

**CITY OF FULTON**  
**Fulton, New York**  
**FINANCIAL REPORT**  
**December 31, 2011**

CITY OF FULTON, NEW YORK  
FOR THE YEAR ENDED DECEMBER 31, 2011

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Frederick J. Ciaschi, C.P.A.

### INDEPENDENT AUDITOR'S REPORT

Common Council  
City of Fulton  
Fulton, New York

We have audited the accompanying financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fulton Housing Authority, a discretely presented component unit, which represents 99% of component unit assets and 66% of component unit revenue. Those financial statements were audited by other auditors, whose report has been furnished to us, and are audited in accordance with auditing standards generally accepted in the United States of America but are not audited in accordance with *Government Auditing Standards*. Our opinions on the basic financial statements, insofar as they relate to the amounts included for the Fulton Housing Authority, are based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton, as of December 31, 2011, and the respective changes in financial position thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended December 31, 2011, the City implemented Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012 on our consideration of the City of Fulton's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, and Schedule of Funding Progress on pages 2 through 2g and 26 through 29 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The supplementary financial information on pages 30 to 31a is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary financial information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

September 13, 2012  
Ithaca, New York

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Our discussion and analysis of the City of Fulton's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the City's financial statements, which begin on page 3.

### FINANCIAL HIGHLIGHTS

- ❖ The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$16,242,752 (net assets).
- ❖ During the year, the City had expenses that were \$2,844,361 more than the \$24,279,214 generated in tax and other revenues for governmental programs. This compares to last year when expenses exceeded revenues by \$2,438,120.
- ❖ The General Fund recorded a decrease of \$(293,933) in 2011. Fund balance at the end of the year was \$1,284,073.
- ❖ The City's debt and other long-term liabilities increased \$1,193,852 during the current fiscal year, for a total of \$16,162,476.
- ❖ The resources available for appropriation in the General Fund were \$414,840 more than budgeted and expenditures were \$572,613 unfavorable when compared to budget.

### USING THIS ANNUAL REPORT

This annual report consists of a series of basic financial statements. The Statement of Net Assets and the Statement of Activities (on pages 3 through 4a) provide information about the City as a whole and present a longer-term view of the City's finances. The Governmental Fund financial statements start on page 5. For Governmental Activities, these statements tell how these services were financed in the short term, as well as what remains for future spending. The Governmental Fund financial statements also report the City's operations in greater detail than the Government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government. Following these statements are notes that provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the basic financial statements, the annual report contains other information in the form of a budgetary comparison schedule for the General Fund, a Schedule of Funding Progress related to other postemployment benefit liabilities and combining statements for those funds that are not considered Major Funds and, therefore, are not presented individually in the basic financial statements.

### Reporting the City as a Whole

Our analysis of the City as a whole begins on page 3, with the Government-wide financial statements. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer the question of whether the City, as a whole, is better off or worse off, as a result of the year's activities. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when the cash is received or paid.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

These two statements report the City's net assets and changes in them. One can think of the City's net assets, 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 assets are one indicator of whether its financial health is improving or deteriorating. One will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's infrastructure, to assess the overall health of the City.

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

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

### Reporting the City's Most Significant Funds

#### **Governmental Fund Financial Statements**

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

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

**The City as Trustee:** The City is the trustee, or fiduciary, for other assets that are held on behalf of others. All of the City's Fiduciary Activities are reported in a separate Statement of Fiduciary Net Assets on page 9. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in this fund are used for their intended purposes.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

**THE CITY AS A WHOLE**

The City's *combined* net assets for fiscal year ended December 31, 2011 decreased \$(2,844,361) from \$19,087,113 to \$16,242,752. A portion of the City's net assets (97.8%) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding amounted to \$15,911,775. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (31.3%) represents resources subject to external restrictions on how they may be used and are reported as restricted net assets amounted to \$5,091,008. The remaining category of total net assets, unrestricted net (deficit) amounted to \$(4,760,031).

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

**Figure 1  
Net Assets**

	<b>Governmental Activities</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010 - 2011</b>	<b>2010 - 2011</b>
<i>Current assets</i>	\$ 8,868,610	\$ 8,263,346	\$ (605,264)	(6.8%)
<i>Noncurrent assets</i>	3,265,246	2,966,703	(298,543)	(9.1%)
<i>Capital assets, net</i>	23,434,660	22,527,135	(907,525)	(3.9%)
<b>Total assets</b>	<b>35,568,516</b>	<b>33,757,184</b>	<b>(1,811,332)</b>	<b>(5.1%)</b>
<i>Current liabilities</i>	4,499,217	3,906,358	(592,859)	(13.2%)
<i>Noncurrent liabilities</i>	11,982,186	13,608,074	1,625,888	13.6%
<b>Total liabilities</b>	<b>16,481,403</b>	<b>17,514,432</b>	<b>1,033,029</b>	<b>6.3%</b>
<i>Invested in capital assets, net of debt</i>	15,803,101	15,911,775	108,674	0.7%
<i>Restricted</i>	5,491,811	5,091,008	(400,803)	(7.3%)
<i>Unrestricted</i>	(2,207,799)	(4,760,031)	(2,552,232)	(115.6%)
<b>Total net assets</b>	<b>\$ 19,087,113</b>	<b>\$ 16,242,752</b>	<b>\$ (2,844,361)</b>	<b>(14.9%)</b>

The decrease in current assets is primarily due to changes in cash and receivables of \$(1,045,302) and \$333,027 at year end, respectively. The decrease in current liabilities is mainly due to the decrease in the current bond payable liability by \$(560,000), the decrease in accounts payable of \$(147,622), and an increase of \$100,200 in Bond Anticipation Notes (BANs) payable.

The net assets of the City's Governmental Activities decreased by 14.9%. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints - decreased \$(2,552,232) from \$(2,207,799) to \$(4,760,031), primarily as a result of the recognition of an additional \$1,919,380 of other postemployment benefit liabilities.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

**Figure 2**  
**Changes in Net Assets**

	<b>Governmental Activities and Total Government</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010 - 2011</b>	<b>2010 - 2011</b>
<b>REVENUES</b>				
<i>Program revenues:</i>				
Charges for services	\$ 4,911,126	\$ 4,945,860	\$ 34,734	0.7%
Operating grants	4,244,948	3,917,432	(327,516)	(7.7%)
Capital grants	409,688	478,065	68,377	16.7%
<i>General revenues:</i>				
Property taxes and tax items	6,152,490	6,119,376	(33,114)	(0.5%)
Nonproperty taxes	6,480,014	6,451,951	(28,063)	(0.4%)
State sources	1,731,941	1,693,348	(38,593)	(2.2%)
Use of money and property	132,084	130,471	(1,613)	(1.2%)
Other general revenues	290,549	542,711	252,162	86.8%
<b>Total revenues</b>	<b>24,352,840</b>	<b>24,279,214</b>	<b>(73,626)</b>	<b>(0.3%)</b>
<b>PROGRAM EXPENSES</b>				
General government	2,471,178	2,357,346	(113,832)	(4.6%)
Education	4,899	5,000	101	2.1%
Public safety	10,991,143	11,387,174	396,031	3.6%
Public health	145,180	145,179	(1)	0.0%
Transportation	2,813,759	3,101,701	287,942	10.2%
Economic assistance and opportunity	18,000	20,000	2,000	11.1%
Culture and recreation	928,329	1,005,076	76,747	8.3%
Home and community services	9,119,785	8,841,240	(278,545)	(3.1%)
Interest on long-term debt	298,687	260,859	(37,828)	(12.7%)
<b>Total expenses</b>	<b>26,790,960</b>	<b>27,123,575</b>	<b>332,615</b>	<b>1.2%</b>
<b>(DECREASE) IN NET ASSETS</b>	<b>\$ (2,438,120)</b>	<b>\$ (2,844,361)</b>	<b>\$ (406,241)</b>	<b>16.7%</b>

**Governmental Activities**

Revenues for the City's activities decreased overall by \$(73,626) or (0.3%). The City's operating grants were lower in 2011 primarily due to a decrease of \$(346,309) in home and community grants, much of which is related to the weatherization program. Property taxes and tax items decreased by \$(33,114) or (0.5%) due to the expiration of certain PILOT agreements. Other general revenues increased by 86.8% due to larger insurance recoveries.

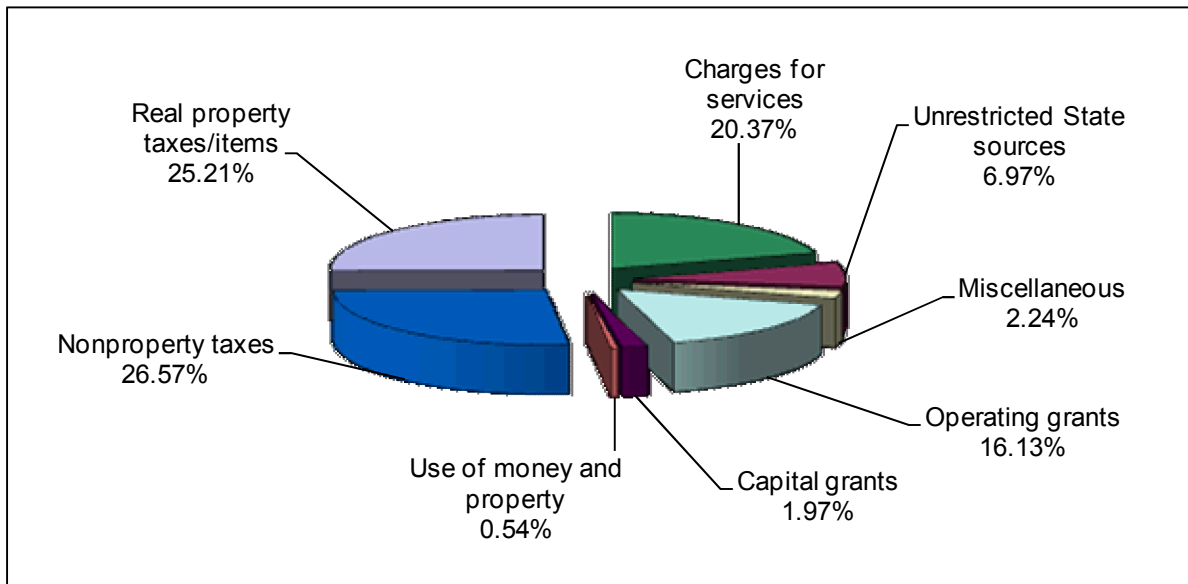
Total expenses increased \$332,615 or 1.2%. Public safety expenses increased 3.6% largely as a result of salary and benefit increases. Transportation increased 10.2% due to increased depreciation expense and additional personnel expenses related to snow removal. Interest on long-term debt decreased as bonds outstanding declined, and no new long-term debt was issued.



CITY OF FULTON  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2011

Figure 3 shows the sources of revenue for 2011.

**Figure 3**  
**Revenue by Source**  
**2011**

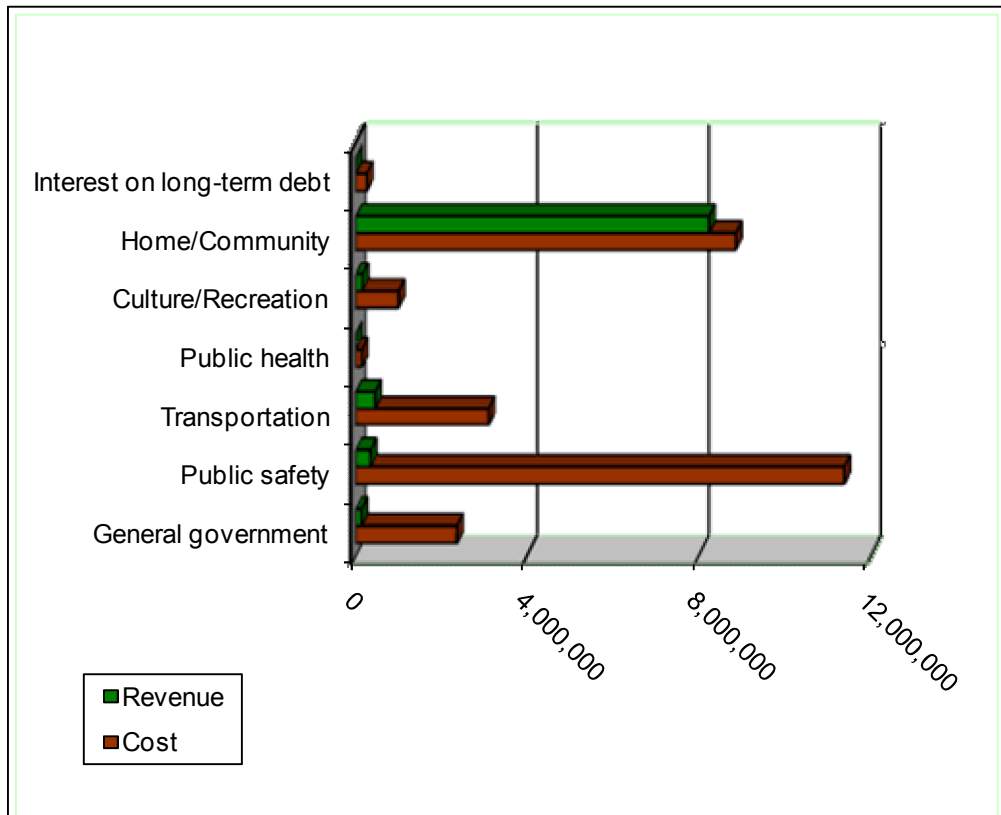


The cost of all Governmental Activities this year was \$27,123,575. However, as shown in the Statement of Activities, the net expense of those activities was \$17,782,218, because some of the cost was paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions. Overall, the City's governmental program revenues, including fees for services and grants, were \$9,341,357. The City paid for the remaining "public benefit" portion of Governmental Activities with \$14,937,857 in taxes and other revenues, such as interest and general entitlements.

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

CITY OF FULTON  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2011

**Figure 4**  
**Program Cost and Revenue Comparison**  
**Governmental Activities**  
**2011**



**THE CITY'S FUNDS**

As the City completed the year, its Governmental Funds, as presented in the balance sheets on pages 5-5a, reported a combined fund balance of \$2,892,664; a decrease of (14.8%) from last year's total of \$3,395,109. Figure 5 shows the changes in fund balances during the year for the City's funds. The decrease in General Fund fund balance is due primarily to the increase in deferred tax revenue, and the increase in health insurance expenditures.

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

	2010	2011	Dollar Change	Percent Change
			2010 - 2011	2010 - 2011
General Fund	\$ 1,578,006	\$ 1,284,073	\$ (293,933)	(18.6%)
Capital Projects Fund	(1,067,789)	(1,155,336)	(87,547)	(8.2%)
Special Grant Fund	1,600,874	1,538,047	(62,827)	(3.9%)
Non-major funds:				
Water Fund	376,522	348,279	(28,243)	(7.5%)
Sewer Fund	748,657	797,742	49,085	6.6%
Recreation Fund	14,793	8,564	(6,229)	(42.1%)
Garbage Fund	86,297	26,995	(59,302)	(68.7%)
Debt Service Fund	57,749	44,300	(13,449)	(23.3%)
<b>Totals</b>	<b>\$ 3,395,109</b>	<b>\$ 2,892,664</b>	<b>\$ (502,445)</b>	<b>(14.8%)</b>

**General Fund Budgetary Highlights**

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

Resources available for appropriation were \$414,840 above the final budgeted amount. The most significant variances were related to sale of property and compensation for loss in the amount of \$197,553.

The actual charges to appropriations (expenditures) were above the final budgeted amounts by \$572,613. The most significant variance was related to employee benefits in the amount of \$607,734; medical insurance expenses exceeded appropriations by \$397,303.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of December 31, 2011, the City had \$22,527,135, net of accumulated depreciation of \$67,804,165, invested in a broad range of capital assets, including buildings, machinery and equipment, roads and bridges. This amount represents a decrease of (3.9%) from last year.

**Figure 6  
Capital Assets at Year Ending**

Historical Cost	Governmental Activities and Total Government		Dollar Change	Percent Change
	2010	2011	2010 - 2011	2010 - 2011
Land	\$ 706,860	\$ 706,860	\$ -0-	0.0%
Construction in progress	-0-	120,000	120,000	N/A
Land improvements	771,539	777,848	6,309	0.8%
Buildings	13,397,916	13,397,916	-0-	0.0%
Equipment	8,816,480	9,041,672	225,192	2.6%
Infrastructure	66,002,438	66,287,004	284,566	0.4%
<b>Totals</b>	<b>\$ 89,695,233</b>	<b>\$ 90,331,300</b>	<b>\$ 636,067</b>	<b>0.7%</b>

CITY OF FULTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

Depreciation expense during the year amounted to \$1,564,445, which increased \$31,876 from the prior year.

**Debt Administration**

Debt (bonds, BANs, loans payable, compensated absences and other postemployment benefit liabilities), considered a liability of Governmental Activities, increased by \$1,193,852, bringing total debt and long-term liabilities to \$16,162,476 as of December 31, 2011, as shown in Figure 7. Of the amount of bonds and notes outstanding, \$5,095,000 is subject to the constitutional debt limit and represented 23% of the City's statutory debt limit. The City's bond rating is currently Baa 2 from Moody's, which did not change from the prior year.

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

	<b>Governmental Activities and Total Government</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2010</b>	<b>2011</b>	<b>2010 - 2011</b>	<b>2010 - 2011</b>
<i>Serial Bonds</i>	\$ 6,405,000	\$ 5,325,000	\$ (1,080,000)	(16.9%)
<i>BANs</i>	1,826,990	1,927,190	100,200	5.5%
<i>State loans</i>	158,770	135,024	(23,746)	(15.0%)
<i>Due to retirement system</i>	-0-	323,559	323,559	100.0%
<i>Compensated absences</i>	819,704	774,163	(45,541)	(5.6%)
<i>Other postemployment benefit liabilities</i>	5,758,160	7,677,540	1,919,380	33.3%
<b>Totals</b>	<b>\$ 14,968,624</b>	<b>\$ 16,162,476</b>	<b>\$ 1,193,852</b>	<b>8.0%</b>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

- ❖ The closed New York Chocolate and Confections plant was liquidated and sold. The company that bought the plant has indicated they have a buyer for the plant. However, chocolate is not going to be made as was previously hoped. Indications are that there will be commercial development at this site but details have not yet been released.
- ❖ Six brand new single family homes have been constructed under a grant from CDA to FCRC, and two more under construction are nearly complete. The six complete homes have been sold, and the two in process have purchase offers on them.
- ❖ The City continues to try to rehabilitate tax-foreclosed properties and put them back on the tax rolls which so far have sold for more than anticipated. Reselling these properties has also helped stabilize the neighborhood.
- ❖ The City is in the process of annexing the City-owned wastewater treatment facility that is located in the Town of Granby, to reduce the current \$116,000 in property taxes, as well as any assessment increase due to current construction. The current construction is the result of the NYSDEC consent decree, and is estimated to cost \$3,200,000.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

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

CITY OF FULTON, NEW YORK  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

	Governmental Activities	Component Units	
		Fulton Public Library	Fulton Housing Authority (March 31, 2011)
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 1,341,236	\$ 83,377	\$ 136,774
Restricted cash and cash equivalents	2,289,637		
Investments			16,379
Taxes receivable, net	2,067,472		
Due from State and Federal governments	444,318		
Due from other governments	511,940		
Other receivables, net	932,453		27,653
Prepaid expenses	490,556		7,962
Loans receivable, current portion	185,734		
Total Current Assets	<u>8,263,346</u>	<u>83,377</u>	<u>188,768</u>
Noncurrent assets:			
Restricted cash and cash equivalents	98,695		
Long-term accounts receivable			433,086
Loans receivable, long-term portion	2,868,008		4,673,944
Land and construction in progress	826,860		
Capital assets, net of accumulated depreciation	21,700,275		403,030
Total Noncurrent Assets	<u>25,493,838</u>		<u>5,510,060</u>
 Total Assets	 <u>33,757,184</u>	 <u>83,377</u>	 <u>5,698,828</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	496,460		32,897
Accrued liabilities	229,163		
Due to other governments	393,418		
Due to fiduciary funds	525		
Interest payable	84,673		6,192
Overpayments	31,603		
Other liabilities	116,114		26,633
Current portion of long-term liabilities:			
BAN payable	1,927,190		
State loans payable	24,105		
Bonds payable	555,000		44,388
Due to retirement systems	27,051		
Compensated absences	21,056		
Total Current Liabilities	<u>3,906,358</u>	<u>-0-</u>	<u>110,110</u>

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK  
STATEMENT OF NET ASSETS  
(CONTINUED)  
DECEMBER 31, 2011

	Component Units		
	Governmental Activities	Fulton Public Library	Fulton Housing Authority (March 31, 2011)
Long-term Liabilities:			
State loans payable	\$ 110,919	\$	\$
Bonds payable	4,770,000		396,122
Other postemployment benefit liabilities	7,677,540		
Due to retirement systems	296,508		
Compensated absences	753,107		
Deferred revenues			5,108,008
Total Long-term Liabilities	13,608,074		5,504,130
 Total Liabilities	 17,514,432	 -0-	 5,614,240
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	15,911,775		
Restricted Net Assets:			
Restricted, expendable for community development	5,046,708		
Restricted, expendable for debt	44,300		
Restricted for various purposes		49,423	84,588
Unrestricted Net Assets	(4,760,031)	33,954	
 Total Net Assets	 \$ 16,242,752	 \$ 83,377	 \$ 84,588

CITY OF FULTON, NEW YORK  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

<b><u>FUNCTIONS/PROGRAMS</u></b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General governmental support	\$ 2,357,346	\$ 114,791	\$ 22,257	\$ _____
Education	5,000			
Public safety	11,387,174	197,859	152,551	
Public health	145,179			
Transportation	3,101,701	138,001		319,968
Economic assistance and opportunity	20,000			
Culture and recreation	1,005,076	154,083	5,079	
Home and community services	8,841,240	4,341,126	3,737,545	158,097
Interest on long-term debt	260,859			
Total Governmental Activities	\$ 27,123,575	\$ 4,945,860	\$ 3,917,432	\$ 478,065
Component Units:				
Fulton Public Library	\$ 258,176	\$ 5,303	\$ 25,940	\$ _____
Fulton Housing Authority	607,488	564,774		
Total Component Units	\$ 865,664	\$ 570,077	\$ 25,940	\$ -0-

**GENERAL REVENUES**

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

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

See Independent Auditor's Report and Notes to Financial Statements

Net (Expense) Revenue and Change in Net Assets

Primary Government	Component Units	
Total Governmental Activities	Fulton Public Library	Fulton Housing Authority
\$ (2,220,298)	\$ _____	\$ _____
(5,000)	_____	_____
(11,036,764)	_____	_____
(145,179)	_____	_____
(2,643,732)	_____	_____
(20,000)	_____	_____
(845,914)	_____	_____
(604,472)	_____	_____
(260,859)	_____	_____
(17,782,218)	_____	_____
_____	(226,933)	_____
_____	_____	(42,714)
_____	(226,933)	(42,714)
5,708,220	80,881	_____
411,156	_____	_____
6,451,951	_____	_____
130,471	6	88
495,625	_____	_____
47,086	_____	_____
_____	180,000	_____
1,693,348	_____	_____
14,937,857	260,887	88
(2,844,361)	33,954	(42,626)
19,087,113	49,423	127,214
\$ <u>16,242,752</u>	\$ <u>83,377</u>	\$ <u>84,588</u>



CITY OF FULTON, NEW YORK  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund Special Grant Fund
<b><u>ASSETS</u></b>			
Assets:			
Cash and cash equivalents - Unrestricted	\$ 751,834	\$ (185,804)	\$ 328,141
Taxes receivable, net	2,067,472		
Due from other funds	36,178	164,135	
Due from state and federal governments	124,034	109,258	211,026
Due from other governments	511,940		
Prepaid expenses	402,512		30,690
Other receivables, net	108,003		16,260
Cash and cash equivalents - Restricted	54,395	751,590	1,538,047
Loans receivable, net			3,053,742
 Total Assets	 \$ 4,056,368	 \$ 839,179	 \$ 5,177,906
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Accounts payable	\$ 278,379	\$ 45,528	\$ 39,871
Accrued liabilities	59,843		91,327
Due to other funds	316,966	21,797	
Due to fiduciary funds	525		
Due to other governments	393,418		
Bond Anticipation Notes payable		1,927,190	
Other liabilities	57,310		
Overpayments	31,603		
Deferred revenues	1,634,251		3,508,661
 Total Liabilities	 2,772,295	 1,994,515	 3,639,859
Fund Balances:			
Nonspendable	402,512		30,690
Restricted			1,507,357
Assigned	292,748		
Unassigned	588,813	(1,155,336)	
 Total Fund Balances	 1,284,073	 (1,155,336)	 1,538,047
 Total Liabilities and Fund Balances	 \$ 4,056,368	 \$ 839,179	 \$ 5,177,906

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$ 447,065	\$ 1,341,236
	<u>2,067,472</u>
<u>254,060</u>	<u>454,373</u>
	<u>444,318</u>
	<u>511,940</u>
<u>57,354</u>	<u>490,556</u>
<u>808,190</u>	<u>932,453</u>
<u>44,300</u>	<u>2,388,332</u>
	<u>3,053,742</u>
 \$ <u><u>1,610,969</u></u>	 \$ <u><u>11,684,422</u></u>
\$ 132,682	\$ 496,460
<u>77,993</u>	<u>229,163</u>
<u>115,610</u>	<u>454,373</u>
	<u>525</u>
	<u>393,418</u>
	<u>1,927,190</u>
<u>58,804</u>	<u>116,114</u>
	<u>31,603</u>
	<u>5,142,912</u>
 <u>385,089</u>	 <u>8,791,758</u>
<u>57,354</u>	<u>490,556</u>
<u>44,300</u>	<u>1,551,657</u>
<u>1,124,226</u>	<u>1,416,974</u>
	<u>(566,523)</u>
 <u>1,225,880</u>	 <u>2,892,664</u>
 \$ <u><u>1,610,969</u></u>	 \$ <u><u>11,684,422</u></u>

CITY OF FULTON, NEW YORK  
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

Total Governmental Fund Balances \$ 2,892,664

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

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

Capital assets	\$ 90,331,300	
Accumulated depreciation	<u>(67,804,165)</u>	22,527,135

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 5,142,912

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

Accrued interest payable	\$ (84,673)	
Compensated absences	<u>(774,163)</u>	(858,836)

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

Bonds payable	\$ (5,325,000)	
Due to retirement systems	(323,559)	
State loans payable	(135,024)	
Other postemployment benefit liabilities	<u>(7,677,540)</u>	<u>(13,461,123)</u>

Net Assets of Governmental Activities \$ 16,242,752

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Major Funds		
	General Fund	Capital Projects Fund	Special Revenue Fund Special Grant Fund
<b><u>REVENUES</u></b>			
Real property taxes	\$ 5,705,062	\$	\$
Real property tax items	411,156		
Nonproperty tax items	6,451,951		
Departmental income	135,814		201,446
Intergovernmental charges	234,335		
Use of money and property	92,063		31,777
Licenses and permits	67,170		
Fines and forfeitures	123,357		
Sale of property and compensation for loss	432,957		
Miscellaneous local sources	27,012	14,147	67,316
State sources	1,847,903	478,065	44,790
Federal sources	25,332		3,692,755
Total Revenues	<u>15,554,112</u>	<u>492,212</u>	<u>4,038,084</u>
<b><u>EXPENDITURES</u></b>			
Current:			
General governmental support	1,528,248		
Education	5,000		
Public safety	6,423,701		
Health	145,179		
Transportation	1,810,320		
Economic assistance and opportunity	20,000		
Culture and recreation	671,191		
Home and community services	86,351		4,100,911
Employee benefits	4,728,457		
Debt Service:			
Principal	523,738		
Interest	159,059		
Capital outlay		724,559	
Total Expenditures	<u>16,101,244</u>	<u>724,559</u>	<u>4,100,911</u>
Excess of (Expenditures) Revenues	<u>(547,132)</u>	<u>(232,347)</u>	<u>(62,827)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>			
Interfund transfers in	5,000	10,000	
Interfund transfers (out)	(10,000)		
BANs redeemed from appropriations		134,800	
Proceeds from obligation	258,199		
Total Other Financing Sources (Uses)	<u>253,199</u>	<u>144,800</u>	<u>-0-</u>
Net Changes in Fund Balances	<u>(293,933)</u>	<u>(87,547)</u>	<u>(62,827)</u>
Fund Balances, Beginning	1,578,006	(1,067,789)	1,600,874
Fund Balances, Ending	<u>\$ 1,284,073</u>	<u>\$ (1,155,336)</u>	<u>\$ 1,538,047</u>

See Independent Auditor's Report and Notes to Financial Statements

Non-Major Governmental Funds	Total Governmental Funds
\$	\$
	5,705,062
	411,156
	6,451,951
4,302,985	4,640,245
	234,335
7,656	131,496
2,210	69,380
	123,357
18,283	451,240
18,460	126,935
	2,370,758
	3,718,087
4,349,594	24,434,002
122,682	1,650,930
	5,000
	6,423,701
	145,179
	1,810,320
	20,000
54,529	725,720
2,585,543	6,772,805
876,242	5,604,699
714,808	1,238,546
114,288	273,347
	724,559
4,468,092	25,394,806
(118,498)	(960,804)
10,000	25,000
(15,000)	(25,000)
	134,800
65,360	323,559
60,360	458,359
(58,138)	(502,445)
1,284,018	3,395,109
\$ 1,225,880	\$ 2,892,664

CITY OF FULTON, NEW YORK  
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (502,445)

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

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

Capital outlay	\$ 656,920	
Depreciation expense	<u>(1,564,445)</u>	(907,525)

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. This is the change in deferred revenue from the prior year. (353,227)

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

Debt principal payments, net of redemptions 1,103,746

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

Net change in accrued interest payable	\$ 12,488	
Net change in other postemployment benefit liabilities	(1,919,380)	
Net change in compensated absences	45,541	
Amounts due to employee retirement systems	<u>(323,559)</u>	<u>(2,184,910)</u>

Change in Net Assets of Governmental Activities \$ (2,844,361)

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
DECEMBER 31, 2011

	Agency Funds
<b><u>ASSETS</u></b>	
Cash:	
Unrestricted	\$ <u>162,428</u>
Restricted	
Due from Governmental Funds	<u>525</u>
Total Assets	<u>\$ 162,953</u>
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ <u>12,686</u>
Other liabilities	<u>150,267</u>
Total Liabilities	<u>\$ 162,953</u>

See Independent Auditor's Report and Notes to Financial Statements

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

1. Discretely Presented Component Units

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

a) Fulton Public Library

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

b) Fulton Housing Authority

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



CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

**B. Basic Financial Statements**

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

**1. Government-wide Statements**

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

In the Government-wide Statement of Net Assets, the Governmental Activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

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

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

**2. Governmental Fund Financial Statements**

The financial transactions of the City are reported in individual funds in the Governmental Fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

The City records its transactions in the funds described below:

a. Governmental Funds

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

1) Major Funds:

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

Special Revenue Fund:

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

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

2) Non-Major Funds:

Special Revenue Funds:

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

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

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

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

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

b. Fiduciary Fund Types

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

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

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

C. Basis of Accounting/Measurement Focus

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

1. Accrual Basis

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

2. Modified Accrual Basis

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

D. Property Taxes

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

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

E. Cash and Cash Equivalents

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

F. Investments

Investments are stated at fair value.

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

G. Receivables

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

H. Capital Assets

All capital assets are valued at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the estimated useful lives of the assets. Governmental capital assets purchased or acquired with an original cost of at least \$1,000 and having a useful life of greater than one year are capitalized. The estimated useful lives for governmental capital assets are as follows:

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

I. Insurance and Risk Management

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

J. Vacation, Sick Leave, and Compensatory Absences

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

K. Other Postemployment Benefits

In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors, in accordance with employee contracts. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivor benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance premiums as expenditures in the year paid.

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

L. Equity Classifications

1. Government-wide Financial Statements

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

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

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

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

2. Governmental Fund Financial Statements

In the year ending December 31, 2011, the City implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 changes the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's net resources.

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

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

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

M. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between Governmental or Proprietary Funds are netted as part of the reconciliation to the Government-wide financial statements.

N. Revenues

Substantially all Governmental Fund revenues are accrued. Property tax receivables expected to be received later than 60 days after year end are deferred. In applying GASB Statement Number 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

O. Restricted Resources

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

P. Use of Estimates

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

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 2 - Detail Notes

A. Assets

1. Cash and Investments

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

Collateral is required for demand and time deposits and certificates of deposit at 105% of all deposits not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the Federal government. Underlying securities must have a market value of at least 105% of the cost of the repurchase agreement.

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

The City's aggregate bank balances of \$4,020,829 are either insured or collateralized with securities held by the pledging financial institution in the City's name.

Restricted Cash

Restricted cash is composed of \$50,120 reserved for a Police Forfeiture Fund, \$4,275 reserved for Playground and Skateboard Park Funds, \$751,590 restricted for capital project expenditures, \$1,538,047 restricted for Special Grants, and \$44,300 restricted for debt service.

2. Property Taxes

At December 31, 2011, the total real property taxes receivable of \$2,807,131 is offset by an allowance for uncollectible taxes of \$739,659, deferred tax revenue of \$1,634,251, and amounts due to Fulton City School District of \$367,429.

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

3. Other Receivables

	Description	Amount
General Fund	Assessments	\$ 8,968
	Utilities gross receipts taxes	65,662
	Reimbursement of expenses	26,060
	Clerk Fees	7,313
Total General Fund		108,003
Special Grant Fund	Fees	16,260
Water Fund	Rents	220,670
Sewer Fund	Rents	459,817
Garbage Fund	Fees	127,703
Total Governmental Activities		\$ 932,453

4. Capital Assets

A summary of changes in capital assets at December 31, 2011 follows:

	Balance at 12/31/10	Additions	Deletions	Balance at 12/31/11
<u>Governmental Activities:</u>				
Non-depreciable Capital Assets:				
Land	\$ 706,860	\$	\$	\$ 706,860
Construction in process		120,000		120,000
Total Non-depreciable Capital Assets	706,860	120,000	-0-	826,860
Depreciable Capital Assets:				
Buildings	13,397,916			13,397,916
Land improvements	771,539	6,309		777,848
Machinery and equipment	8,816,480	246,045	(20,853)	9,041,672
Infrastructure	66,002,438	284,566		66,287,004
Total Depreciable Capital Assets	88,988,373	536,920	(20,853)	89,504,440
Total Historical Cost	89,695,233	656,920	(20,853)	90,331,300
Less Accumulated Depreciation:				
Buildings	(7,039,008)	(323,643)		(7,362,651)
Land Improvements	(340,790)	(59,508)		(400,298)
Machinery and equipment	(5,750,548)	(515,814)	20,853	(6,245,509)
Infrastructure	(53,130,227)	(665,480)		(53,795,707)
Total Accumulated Depreciation	(66,260,573)	(1,564,445)	20,853	(67,804,165)
Governmental Activities Capital Assets, Net	\$ 23,434,660	\$ (907,525)	\$ -0-	\$ 22,527,135



CITY OF FULTON, NEW YORK  
 NOTES TO FINANCIAL STATEMENTS  
 (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

Depreciation expense was charged to functions as follows:

<u>Governmental Activities:</u>	
General governmental support	\$ 111,144
Public safety	147,982
Transportation	504,430
Culture and recreation	76,588
Home and community services	<u>724,301</u>
Total Governmental Activities Depreciation Expense	<u>\$ 1,564,445</u>

B. Liabilities

1. Pension Plans

The City participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS), and the Public Employees' Group Life Insurance Plan (Systems).

These are cost-sharing multiple-employer defined benefit retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Employees in the System more than ten years are no longer required to contribute. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the Pension Accumulation Fund.

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

	ERS	PFRS
2011	\$ 544,792	\$ 1,234,814
2010	390,210	871,574
2009	266,784	735,842

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

The City's contributions made to the Systems were equal to 100% of the contributions required for each year. In 2011, the City was authorized under Chapter 57 of the Laws of 2010 to amortize a portion of its contribution. The City elected to amortize \$155,212 of its ERS contribution and \$168,347 of its PFRS contribution. These amounts will be paid over a 10 year repayment, with interest accumulating at 3.75%.

2. Other Postemployment Benefit Liabilities

The City has adopted GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Other Postemployment Benefits (OPEB) Other than Pensions." In the past, the City reported the cost of retiree health care on a "pay-as-you-go" basis. An actuarial valuation of the City Retiree Medical Plan (Plan) was performed as of January 1, 2009 for the fiscal years ending December 31, 2009, 2010, and 2011.

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

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

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

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

Normal cost	\$	1,084,374
Amortization of Unfunded Actuarial Accrued Liability (UAAL)		<u>2,015,740</u>
Total Annual Required Contribution		3,100,114
Adjustment to annual required contribution		<u>-0-</u>
Annual OPEB Cost (Expense)		3,100,114
Expected employer contributions		<u>(1,180,734)</u>
Increase in Net OPEB Obligation		1,919,380
 Net OPEB Obligation - December 31, 2010		 <u>5,758,160</u>
 Net OPEB Obligation - December 31, 2011		 <u>\$ 7,677,540</u>

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/11	\$ <u>3,100,114</u>	38.1%	\$ <u>7,677,540</u>
12/31/10	\$ <u>3,100,114</u>	38.1%	\$ <u>5,758,160</u>
12/31/09	\$ <u>3,100,114</u>	38.1%	\$ <u>3,838,780</u>

Funded Status and Funding Progress - As of December 31, 2011 the Plan was not funded. The actuarial accrued liability for benefits was \$34,856,713, as there are no assets legally segregated for the Plan. The covered payroll (annual payroll of active employees covered by the Plan) was \$9,478,633 and the ratio of the UAAL to the covered payroll was 367.7%.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding funded status of the Plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. Under this method, each participant's projected benefit is calculated at all possible ages based on the Plan provisions as well as the initial data and actuarial assumptions. The actuarial assumptions included an initial annual healthcare cost trend rate of 9%, reduced by decrements to an ultimate rate of 5% after twenty years. The discount rate used as of January 1, 2009 was 4% per year compounded annually. This is the rate used to discount future benefit liabilities into today's dollars.

3. Short-term Debt

Bond Anticipation Notes (BANs)

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

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

The City's outstanding BAN in the amount of \$1,927,190 will mature November 30, 2012, with interest of 1.10% payable at maturity.

4. Long-term Debt

At December 31, 2011, the total outstanding indebtedness of the City aggregated \$7,387,214. Of this amount, \$5,095,000 was subject to the constitutional debt limit and represented approximately 23% of its debt limit.

a. Serial Bonds and Notes

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

The following is a summary of bonds outstanding at December 31, 2011 with corresponding maturity schedules:

<u>Description of Issue</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Final Maturity</u>	<u>Balance Outstanding</u>
All Purpose	1993	\$ 2,815,000	5.38%	2012	\$ 50,000
All Purpose	1997	3,805,000	4.85%	2016	375,000
NYS EFC Advanced:					
Refunding Bonds	1998	746,700	2.65-5.2%	2017	230,000
Various Capital Projects	2004	948,422	4.25-4.5%	2014	330,000
Snow Plows	2006	121,000	5.2%	2016	75,000
Various Capital Projects	2006	5,473,081	4.1%	2023	<u>4,265,000</u>
Total					<u>\$ 5,325,000</u>

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

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

b. Other Long-term Obligations

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

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

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

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

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

c. Changes in Indebtedness

The following is a summary of changes in the City's indebtedness for the year ended December 31, 2011.

	<u>Balance</u> <u>12/31/10</u>	<u>New</u> <u>Issues/</u> <u>Additions</u>	<u>Maturities/</u> <u>Payments</u>	<u>Balance</u> <u>12/31/11</u>	<u>Amount</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
BANs	\$ 1,826,990	\$ 1,927,190	\$ (1,826,990)	\$ 1,927,190	\$ 1,927,190
General obligation bonds	<u>6,405,000</u>		<u>(1,080,000)</u>	<u>5,325,000</u>	<u>555,000</u>
Total Long-Term Debt	8,231,990	1,927,190	(2,906,990)	7,252,190	2,482,190
<u>Other Long-term Obligations:</u>					
Compensated absences	819,704		(45,541)	774,163	21,056
State loans	158,770		(23,746)	135,024	24,105
Due to retirement systems		323,559		323,559	27,051
Other postemployment benefit liabilities	<u>5,758,160</u>	<u>3,100,114</u>	<u>(1,180,734)</u>	<u>7,677,540</u>	
Total Other Long-term Liabilities	<u>6,736,634</u>	<u>3,423,673</u>	<u>(1,250,021)</u>	<u>8,910,286</u>	<u>72,212</u>
Total Indebtedness - Governmental Activities	<u>\$ 14,968,624</u>	<u>\$ 5,350,863</u>	<u>\$ (4,157,011)</u>	<u>\$ 16,162,476</u>	<u>\$ 2,554,402</u>

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

d. Debt Maturity Schedule

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

Year	Bonds Principal	Bonds Interest	State Loans	State Loans Interest	Due to Retirement Systems Principal	Due to Retirement Systems Interest	Total
2012	\$ 555,000	\$ 213,746	\$ 24,105	\$ 2,073	\$ 27,051	\$ 12,345	\$ 834,320
2013	520,000	192,087	24,471	1,707	28,084	11,312	777,661
2014	545,000	170,923	24,844	1,334	29,156	10,240	781,497
2015	445,000	148,809	25,316	954	30,268	9,128	659,475
2016	460,000	131,172	25,611	567	31,422	7,974	656,746
2017-2021	1,930,000	417,124	10,677	234	177,578	20,945	2,556,558
2022-2023	870,000	53,915					923,915
<b>Total</b>	<b>\$ 5,325,000</b>	<b>\$ 1,327,776</b>	<b>\$ 135,024</b>	<b>\$ 6,869</b>	<b>\$ 323,559</b>	<b>\$ 71,944</b>	<b>\$ 7,190,172</b>

Interest expense on long-term debt for fiscal year 2011 was as follows:

Interest paid (expenditure)	\$ 273,347
Add accrued interest at December 31, 2011	84,673
Less accrued interest at December 31, 2010	(97,161)
Interest expense	<u>\$ 260,859</u>

C. Interfund Receivables and Payables

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

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

Interfund receivable and payable balances at December 31, 2011 are as follows:

	Interfund Receivables	Interfund Payables	Interfund Transfer Revenue	Interfund Transfer Expense
General Fund	\$ 36,178	\$ 317,491	\$ 5,000	\$ 10,000
Special Grant Fund				
Capital Projects Fund	164,135	21,797	10,000	
Non-Major Governmental Funds	<u>254,060</u>	<u>115,610</u>	<u>10,000</u>	<u>15,000</u>
Total Governmental Activities	454,373	454,898	25,000	25,000
Fiduciary Funds	<u>525</u>			
<b>Total</b>	<b>\$ 454,898</b>	<b>\$ 454,898</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>

CITY OF FULTON, NEW YORK  
NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

D. Fund Equity

Reserves

The reserve for other purposes in the General Fund includes:

- Police Forfeiture Fund - Forfeiture of crime proceeds of \$50,120 received pursuant to court proceedings and used in law enforcement and prosecution purposes.
- Playground/Skateboard Funds - Gifts and donations of \$364 for use on playground equipment at the parks.

Note 3 - Stewardship, Compliance, Accountability

A. Deficit Fund Balance

The Capital Projects Fund reported a deficit fund balance of \$(1,155,336) as of December 31, 2011. This deficit will be eliminated when short-term financing is converted to general obligation bonds.

Note 4 - Departures from Generally Accepted Accounting Principles

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

Note 5 - Contingencies

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

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

In early April of 2011, the Pinnacle Foods Group LLC owner of the Birdseye plant in Fulton announced closing of its operations by December 31, 2011. The plant employs 265 people and it is the sixth largest taxpayer in the City. Closing of the plant will have significant impact on the City's employees and the operation of the industrial pretreatment program. As of December 31, 2011, there was no buyer anticipated to purchase the plant.

In August of 2010, the City signed a consent order with the Department of Environmental Conservation (DEC) to upgrade the sewer facility's grit remover and digester mixing systems. In June 2011, the City's consulting engineers estimated the cost of this facility upgrade at approximately \$3,284,400. In November of 2011, a modified consent order was signed with the DEC to extend current due date of the original consent order to July 27, 2016. In addition, the 5 year interval for cleaning the facility's digester was reduced to 3 years upon completion of the facility upgrade, with the first required cleaning to be completed by October 31, 2012. On June 7, 2011, the Common Council of the City approved borrowing \$3,500,000 for water pollution control improvements; the bonds have not been issued as of December 31, 2011.

CITY OF FULTON, NEW YORK  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND - NON-GAAP BUDGET BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget
<b><u>REVENUES</u></b>		
Real property taxes	\$ 5,609,920	\$ 5,620,562
Real property tax items	381,673	381,673
Nonproperty tax items	6,391,960	6,391,960
Departmental income	142,200	142,200
Intergovernmental charges	237,625	237,625
Use of money and property	89,500	89,500
Licenses and permits	37,700	37,700
Fines and forfeitures	106,000	106,000
Sale of property and compensation for loss	15,500	235,404
Miscellaneous local sources	1,300	2,400
State sources	1,894,248	1,894,248
Federal sources		
Total Revenues	14,907,626	15,139,272
<b><u>EXPENDITURES</u></b>		
Current:		
General governmental support	1,548,592	1,537,194
Education	5,000	5,548
Public safety	6,446,456	6,456,383
Health	145,879	145,879
Transportation	1,751,040	1,753,190
Economic assistance and opportunity	20,500	20,500
Culture and recreation	525,557	705,557
Home and community services	101,506	101,504
Employee benefits	3,903,837	4,120,723
Debt service (principal and interest)	684,901	684,901
Total Expenditures	15,133,268	15,531,379
Excess of (Expenditures)	(225,642)	(392,107)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>		
Interfund transfers in	5,000	5,000
Interfund transfers (out)	(180,000)	(10,000)
Proceeds from obligation		
Total Other Financing Sources (Uses)	(175,000)	(5,000)
Excess of (Expenditures) and Other (Uses) Over Revenues and Other Financing Sources	(400,642)	(397,107)
Appropriated Fund Balance	400,642	397,107
Net Change in Fund Balance	\$ -0-	\$ -0-
Fund Balance Beginning		
Fund Balance Ending		

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



<u>Actual</u>	<u>Encumbrances</u>	<u>Variance</u>
\$ 5,705,062	\$	\$ 84,500
411,156		29,483
6,451,951		59,991
135,814		(6,386)
234,335		(3,290)
92,063		2,563
67,170		29,470
123,357		17,357
432,957		197,553
27,012		24,612
1,847,903		(46,345)
25,332		25,332
15,554,112	-0-	414,840
1,528,248	752	8,194
5,000	718	(170)
6,423,701	1,280	31,402
145,179		700
1,810,320		(57,130)
20,000		500
671,191	(2)	34,368
86,351		15,153
4,728,457		(607,734)
682,797		2,104
16,101,244	2,748	(572,613)
(547,132)	(2,748)	(157,773)
5,000		
(10,000)		
258,199		258,199
253,199	-0-	258,199
(293,933)	\$ (2,748)	\$ 100,426
(293,933)		
1,578,006		
\$ 1,284,073		

CITY OF FULTON, NEW YORK  
SCHEDULE OF FUNDING PROGRESS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2011	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,478,633</u>	367.7%
12/31/2010	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,489,200</u>	367.3%
12/31/2009	\$ <u>-0-</u>	\$ <u>34,856,713</u>	\$ <u>34,856,713</u>	0.0%	\$ <u>9,167,960</u>	380.2%

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

CITY OF FULTON, NEW YORK  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1 - Budget Basis of Accounting

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

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

Note 2 - Budget Policies

The budget policies are as follows:

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

General Fund  
Special Revenue Funds (Water and Sewer Funds)

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

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

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

No adjustment is necessary to convert the General Fund's excess of revenues and other sources over expenditures and other uses on the GAAP basis to the budget basis, as a separate column for encumbrances outstanding is reported at December 31, 2011.

CITY OF FULTON, NEW YORK  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
(CONTINUED)  
DECEMBER 31, 2011

Note 4 - Stewardship, Compliance, and Accountability

A. Over-expended Appropriations

The following functions were over-expended in the General Fund:

	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Encumbrances</u>	<u>Over-expended</u>
Education	\$ 5,548	\$ 5,000	\$ 718	\$ (170)
Transportation	1,753,190	1,810,320		(57,130)
Employee benefits	4,120,723	4,728,457		(607,734)
 Total General Fund	 15,531,379	 16,101,244	 2,748	 (572,613)

Note 5 - Schedule of Funding Progress

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

CITY OF FULTON, NEW YORK  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	Special Revenue Funds	
	Water Fund	Recreation Fund
<b><u>ASSETS</u></b>		
Assets:		
Cash and cash equivalents - Unrestricted	\$ 201,571	\$ 8,970
Due from other funds	15,266	
Prepaid expenses	24,366	
Other receivables, net	220,670	
Restricted cash and cash equivalents		
 Total Assets	 \$ 461,873	 \$ 8,970
 <b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities:		
Accounts payable	\$ 33,038	\$ 22
Accrued liabilities	34,432	
Due to other funds	15,825	384
Other liabilities	30,299	
 Total Liabilities	 113,594	 406
 Fund Balances - Unreserved, Reported in:		
Nonspendable	24,366	
Restricted		
Assigned	323,913	8,564
 Total Fund Balances	 348,279	 8,564
 Total Liabilities and Fund Balances	 \$ 461,873	 \$ 8,970

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 266,569	\$ (43,512)	\$ 13,467	\$ 447,065
231,198	6,063	1,533	254,060
22,160	10,828		57,354
459,817	127,703		808,190
		44,300	44,300
<u>\$ 979,744</u>	<u>\$ 101,082</u>	<u>\$ 59,300</u>	<u>\$ 1,610,969</u>
\$ 77,350	\$ 22,272	\$	\$ 132,682
8,193	35,368		77,993
67,954	16,447	15,000	115,610
28,505			58,804
182,002	74,087	15,000	385,089
22,160	10,828		57,354
		44,300	44,300
775,582	16,167		1,124,226
797,742	26,995	44,300	1,225,880
<u>\$ 979,744</u>	<u>\$ 101,082</u>	<u>\$ 59,300</u>	<u>\$ 1,610,969</u>

CITY OF FULTON, NEW YORK  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Special Revenue Funds	
	Water Fund	Recreation Fund
<b><u>REVENUES</u></b>		
Departmental income	\$ 1,384,997	\$ 47,267
Use of money and property	4,980	1,025
Licenses and permits	7,250	
Sale of property and compensation for loss	3,247	8
Miscellaneous local sources	1,400,474	48,300
Total Revenues		
<b><u>EXPENDITURES</u></b>		
Current:		
General governmental support	5,797	
Culture and recreation	871,102	54,529
Home and community services	319,603	
Employee benefits	183,140	
Debt Service:		
Principal	81,842	
Interest	1,461,484	54,529
Total Expenditures		
Excess of (Expenditures) Revenues	(61,010)	(6,229)
<b><u>OTHER FINANCING SOURCES (USES)</u></b>		
Interfund transfers in	5,000	
Interfund transfers (out)	27,767	
Proceeds from obligation	32,767	-0-
Total Other Financing Sources (Uses)		
Excess of (Expenditures) and Other (Uses) Over Revenues and Other Financing Sources	(28,243)	(6,229)
Fund Balances, Beginning	376,522	14,793
Fund Balances, Ending	\$ 348,279	\$ 8,564

See Independent Auditor's Report

Special Revenue Funds		Debt Service Fund	Total Non-Major Governmental Funds
Sewer Fund	Garbage Fund		
\$ 2,163,658	\$ 707,063	\$	\$ 4,302,985
100		1,551	7,656
2,210			2,210
	11,033		18,283
333	14,872		18,460
2,166,301	732,968	1,551	4,349,594
116,885			122,682
			54,529
1,134,763	579,678		2,585,543
339,801	216,838		876,242
526,920	4,748		714,808
29,100	3,346		114,288
2,147,469	804,610	-0-	4,468,092
18,832	(71,642)	1,551	(118,498)
5,000			10,000
		(15,000)	(15,000)
25,253	12,340		65,360
30,253	12,340	(15,000)	60,360
49,085	(59,302)	(13,449)	(58,138)
748,657	86,297	57,749	1,284,018
\$ 797,742	\$ 26,995	\$ 44,300	\$ 1,225,880



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Frederick J. Ciaschi, C.P.A.

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

Common Council  
City of Fulton  
Fulton, New York

We have audited the financial statements of the governmental activities, each major fund, the discretely presented component units, and the aggregate remaining fund information of the City of Fulton (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 13, 2012. We did not audit the financial statements of the Fulton Housing Authority, a discretely presented component unit. Those financial statements were audited by other auditors; however, that audit was not conducted in accordance with *Government Auditing Standards*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as 09-1, 09-2, and 11-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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### Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated September 13, 2012.

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

This report is intended solely for the information of the Common Council, management, and regulatory agencies, is not intended to be, and should not be used by anyone other than these specified parties.

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

September 13, 2012  
Ithaca, New York

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Frederick J. Ciaschi, C.P.A.

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

Common Council  
City of Fulton  
Fulton, New York

Compliance

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

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Fulton's compliance with those requirements.

In our opinion, the City of Fulton complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the City of Fulton is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Fulton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

This report is intended solely for the information of the Common Council, management, and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Cianchi, D'Andrea, Little, Middleman, & Company, LLP*

September 13, 2012

Ithaca, New York

CITY OF FULTON, NEW YORK  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal Catalog No.</u>	<u>Pass-Through Grantor No.</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Program:			
Section 8 Housing Choice Vouchers	14.871	N/A - Direct	\$ 2,137,545
Community Development Block Grant - Program Income	14.219	N/A - Direct	349,161
Passed Through NYS Division on Housing and Community Renewal:			
Home Investment Partnerships Program	14.239	Not available	120,072
Passed Through Governor's Office for Small Cities:			
Community Development Block Grant - State's Program	14.228	430-C-115-05	25,457
Community Development Block Grant - State's Program	14.228	430-C-089-06	12,823
Community Development Block Grant - State's Program	14.228	430-C-051-08	33,095
Community Development Block Grant - State's Program	14.228	430PR136-09	92,478
Community Development Block Grant - State's Program	14.228	430HO141-09	105,356
Community Development Block Grant - State's Program	14.228	430HO033-10	<u>219,626</u>
Total U. S. Department of Housing and Urban Development			<u>3,095,613</u>
<u>U.S. Department of Transportation</u>			
Passed Through NYS Department of Transportation:			
State and Community Highway Safety	20.600	PT-3801092	13,607
State and Community Highway Safety	20.600	PT-3801101	3,000
Occupant Protection Incentive Grants	20.602	PT-3801101	<u>8,726</u>
Total U.S. Department of Transportation			<u>25,333</u>
<u>U.S. Department of Energy</u>			
Passed Through NYS Division of Housing and Community Renewal:			
Weatherization Assistance for Low-Income Persons	81.042	C091053	133,534
Weatherization Assistance for Low-Income Persons - Recovery Act	81.042	C092253	<u>539,549</u>
Total U.S. Department of Energy			<u>673,083</u>
<u>U.S. Department of Health &amp; Human Services</u>			
Passed Through NYS Division of Housing and Community Renewal:			
Low-Income Home Energy Assistance	93.568	C091053	<u>248,472</u>
Total U.S. Department of Health and Human Services			<u>248,472</u>
Total Expenditures of Federal Awards			<u>\$ 4,042,501</u>

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

CITY OF FULTON, NEW YORK  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Note 1 - Basis of Presentation

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

Note 2 - Basis of Accounting

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

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

Note 3 - Indirect Costs

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

Note 4 - Program Income

The City received \$231,058 in program income from their Community Development Block Grant - Small Cities Program for the fiscal year ended December 31, 2011. The program income is comprised of principal and interest received on outstanding rehabilitation loans.

CITY OF FULTON, NEW YORK  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

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

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

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

Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?  yes  no

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee:  yes  no

CITY OF FULTON, NEW YORK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Section II - Financial Statement Findings:**

09-1 Detailed Fixed Asset Listing

Condition:

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

Criteria:

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

Effect:

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

Recommendation:

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

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

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

City Response:

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



CITY OF FULTON, NEW YORK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

09-2 Bank Reconciliations

Condition:

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

Criteria:

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

Effect:

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

Recommendation:

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

City Response:

The City will more completely document information needed to reconcile bank statements on a monthly basis.

10-1 Overexpenditure of General Fund Budget

Condition:

General Municipal Law requires the City adopt a budget for each fiscal year, and also requires expenditures be within the adopted budget. The City can modify the budget if needed for unforeseen expenditures or circumstances. The City overspent its budget in several functional areas; overall, the General Fund budget was overspent by \$572,613 in 2011 and \$598,484 in 2010.

Criteria:

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

Effect:

Continued overspending will result in a negative fund balance. The total fund balance of the General Fund decreased from \$2,908,861 to \$1,578,006 from December 31, 2009 to 2010, and declined further, to \$1,284,073 during 2011.

Recommendation:

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

City Response:

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

CITY OF FULTON, NEW YORK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2011

11-1 Other Postemployment Benefits

Condition:

GASB Statement 45 requires the City to have its other postemployment benefits liability actuarially determined and reported in the City's government-wide financial statements. The Statement requires this liability be measured on a biennial basis, unless the City's plan has fewer than 200 participants; in that case, the measurement can be done triennially. The City's Plan has greater than 200 participants, thus requiring a biennial actuarial determination.

The City's plan was originally measured as of January 1, 2009, for the 2009 and 2010 years. However, the City did not have the plan measured as of January 1, 2011, as required by the Statement.

Effect:

Without measurement in accordance with the Statement, it is uncertain whether the proper liability has been reported. While it appears the misstatement is not material, this cannot be determined for certain. In addition, changes the City makes in its plan are not included in the measurements, unless the actuarial liability is remeasured.

Recommendation:

We recommend that the City have an actuarial determination of its other postemployment benefits liability measured, and this measurement be done in accordance with GASB Statement 45.

City Response:

The City will contract with an actuary to complete the required analysis.

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

None