sewer, and capital projects funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year end is provided subsequently in these notes.

Prepaid Expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the fund and government-wide statements. The consumption method is used to account for these costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported at actual cost for acquisitions subsequent to March 31, 2007. For assets acquired prior to March 31, 2007 estimated historical costs were used. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$5,000. Depreciation methods, and estimated useful lives of capital assets reported in the City-wide statements are as follows:

Construction	40 Years
Land Improvements	10-40 Years
Machinery and Equipment	5-15 Years
Buildings	20-50 Years
Infrastructure	20-50 Years
Vehicles	5-15 Years

Deferred Revenue

The City reports deferred revenue in its basic financial statements. Deferred revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to resources, the liability for deferred revenue is removed and revenue is recognized.

Compensated Absences

The City employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods. Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions. It is the City's policy to accrue all costs associated with earned, but not yet paid, compensated absences of all employees involved in the operations of the City's reporting entity. The total accrued liability for compensated absences relating to the Governmental and Business-Type Activities at March 31, 2013 is \$1,928,836 and \$31,586, respectively.

Pension Plan

The City participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Retirement Systems (PFRS). ERS and PFRS are cost sharing multiple employer systems that provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of the system. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The system issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12236.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Post-Employment Benefits

In addition to providing retirement benefits, the City provides certain health benefits for retired employees. Substantially all of the City's employees have the option of receiving these benefits that are provided by an insurance company upon retirement. At the fund level, the City recognizes the cost of providing these benefits as the premiums are paid.

Equity Classifications – Government Wide Statements

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

- a) Invested in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations for other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - all other net position that do not meet the definition of "restricted" or "invested in capital assets."

The City's policy is to use restricted resources prior to utilizing unrestricted funds.

Fund Balance – Governmental Fund Statements

In the fund basis statements there are five classifications of fund balance:

Non-spendable fund balance – Includes amounts that cannot be spent because they are either not in spendable form or legally or they are contractually required to be maintained intact. Non-spendable fund balance includes the prepaid items and inventory recorded in the general fund.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The City has available the following restricted fund balances:

Community development	\$	309,000
Permanent fund		<u>1,322,418</u>
	\$	<u><u>1,631,418</u></u>

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the City Common Council. The City has no committed fund balances as of March 31, 2013.

Assigned fund balance – Includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance – Governmental Fund Statements

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the City; or deficit fund balances in any other fund type.

Order of Fund Balance Spending Policy

The City's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the general fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

Property Taxes

City property taxes are levied annually no later than March 31st and become a lien on June 1st. Accordingly, property tax is recognized as revenue in the year for which the levy is made, and to the extent that such taxes are received within the reporting period of sixty days thereafter. Delinquent property taxes not collected at year-end (excluding collections in the 60-day subsequent period) are included in deferred inflows.

Insurance

The City assumes the risk for general liability. The City is involved in many pending tort claims against them, the ultimate outcomes of which cannot be reasonably determined. Therefore, 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.

Allowance for Uncollectibles

The City has established allowances for certain uncollectible receivables. At March 31, 2013, an allowance of \$522,253 for uncollectible loans issued has been recorded in the Community Development Fund.

Sale of Assets

During 1996, the City sold its water facility to an independent governmental agency. The sale consisted of the City receiving \$9,000,000 in cash to be held in trust, with interest to fund future capital expenditures; a \$7,000,000 note receivable over 40 years, and a \$1,000,000 loan payable over 10 years as a reduction of the principal payment of the note receivable. At March 31, 2013, the City has a remaining balance of \$6,098,071 recorded as a receivable due from other governments in the General Fund and corresponding deferred inflows.

Deficit Fund Balance

Capital Projects Fund – The deficit fund equity will be eliminated through the redemption of bond anticipation notes or issuance of long term debt.

Debt Service Fund – The deficit fund equity will be eliminated in 2014 by an interfund transfer.

Application of Accounting Standards

In July 2011, GASB issued statement No. 63 *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”* This statement updates and improves existing standards by providing users with information about how past transactions will continue to impact a government's financial statements in the future. The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities and identifies net position as the residual of all other elements presented. The City adopted the provisions of this statement for the year ended March 31, 2013.

3. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND CITY-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the City-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the statement of activities, compared with the current financial resources focus of the governmental funds.

Total Fund Balances of Governmental Funds vs. Net position of Governmental Activities

Total fund balances of the City's governmental funds differ from "net position" of governmental activities reported in the statement of net position. This difference primarily results from the additional long-term economic focus of the statement of net position versus the solely current financial resources focus of the governmental fund balance sheets.

Statement of Revenue, Expenditures, and Changes in Fund Balance vs. Statement of Activities

Differences between the governmental funds statement of revenue, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories. The amounts shown below represent:

Long-Term Revenue Differences

Long-term revenue differences arise because governmental funds report revenue only when it is considered "available", whereas the statement of activities reports revenue when earned.

Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the statement of activities.

Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the statement of activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the statement of activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net position.

4. IMPACT OF FUTURE GASB PRONOUNCEMENTS

GASB has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This standard establishes accounting and financial reporting standards that reclassify, as deferred resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. The City is required to adopt the provisions of Statement No. 65 for the year ending March 31, 2014.

4. IMPACT OF FUTURE GASB PRONOUNCEMENTS (Continued)

GASB has issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. This standard improves accounting and financial reporting by clarifying guidance regarding risk financing, operating lease payments, and accounting for loans. The City is required to adopt the provisions of Statement No. 66 for the year ending March 31, 2014.

GASB has issued Statements No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of Statement No. 67 is to improve financial reporting by state and local governmental pension plans. Statement No. 67 replaces the requirements of Statements No. 25 and No. 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria.

Statement No. 68 establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of Statement No. 68, as well as for non-employer governments that have a legal obligation to contribute to those plans. The City is required to adopt the provisions of these Statements for the year ending March 31, 2016 with early adoption encouraged.

GASB has issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The City is required to adopt the provisions of this Statement for the year ending March 31, 2015. A prospective basis should be applied and early adoption is encouraged.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. As issued in this Statement, a nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. The City is required to adopt the provisions of this Statement for the year ending March 31, 2015. A prospective basis should be applied and early adoption is encouraged.

The City has not assessed the impact of these statements on its future financial statements.

5. CASH AND INVESTMENTS

The City's investment policies are governed by the statutes of the State of New York (State). In addition, the City has its own written investment policy. The City's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Government and its agencies and obligations of the State of New York.

The City does not typically purchase investments for a long enough duration to cause it to be believed that it is exposed to any material interest rate risk.

5. CASH AND INVESTMENTS (Continued)

For purposes of reporting the statement of cash flows for proprietary fund type, the City includes all cash accounts which are not subject to withdrawal restrictions or penalties as cash.

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. Generally accepted accounting principles directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance. As of March 31, 2013, all of the City's cash and investment balances were either insured or collateralized with securities held by the pledging financial institution's trust department in the City's name:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash, including trust funds	<u>\$ 16,995,853</u>	<u>\$ 16,649,569</u>
Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name	\$ 16,158,025	
Covered by FDIC insurance	<u>846,082</u>	
Total	<u>\$ 17,004,107</u>	

6. TAXES AND COLLECTION

City real property taxes are levied annually no later than April 5 and are collected between April and March. The City enforces all delinquent taxes. The City is also responsible for collecting Oneida County taxes for property within the City and guarantees school taxes due to the Utica City School District for properties within the City.

Property tax revenues are recognized as revenues in the year they are levied and collected, as long as they are collected within 60 days subsequent to year end. Property taxes not collected within 60 days subsequent to year end are reported as deferred revenue in the fund financial statements.

Uncollected City, School District and County taxes assumed by the City for collection through March 31, 2013, are \$4,832,887, net of \$2,199,375 allowance.

SALES TAX

The sales tax rate in the City at March 31, 2013, was 8.75%. Tax receipts are split between the municipalities as follows:

New York State	4.00%
Oneida County	2.75%
City of Utica	<u>2.00%</u>
Total	<u>8.75%</u>

The City receives 1.5% of its sales tax payments from New York State on a bi-monthly basis and 0.5% from Oneida County on a quarterly basis.

6. TAXES AND COLLECTION (Continued)

SALES TAX (Continued)

Sales tax revenues are recorded on an accrual basis to the extent that such accrued amounts were received by New York State and Oneida County (the intermediary governments) from vendors through March 31. The City also accrues its portion of such revenue attributable to the current year but not remitted to the State (and ultimately the County) in the subsequent year.

Non-property tax revenues recognized by the General Fund during the year ended March 31, 2013, include approximately \$12.44 million in sales tax. This amount includes an accrual of approximately \$2.5 million in sales tax collected by the State of New York and the County of Oneida, 60 days after the City's fiscal year, relating to vendor sales which occurred during the 2013 fiscal year.

7. STATE AND FEDERAL RECEIVABLES

Community Development Block Grants:

The City is the recipient of Community Development Block Grants to operate revolving loan funds. These funds are to be loaned to industry and not-for-profit organizations for the purpose of creating and retaining permanent jobs within the City. The balance of loans receivable and deferred inflows at March 31, 2013 of \$10,742,760 consists of loans that require periodic payments of principal and interest or interest only for loans that have not been fully drawn down, and have a rate of interest at one-half of prime plus one percent.

8. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2013, was as follows:

	Balance at April 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance at March 31, <u>2013</u>
Governmental Activities:				
Assets not depreciated	\$ 43,390,856	\$ 7,341,860	\$ 8,226,982	\$ 42,505,734
Land improvements	26,274,565	1,965,958	-	28,240,523
Construction	54,324,996	5,775,584	-	60,100,580
Infrastructure	175,641,849	-	-	175,641,849
Machinery and equipment	11,997,643	366,940	-	12,364,583
Vehicles	<u>12,966,255</u>	<u>118,500</u>	-	<u>13,084,755</u>
	324,596,164	15,568,842	8,226,982	331,938,024
Less: Accumulated depreciation	<u>193,463,439</u>	<u>6,925,413</u>	-	<u>200,388,852</u>
 Total capital assets	 <u>\$ 131,132,725</u>	 <u>\$ 8,643,429</u>	 <u>\$ 8,226,982</u>	 <u>\$ 131,549,172</u>
	Balance at April 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance at March 31, <u>2013</u>
Business Type Activities:				
Assets not depreciated	\$ 784,259	\$ 4,359,668	\$ 34,442	\$ 5,109,485
Construction	19,708	-	-	19,708
Infrastructure	29,833,560	-	-	29,833,560
Machinery and equipment	<u>538,074</u>	<u>34,442</u>	-	<u>572,516</u>
	31,175,601	4,394,110	34,442	35,535,269
Less: Accumulated depreciation	<u>11,700,928</u>	<u>798,053</u>	-	<u>12,498,981</u>
 Total capital assets	 <u>\$ 19,474,673</u>	 <u>\$ 3,596,057</u>	 <u>\$ 34,442</u>	 <u>\$ 23,036,288</u>

The City recognized depreciation expense by function as follows:

General government support	\$ 1,177,320
Public safety	2,285,386
Transportation	2,700,911
Culture and recreation	<u>761,796</u>
	 <u>\$ 6,925,413</u>

9. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources for governmental funds consist of the following at March 31, 2013:

General Fund

MVWA loan deferred revenue	\$ 6,098,071
MVWA PILOT deferred revenue	44,262
Property tax revenues	148,307
	<u>\$ 6,290,640</u>

Community Development

ERP, Section 108, Façade loan deferred revenue	<u>\$ 11,810,044</u>
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10. SHORT-TERM DEBT

The City may issue Bond Anticipation Notes, in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. 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 refinances BANs annually. The City also issues Revenue Anticipation Notes as needed for cash flow purposes. The current fiscal year short term debt activity is as follows:

	March 31, 2012	Rate	Issued	Redeemed	March 31, 2013
Governmental activity:					
BAN due 2014	2,910,000	1.5%	\$ -	\$ 100,000	\$ 2,810,000
BAN due 2014	-	0.0%	\$ 2,278,100	\$ -	\$ 2,278,100
	<u>\$ 2,910,000</u>		<u>\$ 2,278,100</u>	<u>\$ 100,000</u>	<u>\$ 5,088,100</u>
Business type activity:					
BAN due 2014	\$ -	0.93%	\$ 500,000	\$ 4,000	\$ 496,000
BAN EFC - 2013	-	0.0%	4,210,376	-	4,210,376
	<u>\$ -</u>		<u>\$ 4,710,376</u>	<u>\$ 4,000</u>	<u>\$ 4,706,376</u>

11. LONG-TERM LIABILITIES

Noncurrent debt activity is as follows:

	Balance at April 1, <u>2012</u>	Increase	Decrease	Balance at March 31, <u>2013</u>	Current	Long-term
Governmental activity:						
Serial Bonds	\$ 44,802,887	\$ 14,591,460	\$ 17,505,112	\$ 41,889,235	\$ 4,531,220	\$ 37,358,015
Capital leases	2,573,759	1,343,837	320,548	3,597,048	443,706	3,153,342
Loans payable	2,594,000	-	844,000	1,750,000	250,000	1,500,000
Remediation costs	6,148,000	-	-	6,148,000	-	6,148,000
Retirement incentive loans	2,669,306	1,653,158	483,871	3,838,593	650,911	3,187,682
Other post employment benefits	14,048,994	1,507,945	-	15,556,939	-	15,556,939
Compensated absences	<u>2,105,019</u>	<u>-</u>	<u>176,183</u>	<u>1,928,836</u>	<u>-</u>	<u>1,928,836</u>
Total governmental long-term debt	<u>\$ 74,941,965</u>	<u>\$ 19,096,400</u>	<u>\$ 19,329,714</u>	<u>\$ 74,708,651</u>	<u>\$ 5,875,837</u>	<u>\$ 68,832,814</u>
	Balance at April 1, <u>2012</u>	Increase	Decrease	Balance at March 31, <u>2013</u>	Current	Long-term
Business type activity						
Serial Bonds	\$ 6,274,868	\$ 3,768,540	\$ 3,781,068	\$ 6,262,340	\$ 420,355	\$ 5,841,985
Compensated absences	<u>24,660</u>	<u>6,926</u>	<u>-</u>	<u>31,586</u>	<u>-</u>	<u>31,586</u>
Total governmental long-term debt	<u>\$ 6,299,528</u>	<u>\$ 3,775,466</u>	<u>\$ 3,781,068</u>	<u>\$ 6,293,926</u>	<u>\$ 420,355</u>	<u>\$ 5,873,571</u>

12. NONCURRENT LIABILITIES

General Obligation Bonds

The City borrows money in order to acquire land or equipment, to construct buildings, or make 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 are long-term liabilities, are secured by the full faith and credit of the local government. General obligation bonds have been issued for both governmental and business-type activities.

12. NONCURRENT LIABILITIES (Continued)

Details relating to the general obligations (serial) bonds of the City outstanding at March 31, 2013, are summarized as follows:

<u>Description</u>	<u>Date Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance at 03/31/13</u>
Governmental Activity:					
EFC remediation	1998	2013	2.47%	\$ 207,193	\$ 16,575
Water	2001	2013	3.00%	293,869	13,600
Refunding	2001	2019	3-3.5%	6,190,000	1,696,400
Improvements	2004	2027	4.75-5%	5,980,000	230,571
Improvements	2006	2025	4.25-4.75%	17,852,300	2,041,494
Refunding	2007	2015	4.25%	4,310,000	1,755,000
Improvements	2007	2027	4.375-4.75%	5,243,000	4,335,988
Taxable pension bond	2008	2018	5.125-5.75%	3,450,000	2,280,000
Taxable pension bond	2010	2021	3.75-4.75%	1,730,000	1,470,000
Improvements	2010	2025	3.50%	8,724,000	7,880,000
Refunding	2012	2019	2.00%	5,965,000	5,578,147
Refunding	2013	2026	2-4%	14,591,460	14,591,460
Total long term bonds				<u>\$ 74,536,822</u>	<u>\$ 41,889,235</u>

<u>Description</u>	<u>Date Issued</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Original Amount</u>	<u>Balance at 03/31/13</u>
Business type					
Improvements	2004	2026	4.75-5%	1,671,000	64,429
Improvements	2006	2025	4.25-4.75%	17,582,300	508,506
Improvements	2007	2027	4.375-4.75%	2,000,000	1,654,012
Refunding	2012	2019	2.00%	272,332	266,853
Refunding	2013	2026	2-4%	3,768,540	3,768,540
Total				<u>\$ 25,294,172</u>	<u>\$ 6,262,340</u>

12. NONCURRENT LIABILITIES (Continued)

Annual debt service for general obligation debt is as follows:

	<u>Governmental</u>		<u>Business Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,531,220	\$ 1,769,559	\$ 329,382	\$ 281,411
2015	4,505,570	1,638,616	341,465	269,131
2016	3,491,352	1,465,879	355,470	253,776
2017	3,468,676	1,293,787	370,828	237,668
2018	3,573,561	1,162,721	386,582	220,759
2019-2023	14,272,992	3,843,346	2,119,496	822,321
2024-2028	8,045,864	1,099,875	2,359,117	286,200
	<u>\$ 41,889,235</u>	<u>\$ 12,273,783</u>	<u>\$ 6,262,340</u>	<u>\$ 2,371,266</u>

Loans Payable

The City has obtained Section 108 guaranteed loans which are used to revitalize businesses within the City of Utica. Loans outstanding at March 31, 2013 are as follows:

<u>Interest rate</u>	<u>Issued</u>	<u>Maturity</u>	<u>Outstanding</u>
4.46-7.96%	1993/2003	2020	\$ 1,750,000

Principal and interest on the Section 108 loans are due as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 250,000	\$ 127,693
2015	250,000	108,348
2016	250,000	88,890
2017	250,000	69,307
2018	250,000	49,600
2019-2020	500,000	39,752
	<u>\$ 1,750,000</u>	<u>\$ 483,590</u>

Capital Lease Payable

The City is the lessee of fire equipment under a capital lease which expires in 2018 and a fire pumper which expires in 2023. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the assets. The assets are included with capital assets and are depreciated over the life of the lease.

12. NONCURRENT LIABILITIES (Continued)

The City entered into an Energy Performance Contract Municipal Lease/Purchase Agreement in which the City leases certain energy conservation improvements. The City will pay approximately \$240,000 for a term of fifteen years with the initial payment made April 15, 2009.

Depreciation of assets under capital leases is included in depreciation expense as reported on the government wide statements. Minimum future lease payments under capital leases as of March 31, 2013 are as follows:

<u>Maturity</u>	<u>Amount</u>
2014	\$ 443,706
2015	443,706
2016	443,706
2017	443,706
2018	443,706
2019-2023	1,765,105
2024	<u>225,233</u>
	\$ 4,208,868
Interest	<u>611,820</u>
	<u>\$ 3,597,048</u>

Other Long-Term Liabilities

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

Compensated Absences – Compensated absences represent unused vacation and compensatory time payable in the future. The balance at March 31, 2013, was \$1,928,836 in the governmental activities and \$31,586 in the business-type activities.

Remediation Costs – The Leland Avenue dump site, owned by the City, was determined by the City's outside engineers to contain toxic waste contaminants. The City's outside engineers estimate the costs to decontaminate the site to be approximately \$6,148,000. The City has recorded a liability in this amount in the Governmental Activities to reflect the anticipated remediation costs.

Retirement Incentive Loans

The City has taken advantage of an early retirement incentive program offered by the Retirement Systems. The following represent liabilities for the early retirement incentives to be financed over ten years.

<u>Description</u>	<u>Issued</u>	<u>Maturity</u>	<u>Rate</u>	<u>Outstanding</u>
ERS	2005	2015	5%	\$ 103,533
ERS	2011	2021	5%	100,408
ERS	2012	2022	3.75%	394,156
ERS	2013	2023	3%	578,131
PFRS	2005	2015	5%	344,213
PFRS	2006	2016	5%	317,613
PFRS	2007	2017	5%	373,080
PFRS	2011	2021	5%	11,086
PFRS	2012	2022	3.75%	541,346
PFRS	2013	2023	3%	<u>1,075,027</u>
				<u>\$ 3,838,593</u>

12. NONCURRENT LIABILITIES (Continued)

The following is the future debt service requirements associated with the retirement incentives:

2014	\$	798,084
2015		797,815
2016		557,282
2017		440,653
2018		335,440
2019-2023		<u>1,518,580</u>
		4,447,854
Less: interest		<u>609,261</u>
	\$	<u><u>3,838,593</u></u>

Total interest paid on all debt was:

Cash paid	\$	2,115,626
Accrued		<u>(416,947)</u>
Total interest	\$	<u><u>1,684,715</u></u>

Advance Refundings

On August 16, 2001, the City issued \$6,190,000 in general obligation bonds with an average interest rate of 3.00% to 5.50% to advance refund \$4,950,000 of outstanding 1996 serial bonds with an average interest rate of 8.50%. The net proceeds of \$5,921,618 (after payment of \$268,382 in underwriting fees, insurance, and other issuance costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments on the bonds. As a result, the 1996 serial bonds are considered to be defeased, and the liability for those bonds has been removed from the City's financial statements. At March 31, 2013, the balance of the advanced refunded bonds was \$1,696,400.

On March 15, 2007, the City issued \$4,310,000 in general obligation bonds with an average interest rate of 4.25% to advance refund \$3,995,000 of outstanding 2000 serial bonds with an average interest rate of 6.00% to 6.25%. The net proceeds of \$4,298,118 (after a reoffering premium of \$128,946 and payment of \$140,829 in underwriting fees, insurance, and other costs) were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments of the bonds. As a result, the 2000 serial bonds are considered to be defeased, and the liability for those bonds has been removed from the City's financial statements. This refunding decreases total debt services payments over the next nine years by \$133,867 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$118,122. At March 31, 2013, the balance of the advanced refunded bonds was \$1,755,000.

12. NONCURRENT LIABILITIES (Continued)

On March 15, 2012, the City issued \$5,965,000 in general obligation bonds with an average interest rate of 2% to advance refund \$5,400,000 of outstanding 2004 serial bonds with an average interest rate of 4.25%. The net proceeds of \$5,750,000 were used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments of the bond. As a result, the 2003 serial bonds are considered to be defeased, and the liability for those bonds has been removed from the City's financial statements. At March 31, 2013, the balance of the advanced refunded bonds was \$5,578,147.

On February 6, 2013, the City issued \$18,360,000 in general obligation bonds with an average interest rate of 3% to advance refund \$5,400,000 of outstanding 2004 serial bonds with an average interest rate of 5% and \$11,395,000 of outstanding \$2006 serial bonds with an average interest rate of 4.75%. The net proceeds of \$1,533,625 (after a reoffering premium of \$234,434 and payment of \$265,809 in underwriting fees, insurance, and other costs) were used to purchase United States government securities as an escrow requirement. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all the future debt service payments of the bonds. Amounts not refunded as March 31, 2013 was the 2013 maturity of the balance of the 2004 bond of \$295,000 and the 2013, 2014 and 2015 maturity of the balance of the 2006 bond of \$2,550,000. This refunding decreases total debt services payments over the term of the debt by \$1,131,076 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$906,983. At March 31, 2013, the balance of the advanced refunded bonds was \$18,360,000.

13. RETIREMENT BENEFITS

Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS), and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information.

That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the Systems after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010 and prior to April 1, 2012, employees contribute 3% of their salary throughout their active membership. For employees who joined after April 1, 2012, employees contribute 3% of their salary until April 1, 2013 and then contribute 3% to 6% of their salary throughout their active membership. The Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund.

13. RETIREMENT BENEFITS (Continued)

The City is required to contribute at an actuarially determined rate. The required contribution for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2013	\$1,839,656	\$5,786,984
2012	\$1,214,927	\$4,360,977
2011	\$1,304,118	\$4,107,260

The City's contribution made to the Systems was equal to 100 percent of the contributions required for each year.

Since 1989, the System's billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 (which otherwise were to have been paid on June 30, 1989 and 1990, respectively) over a 17-year period, with an 8.5% interest factor added.

14. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides post-employment health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contract negotiated between the City and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the City. Currently, approximately 224 retirees meet those requirements. The City pays 75-90% of the cost of premiums, depending on contract group, to an insurance company that provides the health care insurance.

The City provides post-employment health insurance, vision insurance, etc. coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the City's contractual agreements.

Funding Policy

The City recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. The City recognized the cost of providing benefits for the year ended March 31, 2013, by recording approximately \$3,613,065 of insurance premiums for currently enrolled retirees as an expenditure.

**14. OTHER POST-EMPLOYMENT BENEFITS
(Continued)**

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with generally accepted accounting principles. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year plus the amortization of the unfunded actuarial accrued liability over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Retirement Plan, and the changes in the City's net OPEB obligation:

Annual required contribution	\$ 5,404,251
Interest on net OPEB obligation	561,960
Adjustment to annual required contribution	<u>(845,201)</u>
Annual OPEB cost (expense)	5,121,010
Contributions made	<u>(3,613,065)</u>
Increase in net OPEB obligation	1,507,945
Net OPEB obligation—beginning of year	<u>14,048,994</u>
Net OPEB obligation—end of year	<u>\$ 15,556,939</u>

The following table provides trend information for the Plan:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	% of Cost Contributed	Net OPEB Obligation
2011	\$ 5,824,173	\$ 2,690,024	46.2%	\$ 11,246,421
2012	\$ 6,056,942	\$ 3,254,369	53.7%	\$ 14,048,994
2013	\$ 5,121,010	\$ 3,613,065	70.6%	\$ 15,556,939

Funded Status and Funding Progress

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The OPEB Plan is currently not funded.

**14. OTHER POST-EMPLOYMENT BENEFITS
(Continued)**

The schedule of funding progress presents information on the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits. In the future, the schedule will provide multi-year trend information about the value of plan assets relative to the AAL.

<u>Valuation Date</u>	<u>Value of Plan Assets</u>	<u>AAL Entry Age</u>	<u>Unfunded ALL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL % of Payroll</u>
2011	\$ -	\$ 57,457,754	\$ 57,457,754	0%	n/a	n/a
2012	\$ -	\$ 59,585,629	\$ 59,585,629	0%	\$ 32,049,515	186%
2013	\$ -	\$ 56,156,346	\$ 56,156,346	0%	n/a	n/a

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan as understood by the employer and plan members and include the types of benefits provided at the time of the 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.

In the March 31, 2013 actuarial valuation, the following methods and assumptions were used:

Actuarial cost method	Projected unit credit
Discount rate*	4.0%
Unfunded actuarial accrued liability:	
Amortization period	26 years
Amortization method	Level dollar closed
Amortization basis	Open

* As the plan is unfunded, the assumed discount rate considers that the City's investment assets are low risk in nature, such as money market funds or certificates of deposit.

15. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The governmental funds financial statements generally reflect such transactions as transfers whereas the proprietary funds record such transactions as non-operating revenues or expenses. The City generally maintains its cash in few accounts, whereby the City pools its cash to provide both cash flow and interest income maximization across the City as a whole.

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. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing of or other services.

	Interfund		Interfund	
	Receivable	Payable	Revenue	Expenditures
Governmental Funds:				
General	\$ 2,536,982	\$ 1,981,540	\$ 687,464	\$ 6,531,316
Community Development	108,636	857,335	-	491,299
Capital Projects fund	1,767,879	1,769,525	465,296	13,207
Debt Service	616,498	600,798	6,544,514	-
Recreation	22,179	12,607	-	-
Urban Renewal	14,013	203,136	-	-
Permanent	-	-	-	661,452
Business Type Activities:				
Sewer	559,792	179,718	-	-
Fiduciary:				
Trust and Agency	805	22,125	-	-
	<u>\$ 5,626,784</u>	<u>\$ 5,626,784</u>	<u>\$ 7,697,274</u>	<u>\$ 7,697,274</u>

16. COMMITMENTS AND CONTINGENCIES

Judgments and Claims

The City is party to various legal proceedings which normally occur in governmental operations. The outcome of these proceedings is not expected to have material effect on the financial condition of the City and management considers its reserves for judgments and claims to be adequate.

HUD Monitoring Report

On September 27, 2012, the US Department of Housing & Urban Development (HUD) issued a 2012 Compliance Monitoring Report for the City's CDBG, HOME, ESG and HPRP Programs. The Report included 8 findings which required the submission of additional information within 60 days of the issuance of the Report. The City submitted all responses within the required time line and is currently awaiting a final response from HUD as to the status of the findings. The findings are of such a nature that if any or all of the City's responses are deemed insufficient to rectify the finding's HUD could make a potential demand for reimbursement by the City of up to \$619,666 either to HUD or the City Programs noted. At the date of this audit report, there has been no decision made on the adequacy of the City's responses, nor has any notice of demand for repayment by HUD been issued with regards to the 2012 Compliance Monitoring Report.

17. PRIOR PERIOD ADJUSTMENT

The following adjustments were made to the City's beginning net position:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, Originally reported	\$ 74,458,157	\$ 14,178,706
Capital projects reclassification	13,206	-
Sewer capital activity reclassification	<u>337,143</u>	<u>337,143</u>
Net position, as restated	<u>\$ 74,808,506</u>	<u>\$ 13,841,563</u>

Capital Projects

In the previous period there was a reclassification for debt service.

Sewer Capital Activity

In the previous period there was a net \$337,143 of assets and liabilities that were capital expenditures posted to the Capital Projects Fund and were reclassified into the Sewer Fund in 2013.

18. SUBSEQUENT EVENTS

BAN ISSUANCE

The City has issued the following debt subsequent to year end:

	<u>Amount</u>	<u>Issued</u>	<u>Repaid/Due</u>	<u>Rate</u>
BAN	\$ 8,654,000	5/8/2013	5/8/2014	1.50%
BAN	\$ 2,620,000	8/22/2013	8/22/2014	1.11%
BAN	4,100,000	2/24/2014	2/25/2015	1.50%

The City issued a capital lease agreement with First Niagara for the lease of public safety, public works and parks equipment in January of 2014.

SETTLEMENTS

In December 2013, the City announced a \$2 million settlement with a family regarding a wrongful death claim. The payment of which was included in the BAN issued by the City on February 24, 2014.

On or about July 12, 2013 the City of Utica received \$370,000 from the Philadelphia Insurance Company for the settlement of certain lawsuits connected to the former Community Housing Development Corporation (CHDO), GroWest, Inc. The settlement was deemed by the United States Department of Housing and Urban Development (HUD) as a non-federal source of funds for the purpose of repaying activities deemed ineligible as a result of the demise of GroWest, Inc. On or about September 13, 2013 \$142,360 was transferred to the City of Utica HOME Program Trust Account under the authorization of HUD for the repayment of funds associated with two (2) GroWest activities deemed to be ineligible. The remaining funds associated with the settlement are being held while the City of Utica awaits the final determination associated with a 2012 Monitoring of activities associated with GroWest, Inc.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF UTICA

STATEMENT OF REVENUE, EXPENDITURES, ENCUMBRANCES, AND CHANGES IN FUND EQUITY -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED MARCH 31, 2013

	General Fund			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:				
Real property taxes	\$ 23,349,100	\$ 23,349,100	\$ 23,533,372	\$ 184,272
Real property tax items	2,044,011	2,044,011	2,233,928	189,917
Non-property taxes	13,886,327	13,886,327	13,914,646	28,319
Departmental income	2,776,275	2,819,738	2,800,399	(19,339)
Intergovernmental charges	124,750	124,750	171,996	47,246
Use of money and property	342,270	342,270	362,594	20,324
Licenses and permits	339,700	339,700	336,023	(3,677)
Fines and forfeitures	655,500	655,500	724,238	68,738
Sale of property and compensation for loss	258,500	258,500	346,126	87,626
Miscellaneous local sources	106,236	120,046	279,040	158,994
Interfund revenue	337,661	337,661	337,661	-
State sources	17,655,072	17,992,203	17,544,408	(447,795)
Federal sources	525,809	839,341	715,809	(123,532)
Total revenue	62,401,211	63,109,147	63,300,240	191,093
EXPENDITURES:				
General government support	5,928,771	5,629,489	6,693,673	(1,064,184)
Public safety	25,994,213	25,920,210	25,172,085	748,125
Transportation	2,480,478	2,578,626	2,494,322	84,304
Culture and recreation	2,727,236	2,529,049	2,330,354	198,695
Home and community services	2,612,428	2,322,774	2,206,101	116,673
Employee benefits	16,898,633	18,913,445	18,742,850	170,595
Debt service - interest	97,400	157,151	229,505	(72,354)
Total expenditures	56,739,159	58,050,744	57,868,890	181,854
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	5,662,052	5,058,403	5,431,350	372,947
OTHER SOURCES (USES):				
Proceeds from issuance of capital lease	-	-	1,343,837	1,343,837
Interfund transfers in	872,116	872,116	687,464	(184,652)
Interfund transfers (out)	(6,534,168)	(5,930,519)	(6,531,316)	(600,797)
Total other sources (uses)	(5,662,052)	(5,058,403)	(4,500,015)	558,388
REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES, ENCUMBRANCES, AND OTHER USES	-	-	931,335	931,335
FUND EQUITY - beginning of year	718,022	718,022	718,022	-
FUND EQUITY - end of year	\$ 718,022	\$ 718,022	\$ 1,649,357	\$ 931,335

The accompanying notes are an integral part of these statements.

REQUIRED REPORTS UNDER OMB CIRCULAR A-133

CITY OF UTICA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass through Number	Federal Expenditures
U.S. Department of Justice:			
Passed through New York State Division of Criminal Justice Services:			
Violence Against Women Formula Grants	16.588	VW13564542	\$ 40,872
Direct Awards:			
JAG Program Cluster			
Edward Byrne Memorial Justice Assistance Program	16.738	N/A	50,945
ARRA-Recovery - Edward Byrne Memorial Justice Assistance Program	16.804	N/A	<u>15,801</u>
Total JAG Program Cluster			66,746
Bulletproof Vest Partnership Program	16.607	N/A	9,707
Public Safety Partnership and Community Policing Grants	16.710	N/A	2,524
ARRA-Recovery - Internet Crimes against Children Task Force Program	16.800	N/A	<u>5,631</u>
Total U.S. Department of Justice			<u>125,480</u>
U. S. Department of Housing and Urban Development			
Direct Awards:			
CDBG Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	N/A	2,113,866
Section 108 Loan Guarantees	14.218	N/A	1,750,000
ARRA-Recovery - Community Development Block Grants/Entitlement Grants	14.253	N/A	<u>22,545</u>
Total CDBG Entitlement Grants Cluster			3,886,411
Home Investments Partnerships Program	14.239	N/A	270,163
Section 8 Housing Choice Vouchers	14.871	N/A	6,892,461
ARRA-Recovery - Homelessness Prevention and Rapid Re-housing Program	14.257	N/A	186,443
Emergency Shelter Grants Program	14.231	N/A	135,202
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	N/A	<u>3,526</u>
Total Department of Housing and Urban Development			<u>11,374,206</u>
U.S. Environmental Protection Agency			
Passed through New York State Environmental Facilities Corporation:			
Capitalization Grants for Sanitary Sewer	66.458	C6-6076-05-00	4,074,583
Capitalization Grants for Clean Water State Revolving Funds	66.458	C6-6076-05-00	<u>40,069</u>
			4,114,652
U.S. Department of Transportation:			
Passed through New York State Department of Transportation:			
Highway Planning and Construction	20.205	various	131,554
Direct Awards:			
Federal Transit Capital Investment Grant	20.500	N/A	<u>4,292,287</u>
Total U.S. Department of Transportation			<u>4,423,841</u>
U.S. Department of Homeland Security			
Direct Award:			
Assistance to Firefighters Grant	97.044	N/A	481,573
Disaster Grant - Public Assistance	97.036	N/A	<u>125,335</u>
Total U.S. Department of Homeland Security			<u>606,908</u>
Total Expenditures of Federal Awards			<u>\$ 20,645,087</u>

The accompanying notes are an integral part of this schedule.

CITY OF UTICA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2013

1. GENERAL

The schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Utica. The City's reporting entity is defined in the City's financial statements. All federal financial assistance received directly from federal agencies, as well as federal assistance passed through from other government agencies, is included on the schedule.

2. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, as described in the City's basic financial statements.

3. INDIRECT COSTS

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

4. MATCHING COSTS

Matching costs, (i.e. the City's share of certain program costs), are not included in the reported expenditures.

5. LOAN AND LOAN GUARANTEES

The City operates a revolving loan program utilizing federal financial assistance under the U.S. Department of Housing and Urban Development Section 108 Entitlement grant program (CFDA #14.218). Loans outstanding at March 31, 2013 under this program were \$1,750,000. For the year ended March 31, 2013, the City disbursed no new loans and received program income from the repayment of loan principal in the amount of \$46,921

The City also operates a loan program utilizing federal financial assistance under the Community Development Block Grants Entitlement Programs (CFDA #14.218). Loans outstanding at March 31, 2013 under this program were \$10,742,760. For the year ended March 31, 2013, the City disbursed no new loans, and received program income from the loan repayment of principal in the amount of \$140,847.

6. SUB-RECIPIENTS

The City passed the following federal grants to sub-recipients:

Community Development Block Grants

BOYS AND GIRLS CLUB	14.218	\$	41,697
UTICA COLLEGE YOUNG SCHOLARS PROGRAM	14.218		39,042
COMPEER OF THE MOHAWK VALLEY	14.218		3,904
UTICA SAFE SCHOOLS -UNDERGROUND CAFÉ	14.218		18,948
PARKWAY SENIOR CENTER	14.218		29,175
WEST UTICA SENIOR CENTER	14.218		12,937
NORTH UTICA SENIOR CENTER	14.218		29,175
RESOURCE CENTER FOR INDEPENDENT LIVING	14.218		17,569
FAMILY NUTURING CENTER	14.218		9,370
MOHAWK VALLEY LATINO ASSOCIATION	14.218		11,712
UTICA NEIGHBORHOOD HOUSING SERVICE	14.218		15,617
FOR THE GOOD	14.218		11,712
			<u>\$ 240,858</u>

EMERGENCY SHELTER GRANTS

JOHNSON PARK CENTER	14.231	\$	40,233
YWCA HALL HOUSE	14.231		26,845
YWCA NEW HORIZONS	14.231		11,913
FAMILY NURTURING CENTER	14.231		14,836
JOHN BOSCO HOUSE	14.231		14,836
			<u>\$ 108,663</u>

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

May 16, 2014

To the Honorable Mayor and
Common Council of the City of Utica, New York:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Utica as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Utica's basic financial statements and have issued our report thereon dated May 16, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (2013-1 through 2013-8).

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (2013-9 through 2013-12).

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* (Continued)

Compliance and Other Matters

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

City of Utica's Response to Findings

City of Utica's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Utica's response was not subjected 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.

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

May 16, 2014

To the Honorable Mayor and
Common Council of the City of Utica, New York:

Report on Compliance for Each Major Federal Program

We have audited City of Utica's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Utica's major federal programs for the year ended March 31, 2013. The City of Utica'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 of Utica's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Utica's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on the Community Development Block Grant/Entitlement Grants

As described in the accompanying schedule of findings and questioned costs, the City of Utica did not comply with requirements regarding the Community Development Block Grant/Entitlement Grants (2013-13 through 2013-16) for oversight. Compliance with such requirements is necessary, in our opinion, for the City of Utica to comply with the requirements applicable to that program.

6 Wembley Court
Albany, New York 12205
p (518) 464-4080
f (518) 464-4087

www.bonadio.com

(Continued)

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

Qualified Opinion on the Community Development Block Grant/Entitlement Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Utica complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Community Development Block Grant/Entitlement Grants for the year ended March 31, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Utica, 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 other major federal programs for the year ended March 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-13, 2013-14 and 2013-16. Our opinion on each major federal program is not modified with respect to these matters.

The City of Utica's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Utica's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Utica is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Utica'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 City of Utica's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as federal items 2013-13 through 2013-16 to be material weaknesses.

(Continued)

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

The City of Utica's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Utica's not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

(Continued)

CITY OF UTICA, NEW YORK

STATUS OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED MARCH 31, 2012

Financial Statement Findings

2012-1. Documentation for Bank Reconciliations

Condition: Although bank reconciliations were prepared for the City's bank accounts (except as noted in Finding 2012-3), we noted no written documentation that the reconciliations had been reviewed or approved by anyone other than the individual performing the initial task.

Status: This finding is repeated for 2013.

2012-2. Journal Entry Review

Condition: Although general ledger journal entries are reviewed by the Comptroller as part of his review of daily activity posted to the City's general ledger, there is no written documentation that the journal entries had been reviewed and approved.

Status: This finding is repeated for 2013.

2012-3. Reconciliation and Posting of Activity for the Disbursing and Payroll Accounts

Condition: The City has not historically reconciled or posted activity for the disbursing and payroll bank accounts to the City's general ledger.

Status: This finding is repeated for 2013.

2012-4. Recording of Deferred Façade Loans as Loan Receivables

Condition: Historically, the City has had a policy of not recording deferred façade loans as loan receivables, although the City has recorded the loan expenditures to the general ledger.

Status: Though the City recorded deferred façade loans as loan receivables in 2014, this is a repeat finding for 2013.

2012-5. Entity Responsible for Central Financial Oversight

Condition: The lack of an entity responsible for central financial oversight on complex capital projects having multiple funding sources resulted in a draw of Federal funds in excess of associated costs.

Status: This finding is repeated for 2013.

2012-6. Interfund Loan Payment

Condition: A loan of \$850,000 from the Capital Investment Trust was approved by the Board of Estimate and Apportionment on February 9, 2011 for a period of one year with interest. Neither the loan was paid nor the interest accrued at March 31, 2012.

Status: There were no similar findings in 2013.

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

2012-7. Oversight or Reconciliation of Mohawk Valley Water Authority Billings

Condition: The City performs no oversight, review or reconciliation of billings issued by the Mohawk Valley Water Authority on behalf of the City's Sewer Fund and the collections thereof.

Status: This finding is repeated for 2013.

Federal Award Findings and Questioned Costs

2012-1. Entity Responsible for Central Financial Oversight

Condition: The lack of an entity responsible for central financial oversight on complex capital projects having multiple funding sources resulted in a draw of Federal funds in excess of associated costs.

Status: Though the repayment was posted on December 31, 2013 this finding is repeated for 2013.

2012-2. Documentation of Economic Reinvestment Program Loans

Condition: The Department of Community Development does not always receive proper documentation from recipients of the Economic Reinvestment Program that the loans provided are being spent on eligible expenses as outlined in Article III-Loan and Security, 3.3.A.

Status: Though the City instituted a new policy to mitigate the finding in June of 2013, this finding is repeated for 2013.

2012-3. Review of Allowance for Doubtful Accounts

Condition: The Department of Community Development has not reviewed the allowance for doubtful accounts that includes loans issued through CDBG for the Economic Reinvestment Program and Façade Loan Program in a decade.

Status: Though the Department of Community Development began reviewing the allowance in 2014, this finding is repeated for 2013.

2012-4. Review of Loan Covenants before Reduction

Condition: The Comptroller has not received documentation from the City's Department of Community Development that loan covenants had been met before reducing loan balances regarding the City's more than 40 façade loans.

Status: Though the Comptroller received documentation in 2014 before reducing loan balances, this finding is repeated for 2013.

CITY OF UTICA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED MARCH 31, 2013

Section I—Summary of Auditor's Results Financial Statements

Type of auditors' 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 no

Type of auditors' report issued on compliance for major programs: Qualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218/14.253	Community Development Block Grant/Entitlement Grants
20.500	Federal Transit Capital Investment Grant
66.458	Capitalization Grants for Clean Water State Revolving Funds
14.257	Homeless Prevention and Rapid Re-Housing Program

Section I—Summary of Auditor’s Results (Continued)

Dollar threshold used to distinguish between type A and type B programs:

\$566,853

Auditee qualified as low-risk auditee?

_____ yes X no

Section II—Financial Statement Findings

Material Weaknesses

2013-1 Bank Reconciliations

Condition: Although bank reconciliations were prepared for the City’s bank accounts (except as noted in Findings 2013-3 and 4), we noted no written documentation that the reconciliations had been reviewed or approved by anyone other than the individual preparing them.

Criteria: The City should develop a procedure for bank reconciliations to be reviewed and approved by management.

Effect: Failure to review and approve bank reconciliations could lead to erroneous or incorrect amounts being posted to the City’s general ledger without being discovered.

Cause: Documented review by management provides the acknowledgement of agreement with the bank reconciliation by someone other than the individual performing the task.

Recommendation: The Comptroller or his designee should document the review and approval of bank reconciliations for accuracy and appropriateness before closing the month’s general ledger.

Comptroller’s Response: The Comptroller reviews bank reconciliations. A more formalized procedure is being implemented.

2013-2. Journal Entry Review

Condition: There is no written documentation that adjusting journal entries have been reviewed and approved prior to posting.

Criteria: The City should develop a procedure for general ledger journal entries to be reviewed and approved by management.

Effect: Failure to review and approve general ledger journal entries could lead to erroneous or incorrect amounts being posted to the City’s general ledger without being discovered.

Cause: Documented review by management provides the acknowledgement of agreement with the journal entries posted to the general ledger by someone other than the individual performing the task.

Recommendation: The Comptroller or his designee should document the review and approval of general ledger journal entries for accuracy and appropriateness.

Comptroller’s Response: Journal entries are reviewed before being posted by the Principal Accounting Supervisor and then reviewed by the Auditor before filing. A more formalized procedure is being implemented.

2013-3. Disbursing Account

Condition: The Comptroller's Office has not historically reconciled or posted activity for the disbursing checking account. Approximately \$60 million of cash receipts and cash disbursements run through this account on an annual basis.

Criteria: The Comptroller should ensure that this bank account is reconciled monthly and posted to the City's general ledger. Though its purpose is to be a "zero balance" account, there was a balance of funds at March 31, 2013 that could not be reconciled to any particular City fund.

Effect: Assets not recorded to the City's general ledger can lead to inaccurate financial statements.

Cause: Un-reconciled bank accounts can lead to incorrect general ledger information.

Recommendation: All accounts should be accounted for within the City's general ledger.

Comptroller's Response: All accounts are reviewed. A more formalized procedure is being implemented.

2013-4. Payroll Account

Condition: The Comptroller has not historically reconciled or posted activity for the payroll bank account to the City's general ledger.

Criteria: The City should ensure that the payroll bank account is reconciled monthly and posted to the City's general ledger. Though its purpose is to be a "pass through" account, there was a balance of funds at March 31, 2013 that could not be reconciled to any particular City fund.

Effect: Assets not recorded to the City's general ledger can lead to inaccurate financial statements.

Cause: Un-reconciled bank accounts can lead to incorrect general ledger information.

Recommendation: All accounts should be accounted for within the City's general ledger.

Comptroller's Response: All accounts are reviewed. A more formalized procedure is being implemented.

2013-5. Façade Loans

Condition: Historically, the City has had a policy of not recording deferred façade loans as loan receivables, although the City has recorded the loan expenditures to the general ledger.

Criteria: A process should be developed in conjunction with the City's Department of Community Development to ensure that all loans are properly recorded within the City's general ledger.

Effect: The Comptroller and the Department of Community Development have no process to review and concur regarding the accurate reporting of loan balances.

Cause: The Department of Community Development does not review the City's general ledger to confirm that all loans issued by their Department are displayed accurately in the City's financial statements.

2013-5. Façade Loans

(Continued)

Recommendation: The Comptroller and representatives from the Department of Community Development should implement a process in which loans balances are routinely reviewed and updated.

Comptroller's Response: This was corrected in 2014.

2013-6. Capital Projects Fund

Condition: The Comptroller's reconciliation of the Capital Projects Fund does not reconcile to the City's general ledger fund balance.

Criteria: The Comptroller should reconcile the Capital Projects Fund at least annually with the underlying individual capital project information totals.

Effect: The Comptroller establishes a unique project entry for each new capital project and the projects are compiled annually. The total of the open individual capital projects should reconcile to the Capital Projects Fund to ensure that revenues and expenditures are being posted appropriately so that budgets approved by the City Council are met.

Cause: The total of individual open capital project balances do not compare to the total within the City's Capital Project's Fund.

Recommendation: The Comptroller should reconcile no less than annually underlying individual capital project balances with the total presented within the City's financial statements.

Comptroller Response: The Comptroller's Office will attempt to work more closely with the administration i.e.: engineering and the Urban Renewal Agency to more closely monitor capital projects.

2013-7. Open Capital Projects

Condition: The Comptroller's list of open individual capital projects date back ten years with many projects that have either an excess of funds received but not expended or funds expended and not received.

Criteria: The Comptroller should provide a schedule of capital projects for which there is a surplus or deficit to the Mayor and Common Council annually.

Effect: Capital project implementation is performed by various departments throughout City government. An initial budget is developed prior to implementation, but due to unforeseen events, the budget may or should be amended.

Cause: The Comptroller does not have an reconciled current list of open and uncompleted capital projects that compares to the City's general ledger.

Recommendation: The Comptroller should reconcile no less than annually underlying individual capital project balances with the total presented within the City's financial statements to ensure accuracy.

Comptroller Response: The Comptroller's Office will attempt to work more closely with the administration i.e.: engineering and the Urban Renewal Agency to more closely monitor capital projects.

2013-8. Capital Project Budgeting

Condition: The City does not review budgets for capital projects.

Criteria: The Comptroller should provide routine reports to the Mayor and City Council detailing actual and anticipated revenues and expenditures for all approved individual capital projects.

Effect: Numerous individual capital projects display deficits and surpluses which may or may not have been budgeted. For those in a deficit situation, expenditures have been paid from funds not allocated for that project. Through a lack of proper budgeting, the Comptroller may be unable to provide for necessary cash flow for payments.

Cause: The Comptroller and the various departments do not routinely reconcile budget to actual revenues and expenditures leading to the lack of adherence to individual capital project budgeting.

Recommendation: The Comptroller should establish a procedure for routine reporting of all individual capital project budgets to actual amounts to the Mayor and City Council.

Comptroller Response: The Comptroller's Office will attempt to work more closely with the administration i.e.: engineering and the Urban Renewal Agency to more closely monitor capital projects.

Significant Deficiencies

2013-9. Interfund Loan Repayment

Condition: A loan of \$850,000 from the Capital Investment Trust was approved by the Board of Estimate and Apportionment on February 9, 2011 for a period of one year with interest. Neither the loan was paid nor the interest accrued at March 31, 2013.

Criteria: A process for reviewing loan balances along with the requirements of approval between funds should be developed and routinely reviewed.

Effect: The lack of periodic review and reconciliation throughout the year hinders the accuracy of interim financial statement reporting.

Cause: Interfund loan balances are not always reviewed.

Recommendation: The City should initiate a procedure to ensure that interfund loans are paid within the terms of their borrowing.

Significant Deficiencies

2013-9. Interfund Loan Repayment (Continued)

Comptroller's Response: This was corrected in 2014.

2013-10. Mohawk Valley Water Authority Billings

Condition: The City performs no oversight, review or reconciliation of billings issued by the Mohawk Valley Water Authority on behalf of the City's Sewer Fund and the collections thereof.

Criteria: The City should develop a procedure to ensure that all sewer billings are being posted appropriately to customer accounts and that the collections received by the Mohawk Valley Water Authority on the City's behalf are validated.

Effect: The Mohawk Valley Water Authority reads water meters quarterly throughout the City and issues a bill for water and sewer usage based upon the reading. The Water Authority then remits monthly collections to the City for sewer less and administrative fee. City Office's perform no oversight of sewer billings, collections or accounts receivable.

Cause: No review is performed over the accuracy of sewer revenue billing or collections, as well as, the City performs no review of internal controls within the Water Authority's billing and collection procedures.

Recommendation: The Mohawk Valley Water Authority is a designated third party provider of billings and collections and should provide documentation of internal controls for the billing and collection of City sewer revenue. The City should initiate a monthly review process of billing, collections and accounts receivable to ensure the City is billing and receiving all that it is due.

Comptroller's Response: Based on recommendations, the Comptroller's Office is now receiving monthly statements concerning billing, collections and accounts receivable.

2013-11. Urban Renewal Agency Deposits

Condition: The Comptroller and the Urban Renewal Agency (Agency) perform no oversight, review or reconciliation of Agency deposits placed within the City's Trust Fund.

Criteria: The Comptroller and the Agency should develop a procedure to ensure that all deposits placed with the City by the Agency for the purchase of property are reconciled monthly and any revenues earned are classified and transferred as such to the Agency timely.

Effect: The Agency receives deposits typically amounting to between \$250 and \$1,000 per property. If the City Council ultimately approves the sale the deposit is used as a portion of the total sale price and not returned. If the City Council does not approve the sale, the deposit is returned. Neither the Comptroller nor the Agency reconcile and ensure that only deposits for properties for approval or denial by the City Council are maintained in the City's Trust Fund. Therefore, revenue may be under-reported by the Agency during the year within their financial statement.

2013-11. Urban Renewal Agency Deposits

(Condition)

Cause: No review is performed or list kept of deposits held within the City's Trust Fund on behalf of the Agency by the Comptroller or the Agency.

Recommendation: The Comptroller and the Agency should perform a monthly reconciliation of the deposits held in the City's Trust Fund to ensure revenue earned by the Agency is timely and appropriately transferred from the City to the Agency.

Comptroller: A periodic review of these deposits is done by the Comptroller's Office. The Urban Renewal Agency keeps a detailed list of deposits. After reconciling deposits the money is transferred to the Urban Renewal Agency.

2013-12. FEMA Funding

Condition: The Comptroller performs no review of FEMA funding received.

Criteria: The Comptroller should develop a procedure to ensure that when expenditures are incurred, the associated revenues are posted to the City's general ledger as revenues from prepaid FEMA funding.

Effect: The Comptroller received advanced pre-payments from FEMA for City expenditures related to several rain storms several years ago. The funds were placed into the City's Trust Fund to be transferred to the appropriate City Fund once repairs and storm effects were mitigated by the City. As expenditures are incurred by the City, the City is entitled to move funds placed in the Trust Fund from FEMA prepayment as revenue. Though repairs were expended, revenues earned by the City were not transferred timely.

Cause: No review or reconciliation is performed by the Comptroller over the storm related damages to be reimbursed by the FEMA pre-payment managed by the Department of Engineering.

Recommendation: The Comptroller should perform a monthly reconciliation of FEMA funds held in trust by the Comptroller's Office to ensure revenues are posted when earned.

Comptroller's Response: The Comptroller's Office periodically reviews FEMA funding. A more formalized procedure is being implemented.

Section III—Federal Award Findings and Questioned Costs

2013-13. Entity Responsible for Central Financial Oversight, Community Development Block Grant, CFDA #14.218

Condition: The lack of an entity responsible for central financial oversight on capital projects having multiple funding sources resulted in a draw of Federal funds in excess of associated costs.

Criteria: The City must not seek reimbursement from multiple funding sources (State or Federal) for the same expense on capital projects.

Effect: In November of 2011, funds from the City's Federal CDBG Entitlement allocations were drawn from various entitlement program years totaling \$250,000. The actual expense of approximately \$125,000 of those costs tied to the draw was previously reimbursed by a another non-City source through the City's Engineering Department, unbeknownst to both the City Comptroller's Office and the Department of Urban & Economic Development.

Cause: The deposits for Agency property sales are not reconciled by either the Comptroller or Agency.

Recommendation: For future projects which rely on multiple funding sources administered by different City departments, a single entity should be identified or established responsible for providing central financial oversight throughout the duration of the project.

Department of Urban and Economic Development Response: In all City projects with multiple funding sources, the Department of Urban & Economic Development will not process a draw of Federal funds until such time as an entity responsible for central financial oversight for each particular project has been established or identified. Furthermore, such entity must provide documentation demonstrating that the project expenses for which Federal reimbursement is being sought are appropriate for reimbursement by funding administered through this Office. CDBG funds were reimbursed on December 31, 2013.

2013-14. Proper Documentation of Economic Reinvestment Program Loans, Community Development Block Grant, CFDA #14.218

Condition: The Department of Community Development does not always receive proper documentation from recipients of the Economic Reinvestment Program that the loans provided are being spent on eligible expenses as outlined in Article III-Loan and Security, 3.3.A.

Criteria: The loan agreement stipulates requirements of receiving a loan through the Program and they should be adhered.

Effect: One of two loans tested were found to have inadequate documentation for the eligibility of expenses.

Cause: There was no management review of loan requirements being met by the recipient of the loan.

Recommendation: The Department should implement a management review process that includes that all documentation has been provided to meet the covenants of the loan before a loan is issued.

2013-14. Proper Documentation of Economic Reinvestment Program Loans, Community Development Block Grant, CFDA #14.218

(Continued)

Department of Urban and Economic Development Response: In order to ensure that funds associated with the Economic Reinvestment Program Loans are spent on proper and eligible expenses the City of Utica will be instituting new policies and procedures with regards to the disbursement of funds under the loan agreements. In order to ensure proper expenditure of funds, the policy of the City of Utica going forward will be as follows:

“Whenever feasible, the City will provide a two-party check for purchases under the loan agreement to insure that the funds are provided for the purchase of an eligible expense. Determination of the feasibility of issuing a two party check shall be made at the discretion of the CD Finance Administrator. Where the CD Finance Administrator has deemed that a two-party check is not feasible due to the nature of the purchase, the Borrower will be required to submit an itemized receipt or invoice clearly identifying the item(s) or services(s) provided as well as a cancelled check demonstrating that the item(s) or services(s) was paid for in full. Under this policy, no payment will be made to the borrower unless the documentation provided is deemed proper and compliant. The determination of the sufficiency of the documentation provided shall be made by the City of Utica CD Finance Administrator.”

The above procedure shall be incorporated into the Economic Reinvestment Program Policies and Procedures and deemed effective immediately for all current and future Economic Reinvestment Program loans.

2013-15. Review of Allowance for Doubtful Accounts, Community Development Block Grant, CFDA #14.218

Condition: The Department of Community Development has not reviewed the allowance for doubtful accounts that includes loans issued through CDBG for the Economic Reinvestment Program and Façade Loan Program in a decade.

Criteria: A process of routine review of loan balances and history should be performed to attest that the City is receiving timely loan payments.

Effect: There has been no adjustment to the allowance for a decade and this will result in financial reports that are inaccurate.

Cause: Year-end review is not performed for the account balance.

Recommendation: As part of the year-end closing process, the Comptroller should require an updated report displaying those loans that are not expected to be re-paid.

Department of Urban and Economic Development Response: The Department has reviewed the current outstanding loans which were issued in conjunction with the various federal grant programs managed by the Department and sent an updated list of the doubtful accounts to the Office of the Comptroller on March 4, 2013. The list was provided to the Comptroller’s Office for the purpose of updating the allowance for doubtful accounts.

The Department has also instituted a new policy and procedure to ensure that going forward the allowance for doubtful accounts will be updated on an annual basis. The following language has been inserted into the Policies and Procedures Manuals for loan programs managed by the Department:

“[Department] Staff will provide to the Comptroller’s Office and Allowance for Doubtful Accounts amount within fifteen (15) days of the close of the fiscal year ending March 31st.”

2013-15. Review of Allowance for Doubtful Accounts, Community Development Block Grant, CFDA #14.218
(Continued)

Therefore, not only has the Department resolved the issue of the out of date allowance for doubtful accounts by providing an updated list of doubtful loans as well as amounts remaining unpaid, we have also instituted a new policy and procedure to ensure that the allowance for doubtful accounts is annually updated.

2013-16. Review of Loan Covenants before Reduction, Community Development Block Grant, CFDA #14.218

Condition: The Comptroller has not received documentation from the City's Department of Community Development that loan covenants had been met before reducing loan balances regarding the City's more than 40 façade loans.

Criteria: The City previously issued more than 40 façade loans that provided 20% annually would be "written off" over 5 years if certain requirements were met such as property taxes were current, the property was codes compliant, and the business still existed. These requirements among others are a prerequisite before the annual 20% deferment was to be approved. If any of the requirements were found to be not met, the loan would become due and payable.

Effect: The City's Department of Community Development has not initiated a review process to examine if loan recipients are meeting their covenants resulting in loan balances being reduced without documentation.

Cause: There is no review or documentation process in place to ensure loan recipients are receiving benefits to which they are entitled.

Recommendation: The Comptroller and representatives from the Department of Community Development should implement a process in which loans balances are routinely reviewed and updated.

Department of Urban and Economic Development Response: In response to the issues as concerns identified by this finding the Department has instituted an amendment to the Façade Program Policies and Procedures Handbook which will ensure compliance with the Community Development Block Grant (CDBG) rules and regulations, as well as greater communication with the Comptroller's Office. The addition of Section 6: The Grant Review Process creates a review process to monitor compliance with the Façade Loan Agreements throughout the duration of the promissory note. In addition to outlining the various obligations of entities receiving Façade Loans, the Section also sets forth a check list which must be annually completed by Department staff throughout the duration of the promissory note and provided to the Comptroller's Office on or before the anniversary date of the loan.