TOWN OF POUGHKEEPSIE, NEW YORK
FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2012

TOWN OF POUGHKEEPSIE, NEW YORK
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DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of December 31, 2012, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, and Other Post Employment Benefit Plan Schedule of Funding Progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Poughkeepsie, New York's basic financial statements. The Schedule of Expenditures of Federal Awards, Schedule of Expenditures of New York State Transportation Assistance, and Schedule of Findings, Questioned Costs and Recommendations and Town of Poughkeepsie Responses to Audit Findings, Questioned Costs and Recommendations, are 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 basic financial statements.

The Schedule of Expenditures of Federal Awards, Schedule of Expenditures of New York State Transportation Assistance, and Schedule of Findings, Questioned Costs, Recommendations, and Town of Poughkeepsie Responses to Audit Findings, Questioned Costs and Recommendations, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, Schedule of Expenditures of New York State Transportation Assistance, and Schedule of Findings, Questioned Costs, Recommendations and Town of Poughkeepsie Responses to Audit Findings, Questioned Costs and Recommendations, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013, on our consideration of the Town of Poughkeepsie, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Poughkeepsie, New York's internal control over financial reporting and compliance.

Sedore & Company, CPA's

Poughkeepsie, New York
September 26, 2013

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

To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town of Poughkeepsie, New York's basic financial statements and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Poughkeepsie, New York's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Poughkeepsie, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Poughkeepsie, New York's internal control.

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Finding 1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies (Finding 2 and 3).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Poughkeepsie, New York's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance. We have identified other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs. (Findings 4 through 10).

Town of Poughkeepsie, New York's Response to Findings

The Town of Poughkeepsie, New York's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Poughkeepsie, New York's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sedon & Company, CPA's

Poughkeepsie, New York
September 26, 2013

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

To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

Report on Compliance for Each Major Federal Program

We have audited the Town of Poughkeepsie, New York's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Poughkeepsie, New York's major federal programs for the year ended December 31, 2012. The Town of Poughkeepsie, New York's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Town of Poughkeepsie, New York, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Poughkeepsie, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Poughkeepsie, New York's internal control over compliance.

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sedon & Company, CPA's

Poughkeepsie, New York
September 26, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND CONTROLS OVER STATE TRANSPORTATION ASSISTANCE EXPENDED BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

Report on Compliance for Each State Program

We have audited the Town of Poughkeepsie, New York's compliance with the types of compliance requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that could have a direct and material effect on each of the Town of Poughkeepsie, New York's state transportation assistance programs for the year ended December 31, 2012. The Town of Poughkeepsie, New York's state transportation assistance programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state transportation assistance programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Poughkeepsie, New York's state transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Draft Part 43 of NYCRR. Those standards and draft Part 43 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on state transportation assistance programs tested, has occurred. An audit includes examining, on a test basis, evidence about the Town of Poughkeepsie, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each State Program

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

Report on Internal Control Over Compliance

Management of the Town of Poughkeepsie, New York, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Poughkeepsie, New York's internal control over compliance with the types of requirements that could have a direct and material effect on each of its state transportation assistance programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion and to test and report on internal control over compliance in accordance with Draft Part 43 of NYCRR, 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 Town of Poughkeepsie, New York's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state transportation assistance 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 state transportation assistance program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state transportation assistance program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Draft Part 43 of NYCRR. Accordingly, this report is not suitable for any other purpose.

Sedore & Company, CPA's

Poughkeepsie, New York
September 26, 2013

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TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012
(UN-AUDITED)

As the management of the Town of Poughkeepsie, Dutchess County, New York, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2012. This discussion and analysis should be read in conjunction with the financial statements and the accompanying notes to the statements that begin on page 18.

The Basic Financial Statements consist of a series of inter-related financial statements. The Statement of Net Position and Statement of Activities (on pages 21 and 22) provide information about the activities of the Town as a whole, presenting both short-term and longer-term views of the Town's finances. For governmental activities, the Town's traditional fund financial statements (beginning on page 23) tell the reader how Town provided services and programs were financed in 2012, as well as what resources is available for future spending. Fund financial statements report on the Town's operations in greater detail than the government-wide statements, and concentrate on the Town's most significant funds (identified as "major" funds), with less significant or "non-major" funds accumulated for presentation in one column. Fiduciary fund statements provide information about financial activities for which the Town acts solely as trustee or agent for the benefit of organizations or persons outside of the Town government.

Reporting on the Town as an Entity:
The Statement of Net Position and the Statement of Activities

The Statement of Net Position shows assets and liabilities of the Town as a whole, with the difference between Assets and Liabilities reported as Net Position. The Statement of Activities presents financial information as to how the Town's Net Position changed during the fiscal year, with all changes being reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Over time, increases or decreases in the Town's Net Position are one indicator of whether its "financial health" is strengthening or deteriorating. These statements are inclusive of all Town's basic services including police, public works/highway, parks and recreation.

Reporting the Town's Most Significant Funds:
Fund Financial Statements

The Fund Financial Statements provide detailed financial information about the most significant funds of the Town, not the Town as a whole. Some funds (most notably the General and Highway funds) are established as required by State law, while other funds are established at the Town's discretion to help it account for and manage money for specific purposes. All of the Town's funds are classified as the Governmental Funds which focus on near-term inflows and outflows of spend-able resources, and on balances of spend-able resources still available at the end of the fiscal year. This measurement focus is known as the modified accrual basis of accounting.

Financial information is presented separately in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Town's General Fund and Highway Fund. Financial information for all other Governmental Funds is combined into a single-aggregated presentation.

Compliance with the Original and Final Operating budget for the Town's major funds is reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual.

In that the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information provided in each. The reader may then better understand the long-term impacts of the Town's near-term financing decisions. The reconciliation of the Fund Balances to the Net Position of Governmental Activities provided in the Governmental Funds Balance Sheet, and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Governmental Fund Balances to the Statement of Activities facilitate the comparison between Governmental Activities.

Reporting the Town's Fiduciary Responsibilities:
The Town as Trustee

Fiduciary Funds are not reported in the government-wide financial statements in that the resources of those funds are not available to support the Town's services and programs. The Town is responsible for ensuring that the assets reported in these funds are utilized for their intended purpose. The Town's fiduciary activities are reported in the Statement of Fiduciary Net Position (on page 27), and are prepared using the full accrual basis of accounting.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements (beginning on page 28) provide additional information essential to a clear understanding of the financial information provided in the government-wide and fund financial statements.

The Town as a Whole
Governmental Activities

Statement of Net Position

For the fiscal year ended December 31, 2012, Net Position changed as noted below, with the total $4,924,699 increase representing a 16.83% increase in Net Position.

Beginning Net Position	$ 29,264,934
Change in Net Position	4,924,699
Ending Net Position	$ 34,189,633

Statement of Activities

Comparative Schedule for Fiscal Years Ended December 31, 2012 and 2011

	2012	2011
Revenues		
Program		
Charges for Service	$ 5,601,948	$ 5,487,884
Grants	1,017,152	1,089,032
General		
Property Tax	29,089,234	26,727,830
Mortgage Tax	950,080	680,032
Sales Tax	2,487,162	2,300,278
Franchise taxes	709,732	676,787
Fees, Fines and Licenses	1,668,726	1,370,518
Grants and contributions not restricted to specific programs	1,004,948	2,771,844
Other	3,091,436	1,798,078
Total Revenues	$ 45,620,418	$ 42,902,283

Statement of Activities (Continued)

Comparative Schedule for Fiscal Years Ended December 31, 2012 and 2011 (Continued)

	2012	2011
Expenses		
General Government Support	$ 4,835,228	$ 4,713,825
Public Safety& Health	16,998,039	16,731,961
Health	31,800	31,800
Transportation	5,153,990	6,901,097
Economic Assistance	76,694	84,765
Culture & Recreation	1,312,296	882,247
Home & Community Service	10,452,306	10,262,468
Interest Long term Debt	1,835,366	1,145,348
Total Expenses	$ 40,695,719	$ 40,753,511

Net Position of $34,189,633 as of year-end reflects a total increase of $4,924,699.

The Town's Governmental Funds

For the fiscal year ended December 31, 2012, the Town's Governmental Town-wide Funds (General, Highway and Water) reported combined ending fund balances of $6,747,163, an increase from fiscal year 2011 fund balances of $800,551. Operations in the General and Highway Funds, the Town's major operating funds, resulted in a fund balance increase of $574,249.

The reserved portion of total fund balances not available for new spending includes: outstanding contract and purchase order commitments of $906,479 (for the Town's five major funds: A-General, B-General, Highway, Water and Sewer) and a reserve for Debt Service of $585,179.

The Town's Governmental Funds (Continued)

The following details the allocations and amounts of fund balance:

General A	
Assigned - Encumbrances	$ 177,912
Restricted - Recreation	156,452
Unassigned	(857,062)
Total General A Fund Classifications	(522,698)
General B	
Assigned - Encumbrances	118,481
Assigned	1,121,938
Total General B Fund Classifications	1,240,419
Highway	
Assigned	841,634
Total Highway Fund Classifications	841,634
Water	
Assigned	5,404,173
Total Water Fund Classifications	5,404,173
Sewer	
Restricted - Bonded Debt	413,558
Assigned	1,963,402
Total Sewer Fund Classifications	2,376,960
Capital Projects	
Unassigned	(5,617,595)
Debt Service	
Restricted - Bonded Debt	171,621
Assigned	421,992
Total Debt Service Fund Classifications	593,613
Non-Major	
Nonspendable	3,277
Assigned - Encumbrances	14,084
Assigned	248,932
Total Non-Major Fund Classifications	266,293
Total Fund Classifications	$ 4,582,799

The Town's Governmental Funds (Continued)

Comparative Schedule of Expenditures

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund expenditures for the fiscal year ended December 31, 2012 and 2011.

	2012	2011
General government support	$ 4,931,237	$ 4,795,385
Public safety	14,324,861	13,757,010
Health	31,800	31,800
Transportation	6,137,314	7,399,389
Economic assistance & opportunity	76,694	61,905
Culture and recreation	1,240,457	762,745
Home and community services	9,454,615	10,184,067
Employee benefits	2,220,647	2,015,869
Debt service	5,121,826	4,649,032
	$ 43,539,451	$ 43,657,202

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town expended $43,539,451 for current year operations. By comparison, this was $117,751 (on net basis) less than the $43,657,202 expended in 2011.

The Town's Governmental Funds (Continued)

Comparative Schedule of Revenues

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund revenues for the fiscal years ended December 31, 2012 and 2011.

	2012	2011
Real property taxes	$ 28,546,751	$ 28,105,734
Real property taxes items	542,483	557,971
Non property taxes items	3,196,894	3,039,743
Departmental income	5,424,014	5,341,555
Intergovernmental charges	597,811	62,796
Use of money and property	879,545	469,237
Licenses and permits	706,786	786,999
Fines and forfeitures	969,350	867,517
Sale of property and compensation for loss	139,719	135,791
Miscellaneous local sources	1,034,948	564,374
State aid	1,658,998	3,303,563
Federal aid	1,758,121	170,992
	$ 45,455,420	$ 43,406,272

Again, as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town recorded $45,455,420 in revenues to support current year operations. By comparison, this was (on a net basis) $2,049,148 more than the $43,406,272 recorded in 2011.

General Fund A and B. The General Fund, a major fund, is the primary operating fund of the Town, including the operations of the Police, Parks and Recreation, and Public Works Departments, General Administration, the Town Court, and that portion of the Highway Department not required to be accounted for in the Highway Fund. Results of operations in the General Fund resulted in an $178,146 (A) and $616,408 (B) positive net change in fund balance. The net unassigned fund balance is a negative $857,062 (A) and a positive assigned $1,240,419 (B).

The Town's Governmental Funds (Continued)

Highway Fund. The Highway Fund, also classified as a major fund, includes the greater portion of the activities of the Town's Highway Department (with the balance of highway Department activities being accounted for in the General Fund). Highway Fund activities include road repair, machinery acquisition and maintenance, and snow and ice control. Results of operations in the Highway Fund resulted in a $531,876 decrease net change in fund balance. The net assigned fund balance is $841,634.

"Non-Major" Special Revenue (Governmental) Funds. "Non-Major" Special Revenue Funds are used to account for taxes, user fees and other revenues that are raised or received to fund special governmental activities including the ambulance, fire protection, street lighting, and refuse collection to service areas that may or may not encompass the entire Town. Collectively accounting for $2,018,480 of all governmental activities, operations of all "Non-Major" Special Revenue funds resulted in an $88,444 positive net change in fund balances. The net assigned fund balance is $266,293.

Water Fund. The Town runs a joint venture with the City of Poughkeepsie. The main purpose is to provide our residents and business owners with a quality and affordable water supply. The Town operates two water districts, collecting capital improvements from each district. Sale of water increased by $13,805, and fund balance, in total, decreased by $220,305. The net assigned fund balance is $5,187,808.

Sewer Fund. The Town operates 29 Sewer Districts. Taxes are collected for capital expenditure for 25 of the districts. It also collects sewer rents for operation and maintenance of the facility/system. The Town's decision to transfer the plant to a management contract (United Water took over the operations of the plant on 7/5/11) has resulted in a significant increased savings to our systems' users. Plans for the expansion and upgrade to the Arlington Sewer Treatment Plant are still moving forward. The Town is currently incurring engineering expenses in the design and expansion of the plant. The net assigned fund balance is $2,376,960.

Capital Assets and Debt Administration

Capital Assets. In accordance with Governmental Accounting Standards Board (GASB) Statement #34, the Town records depreciation expense and accumulated depreciation associated with all of its assets including infrastructure. The Town's investment in capital assets for its governmental activities totals $46,589,747, net of accumulated depreciation.

Capital Assets and Debt Administration (Continued)

Debt Administration. At year-end 2012, the Town had $30,410,000 in Serial Bonds and $9,183,000 in Bond Anticipation Notes (BAN's) outstanding.

The Town maintains a conservative debt borrowing policy and presently holds an A-1 (negative outlook) rating from Moody's Investors Service.

At year-end 2012, the Town had $2,271,649 in accumulated Compensated Absences due to its employees, a net increase of $75,205 from the prior year. The Town does not specifically budget for the payment of compensated absences, but utilizes available budgetary appropriations when that portion of the liability that relates to an employee severing service with the Town is "cashed out".

Economic Factors, Subsequent Significant Events, and Future Budget Impacts

The Town's historically conservative budget philosophy, and continued strong fund balance position in its General and Highway funds (both being major funds) effectively serve to insulate the Town from adverse economic impacts. We will continue to carefully monitor our Town's non-property tax revenues, and adjust non-essential appropriations and property taxes accordingly. Town property taxes provide roughly sixty-seven percent of the operating revenues needed to fund Town services and programs.

No major shortfalls in appropriations are presently anticipated that cannot be addressed either through the additional appropriation of fund balance, or through the transfer of existing, available budgeted appropriations. The Town also funds/budgets for a minor Contingency Fund and is also available to meet unanticipated needs.

Contacting the Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances for all those having an interest, and should be considered along with the Basic Financial Statements and related notes. Questions concerning any of the information provided in this report may be addressed to James M. Wojtowicz, CPA Town Comptroller, at One Overocker Road, Poughkeepsie, New York, 12603.

TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current assets	
Cash and cash equivalents	$ 13,199,549
Restricted cash and investments	436,385
Receivables (net)	12,423,377
Prepaid Expenses	3,277
Inventory	157,500
Total current assets	26,220,088
Non-current assets	
Bond issue costs	103,974
Capital assets:	
Land	10,702,282
Infrastructure, net of depreciation	23,818,336
Buildings, machinery and equipment, net of depreciation	10,163,515
Construction in progress	1,905,614
Total capital assets	46,589,747
Investment in Joint Water Project	19,816,090
Total assets	$ 92,729,899
LIABILITIES	
Current Liabilities	
Accounts payable	$ 943,608
Accrued expenses and retainage payable	3,259,482
Bond anticipation note	9,183,000
Deferred revenues	505,109
Current portion of long-term liabilities	
Capital lease payable	38,628
Compensated absence liability	227,000
Landfill remediation liability	12,387
Bonds payable	3,330,000
Total current liabilities	17,499,214
Non-current liabilities	
Compensated absence liability	2,044,649
Landfill remediation liability	493,269
Bonds payable	27,080,000
Postemployment benefits obligation	11,423,134
Total non-current liabilities	41,041,052
Total liabilities	58,540,266
NET POSITION	
Invested in Capital Assets, net of related debt	14,971,747
Invested in Joint Water Project, net of related debt	11,841,090
Restricted for:	
Debt service	585,179
Unrestricted	6,791,617
Total net position	34,189,633
Total liabilities and net position	$ 92,729,899

See independent auditors' report

TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES
Governmental Activities:					
General government support	$ 4,835,228	$ 5,313	$ -	$ -	$ (4,829,915)
Public safety	16,998,039	127,472	211,065	-	(16,659,502)
Health	31,800	-	-	-	(31,800)
Transportation	5,153,990	-	-	989,380	(4,164,610)
Economic assistance & opportunity	76,694	-	803,345	-	726,651
Culture and recreation	1,312,296	115,299	2,742	-	(1,194,255)
Home and community services	10,452,306	5,353,864	-	15,568	(5,082,874)
Interest on long-term debt	1,835,366	-	-	-	(1,835,366)
Total governmental activities	40,695,719	5,601,948	1,017,152	1,004,948	(33,071,671)

General revenues	
Taxes:	
Real property taxes	28,546,751
Real property tax-related items	542,483
Sales tax distribution	2,487,162
Mortgage tax distribution	950,080
Franchise taxes	709,732
Grants and contributions not restricted to specific programs	447,681
Unrestricted investment earnings	498,394
Fees, fines and licenses	1,668,726
Special item-Gain on sale of property and compensation for loss	129,719
Miscellaneous	2,015,642
Total general revenues and special items	37,996,370
Change in net position	4,924,699
Net position- beginning of year	29,264,934
Net position - end of year	$ 34,189,633

See independent auditors' report

TOWN OF POUGHKEEPSIE, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	GENERAL FUND A	GENERAL FUND B	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS									
Cash and cash equivalents	$ 1,026,873	$ 2,550,963	$ 1,058,216	$ 2,122,355	$ 2,615,556	$ 2,806,404	$ 584,376	$ 434,806	$ 13,199,549
Restricted cash and investments	-	-	-	-	-	436,385	-	-	436,385
Receivables:									
Charges for services	-	-	-	846,751	803,302	-	-	-	1,650,053
Other	176,159	218,458	7,543	-	-	-	-	-	402,160
Due from other funds	329,000	-	32,309	2,604,117	-	-	9,237	347,587	3,322,250
Due from other governments	-	1,980,463	-	216,365	-	-	7,315,000	-	9,511,828
State and federal receivable	193,222	20,000	203,176	-	-	442,938	-	-	859,336
Prepaid expenses	-	-	-	-	-	-	-	3,277	3,277
Total assets	$ 1,725,254	$ 4,769,884	$ 1,301,244	$ 5,789,588	$ 3,418,858	$ 3,685,727	$ 7,908,613	$ 785,670	$ 29,384,838
LIABILITIES AND FUND EQUITY									
LIABILITIES									
Accounts payable	$ 203,672	$ 178,288	$ 208,898	$ 47,232	$ 187,659	$ 30,777	$ -	$ 87,082	$ 943,608
Accrued expenses	44,320	251,210	59,773	25,751	25,040	-	-	2,396	408,490
Retainage payable	7,823	-	-	-	-	2,069	-	-	9,892
Bond anticipation note	-	-	-	-	-	9,183,000	-	-	9,183,000
Due to other funds	1,667,427	974,869	-	-	543,591	9,237	-	127,126	3,322,250
Due to other governments	324,710	1,700,362	190,939	156,035	55,994	-	-	-	2,428,040
Deferred revenues	-	22,650	-	156,397	229,614	78,239	7,315,000	302,773	8,104,673
Compensated absence obligation	-	402,086	-	-	-	-	-	-	402,086
Total liabilities	2,247,952	3,529,465	459,610	385,415	1,041,898	9,303,322	7,315,000	519,377	24,802,039
FUND EQUITY									
Fund balance (deficit):									
Nonspendable	-	-	-	-	-	-	-	3,277	3,277
Restricted:									
Bonded debt	-	-	-	-	413,558	-	171,621	-	585,179
Recreation	156,452	-	-	-	-	-	-	-	156,452
Assigned	177,912	1,240,419	841,634	5,404,173	1,963,402	-	421,992	263,016	10,312,548
Unassigned	(857,062)	-	-	-	-	(5,617,595)	-	-	(6,474,657)
Total fund equity	(522,698)	1,240,419	841,634	5,404,173	2,376,960	(5,617,595)	593,613	266,293	4,582,799
Total liabilities and fund equity	$ 1,725,254	$ 4,769,884	$ 1,301,244	$ 5,789,588	$ 3,418,858	$ 3,685,727	$ 7,908,613	$ 785,670	$ 29,384,838

See independent auditors' report

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

Total fund equity for governmental funds	$ 4,582,799
Total net position reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	46,589,747
Investment in joint venture is not reported in the funds	19,816,090
Revenues are recorded when earned in the net assets of governmental activities.	284,564
Long-term liabilities, including bonds payable, compensated absence, capital lease, postemployment benefits and landfill remediation liabilities, which are not due and payable in the current period, therefore are not reported in the funds.	(36,931,981)
Bond issuance costs are not reported in the funds	103,974
Inventory is not reported in the funds	157,500
Accrued interest payable is not reported in the funds.	(413,060)
Total net position of governmental activities	$ 34,189,633

TOWN OF POUGHKEEPSIE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	GENERAL FUND A	GENERAL FUND B	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES									
Real property taxes	$ 3,353,004	$ 12,572,213	$ 6,159,032	$ 2,577,516	$ 2,618,724	$ -	$ -	$ 1,266,262	$ 28,546,751
Real property taxes items	238,464	304,019	-	-	-	-	-	-	542,483
Non property taxes items	-	3,196,894	-	-	-	-	-	-	3,196,894
Departmental income	152,341	183,260	-	2,733,763	2,354,650	-	-	-	5,424,014
Intergovernmental charges	-	28,558	-	-	-	-	569,253	-	597,811
Use of money and property	39,097	294,046	5,521	141,148	7,759	350,256	9,010	32,708	879,545
Licenses and permits	49,239	648,097	2,040	7,410	-	-	-	-	706,786
Fines and forfeitures	969,350	-	-	-	-	-	-	-	969,350
Sale of property and compensation for loss	40,631	54,604	28,195	4,767	5,217	-	-	6,305	139,719
Miscellaneous local sources	225,219	173,809	25,273	8,776	214,615	388,952	-	(1,696)	1,034,948
State aid	976,547	431,159	251,292	-	-	-	-	-	1,658,998
Federal aid	164,796	13,177	34,976	967	2,772	738,088	-	803,345	1,758,121
Total revenues	6,208,688	17,899,836	6,506,329	5,474,347	5,203,737	1,477,296	578,263	2,106,924	45,455,420
EXPENDITURES									
General government support	4,225,205	530,321	59,342	69,247	47,121	-	-	-	4,931,237
Public safety	-	14,324,861	-	-	-	-	-	-	14,324,861
Health	-	-	-	-	-	-	-	31,800	31,800
Transportation	374,593	-	4,005,976	-	-	760,235	-	996,510	6,137,314
Economic assistance & opportunity	76,694	-	-	-	-	-	-	-	76,694
Culture and recreation	890,201	-	-	-	-	350,256	-	-	1,240,457
Home and community services	120,694	631,238	-	3,353,898	4,287,312	250,066	-	811,408	9,454,615
Employee benefits	223,674	1,452,811	155,185	167,958	221,019	-	-	-	2,220,647
Debt service	619,481	344,197	1,753,950	1,427,184	92,299	136,700	569,253	178,762	5,121,826
Total expenditures	6,530,542	17,283,428	5,974,453	5,018,287	4,647,751	1,497,257	569,253	2,018,480	43,539,451
Excess of revenues over expenditures	(321,854)	616,408	531,876	456,060	555,986	(19,961)	9,010	88,444	1,915,969
Other financing sources:									
Proceeds from serial bonds	-	-	-	-	-	-	-	-	-
BAN's redeemed from appropriations	-	-	-	-	-	477,000	-	-	477,000
Operating transfers in	500,000	-	-	40,000	4,130,000	-	-	-	4,670,000
Operating transfers out	-	-	-	(500,000)	(4,130,000)	(40,000)	-	-	(4,670,000)
Total other financing sources	500,000	-	-	(460,000)	-	437,000	-	-	477,000
Excess (deficiency) of revenue and other sources over expenditures and other uses	178,146	616,408	531,876	(3,940)	555,986	417,039	9,010	88,444	2,392,969
Fund Balance, December 31, 2011	(700,844)	624,011	309,758	5,408,113	1,820,974	(6,034,634)	584,603	177,849	2,189,830
Fund Balance, December 31, 2012	$ (522,698)	$ 1,240,419	$ 841,634	$ 5,404,173	$ 2,376,960	$ (5,617,595)	$ 593,613	$ 266,293	$ 4,582,799

See independent auditors' report

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

Net change in fund equities - total government funds		$ 2,392,969
The change in net position reported for governmental activities in the statement of activities is different because:		
Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		709,746
Proceeds from all types of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Repayments:		
Capital Leases	331,821	
Serial Bond note principal	2,970,000	
		3,301,821
In the statement of activities, interest is accured on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(160,540)
Bond issuance costs capitalized and amortized, net		(23,532)
Change in inventory is not reported in governmental funds		92,870
Some expenses reported in the statement of activities, such as compensated absences and landfill liabilities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(75,205)	
Postemployment benefits	(1,178,524)	
Joint landfill	5,680	
		(1,248,049)
Revenues reported in the governmental funds that are not allocable to the current period are not reported in the statement of activities.		(140,586)
Net change in net position of governmental activities		$ 4,924,699

TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
DECEMBER 31, 2012

	AGENCY FUNDS
ASSETS	
Cash and cash equivalents	$ 1,488,590
Total assets	$ 1,488,590
LIABILITIES	
Escrow funds returnable and other liabilities	$ 1,488,590
Total liabilities	1,488,590
Total net position	-
Total liabilities and net position	$ 1,488,590

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE A - Summary of Significant Accounting Policies

The Town of Poughkeepsie, New York ("the Town") was incorporated in 1854, under the provisions of the State of New York. The Town operates under a Town Board form of government, consisting of a Supervisor and six Councilmen/women. The Supervisor serves as the Chief Executive Officer and as the Chief Fiscal Officer of the Town.

The Town provides the following services: highway maintenance, police, water, sewer, planning, zoning, building and safety inspection, lighting, and culture and recreation.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Town is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements in preparing its government-wide financial statements. The more significant accounting policies established by GAAP and used by the Town in preparing its government-wide and fund financial statements are discussed below.

1. The Reporting Entity

The Town, for financial purposes, includes all of the funds relevant to the operations of the Town of Poughkeepsie, New York. The financial statements include organizations, functions and activities that are controlled by or dependent upon the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Excluded from the reporting entity and described in Note G - Joint Ventures, are the Tri-Municipal Sewer Commission and the Poughkeepsie Joint Water Project; also excluded from the reporting entity is the City/Town of Poughkeepsie Regional Sewer Project. The Town of Poughkeepsie is not financially accountable for any of these joint entities under criteria established by GASB Statement No. 14 and, therefore no other entity is included in the reporting entity, "Town of Poughkeepsie." The City/Town of Poughkeepsie Regional Sewer Project is included in the reporting entity, the "City of Poughkeepsie."

2. Basic Financial Statements – Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type activities. The Town's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The Town's water and sewer services are also classified as governmental activities since user fees are not intended to cover all costs including depreciation.

Note A - Summary of Significant Accounting Policies, (Continued)

2. Basic Financial Statements – Government-Wide Statements (Continued)

In the government-wide Statement of Net Assets, the governmental activities columns is presented on a consolidated basis by column, 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 Town's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions or activities. The functions are also supported by general government revenues (property and sales taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs are normally covered by general revenue (property, sales or mortgage taxes, intergovernmental revenues, interest income, etc).

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

3. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Note A - Summary of Significant Accounting Policies, (Continued)

3. Basic Financial Statements – Fund Financial Statements (Continued)

The following fund types are used by the Town:

A. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the governmental funds of the Town:

1. **General fund** is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund and is presented separately.

2. **Highway fund** is used to record the revenues and expenditures related to the maintenance of Town roadways. The Highway Fund is considered a major fund and is presented separately.

3. **Water Fund** is used to record the revenues and expenditures related to the delivery of water services to the Town's customers. The Water Fund is considered a major fund and is presented separately.

4. **Sewer Fund** is used to record the revenues and expenditures related to the delivery of sewer services to the Town's customers. The Sewer Fund is considered a major fund and is presented separately.

5. **Capital projects funds** are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The Capital Projects Fund is considered a major fund and is presented separately. However, no budgetary comparison schedule is presented as required supplemental information, as the Town is not legally required to adopt an annual budget for the Capital Projects Fund.

6. **Debt Service fund** is used to record revenues and expenditures relating to the Town's debt. The Debt Service Fund is considered a major fund and is presented separately.

7. **Non-major funds** include those that are used for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Note A - Summary of Significant Accounting Policies, (Continued)

3. Basic Financial Statements – Fund Financial Statements (Continued)

B. Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets, and funds are reported using accounting principles similar to proprietary funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

4. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

A. Accrual

The governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

B. Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts

A. Cash and Investments

Cash includes amounts in demand and time deposits, as well as short-term investments. State statutes and the Town's own investment policy govern the investment policies of the Town. The Town may invest its funds in banks or trust companies authorized to do business in the State of New York, as well as investing in obligations of the U.S. Treasury, U.S. Agencies, and obligations of the State of New York and its political subdivisions.

Short-term investments consist of investments in U.S. Treasury Bills and in repurchase agreements. The repurchase agreements involve purchases by a broker of portfolio securities concurrently with an agreement by the broker to sell the same securities at a later date at a fixed price. Generally, the effect of such a transaction is that the Town can invest its excess cash balances at competitive interest rates. Market value of the repurchase agreements approximates cost plus accrued interest.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. While the Town does not have a specific policy for custodial credit risk, New York State statues govern the Town's investment policies, as discussed previously in these Notes. Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosure,* directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, or collateralized by securities held by the Town or its agent in the Town's name. As of December 31, 2012, the Town's bank balance not was exposed to custodial credit risk.

The cash and investments of the Town at December 31, 2012, are as follows:

	GENERAL FUND	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUND	TOTAL
Non-Interest Bearing Accounts	$ 1,300	$ -	$ 100	$ 75	$ -	$ 50	$ 1,525
Interest Bearing Accounts	3,576,536	1,058,216	2,122,255	2,615,481	2,806,404	1,019,132	13,198,024
Subtotal	3,577,836	1,058,216	2,122,355	2,615,556	2,806,404	1,019,182	13,199,549
Restricted US Treasury Bills	-	-	-	-	436,385	-	436,385
TOTAL	**$ 3,577,836**	**$ 1,058,216**	**$ 2,122,355**	**$ 2,615,556**	**$ 3,242,789**	**$ 1,019,182**	**$ 13,635,934**

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

A. Cash and Investments (Continued)

The restricted cash invested in U.S. Treasury bills represents unspent bond proceeds whose use is limited to funding construction commitments related to improvements to the Joint Water Facility and is more fully described in Note G.2. Disclosures relating to risk and type of investments as presented are indicative of activity and positions held during the year.

B. Inventories

Inventories consist of significant expendable supplies primarily sand and road salt and are carried at cost in the government-wide financial statements.

C. Capital Assets

Capital assets purchased or acquired with an original cost of $500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs associated with capital projects which are not complete, are capitalized as Construction in Progress. No depreciation is recorded until the project is complete and the asset is placed in service. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	30 years
Infrastructure	15-40 years
Machinery and equipment	3-40 years
Improvements	15 years

D. Accumulated Compensated Absences

It is the Town's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the Town's service.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

D. Accumulated Compensated Absences (Continued)

The Town calculates its sick leave liability based on the assumption that most employees would continue to be employed by the Town until retirement. In governmental and fiduciary funds, the cost of vacation and sick leave is generally recognized when payments are made to employees. In prior years the Town has partially funded its liability for compensated absences through budgetary appropriations in the General Fund, amounting to $402,086, with the balance of $1,869,563 remaining un-funded. In the statement of net assets the liability of $2,271,649 for accrued sick pay is recognized according to an estimate of payments in the following year and all future years.

Current portion	$ 227,000
Long-term liability	2,044,649
TOTAL	**$ 2,271,649**

E. Fund Balance Classifications

Fund balance is presented in five different classifications which focus on the constraints imposed on resources in governmental funds, rather than on availability for appropriation. The classifications include: non-spendable, restricted, committed, assigned, and unassigned.

Non-spendable consists of assets that are 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 principal of endowments.

Restricted consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

E. Fund Balance Classifications (Continued)

Committed consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The Board is the decision-making authority that can, prior to the end of the fiscal year, commit fund balance.

Assigned consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

Unassigned represents the residual classification for the government's general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When resources are available from multiple classifications, the Town spends funds in the following order: restricted, committed, assigned, unassigned.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

E. Fund Balance Classifications (Continued)

The following details the allocations and amounts of fund balance following the implementation of GASB #54 as of December 31, 2012:

General A	
Assigned - Encumbrances	$ 177,912
Restricted - Recreation	156,452
Unassigned	(857,062)
Total General A Fund Classifications	(522,698)
General B	
Assigned - Encumbrances	118,481
Assigned	1,121,938
Total General B Fund Classifications	1,240,419
Highway	
Assigned	841,634
Total Highway Fund Classifications	841,634
Water	
Assigned	5,404,173
Total Water Fund Classifications	5,404,173
Sewer	
Restricted - Bonded Debt	413,558
Assigned	1,963,402
Total Sewer Fund Classifications	2,376,960
Capital Projects	
Unassigned	(5,617,595)
Debt Service	
Restricted - Bonded Debt	171,621
Assigned	421,992
Total Debt Service Fund Classifications	593,613
Non-Major	
Nonspendable	3,277
Assigned - Encumbrances	14,084
Assigned	248,932
Total Non-Major Fund Classifications	266,293
Total Fund Classifications	$ 4,582,799

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

F. Interfund Activity

Interfund activity is reported as either 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.

G. Budgets

The Town employs a formal budgetary accounting system as required by law. During the year, a budget was adopted and modified by the Town Board for the General Fund, Highway Fund, Water Fund, Sewer Fund and Non-Major Funds. However, for the Capital Projects Fund, budgets are established at the project level and continue until the project is completed. Any budgets, which include appropriations of fund balance, show expenditures exceeding revenues. Unused appropriations of the annually budgeted funds lapse at the end of the year.

H. Pension Plans

Plan Description

The Town of Poughkeepsie 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 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.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

H. Pension Plans (Continued)

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	ERS	PFRS
2012	$ 1,064,503	$ 2,040,954
2011	$ 1,041,821	$ 1,869,214
2010	$ 870,729	$ 1,574,428

The Town's contributions made to the Systems were equal to or in excess of 100 percent of the contributions required for each year.

I. Other Post Employment Benefits

The cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid, which is the accrual accounting perspective. In adopting the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the Town recognizes the cost of postemployment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Town's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years. The Other Postemployment Benefits Liability as of December 31, 2012 is $12,496,359.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

I. Other Post Employment Benefits (Continued)

Plan Description

The Town provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to the Town. This plan is a single employer plan, established by authority of the Town Board and administered by the Town. Currently, there are approximately 70 retirees receiving postemployment benefits. Based on the current employment policy, the retiree and his or her beneficiaries receive coverage for the life of the retiree based on the retiree's years of service at retirement. A copy of the report on these benefits can be requested at Town Hall. A summary of benefits is as follows:

	% Paid by Town	
Contracts	Retiree	Spouse
Non-Union & CSEA Union		
Less than 10 years of service	0%	0%
Between 10 and 19 years of service	35%	35%
Between 20 and 29 years of service	50%	50%
More than 30 years of service	80%	80%
*PBA Union -	100%	100%

Funding Policy

The Town provides funding on the pay-as-you-go method of payment of current insurance premiums.

Annual Other Postemployment Benefit Cost

The Town's OPEB cost (net expense) amounted to $3,356,672 for the year ended December 31, 2012. The Town's OPEB cost was equal to the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45 described below, less premiums paid for retirees in the current year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs plus a past service cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

I. Other Post Employment Benefits (Continued)

Annual Other Postemployment Benefit Cost (Continued)

Level Dollar Amortization

Actuarial Accrued Liability (AAL)	
All eligible employees	$ 39,908,504
Unfunded actuarial accrued liability (UAAL)	$ 39,908,504

Benefit Obligation Accrued to Date

Net OPEB Obligation, beginning of year	$ 10,244,610
Annual Required Contribution (ARC)	3,510,868
Interest on Net OPEB Obligation	512,231
Adjustment to Annual Required Contribution	(666,427)
Annual OPEB Cost	3,356,672
Actual Employer Contributions*	(1,104,923)
Increase in Net OPEB Obligation	2,251,749
Net OPEB Obligation, end of year	$ 12,496,359

* This contribution is the pay-as-you-go amount, as an actual plan has not been established, see Funding Policy.

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 the funding status of the plan and the required contributions of the Town are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value for plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

I. Other Post Employment Benefits (Continued)

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 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, 2012, actuarial valuation, the liabilities were computed using the projected unit credit cost method and level percent amortization. The actuarial assumptions utilized a 5% baseline discount rate.

J. Property Taxes

The Town submits an approved budget to the Dutchess County Commissioner of Finance by December 5th of the previous year. The County then establishes the warrant for the year which is due and payable on or about January 1 of each year. The Town collects the taxes on behalf of the Town and County without penalty through February 28th and with penalties and interest through August 31st. The Town's portion of the taxes is recognized and transferred prior to the County's portion. Therefore, the Town receives its entire tax, leaving the un-paid balances to be collected by Dutchess County.

K. Risk Management

The Town of Poughkeepsie assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. 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. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations. The Town does not estimate claims, which may have occurred but are not reported in areas where the Town is not insured.

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

L. Long-Term Liabilities

Long-Term Debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other Long-Term Obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of governmental fund. The remaining portion of such obligations is reported in the Long-Term Liabilities.

M. Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

N. Subsequent Events

Management has evaluated subsequent events through September, 26, 2013, the date the financial statements were available to be issued.

Note B – Other Receivables

Other Receivables at December 31, 2012 consist of the following:

	GENERAL FUND	HIGHWAY FUND	WATER FUND	SEWER FUND	CAPITAL PROJECTS FUND	NON-MAJOR FUNDS	TOTAL
Accounts Receivable	$ 399,717	$ 7,543	$ -	$ -	$ -	$ -	$ 407,260
Water Rents Receivable	-	-	846,751	-	-	-	846,751
Sewer Rents Receivable	-	-	-	803,302	-	-	803,302
Totals	$ 399,717	$ 7,543	$ 846,751	$803,302	$ -	$ -	$ 2,057,313

Note C – Interfund Receivables, Payables and Transfers

The following is a summary of amounts due from and due to other funds as of December 31, 2012. These inter-fund balances have been eliminated as part of the aggregation of fund balances. Such balances arise through the use of a pooled cash disbursement account, district transfers for sewer operations and the temporary funding of capital projects.

FUND	RECEIVABLE	PAYABLE
General	$ 329,000	$ 2,642,296
Highway	32,309	-
Water	2,604,117	-
Sewer	-	543,591
Debt Service	9,237	-
Capital Projects	-	9,237
Non-Major	347,587	127,126
Total	$ 3,322,250	$ 3,322,250

	TRANSFERS IN	TRANSFERS OUT
General	$ 500,000	$ -
Water	40,000	500,000
Sewer	4,130,000	4,130,000
Capital Projects	-	40,000
Non-Major	-	-
Total	$ 4,670,000	$ 4,670,000

Note D – Capital Assets

The following is a summary of changes and adjustments in the Capital Assets, for the year ended December 31, 2012:

Governmental activities:	BALANCE JANUARY 1, 2012	ADDITIONS	(DISPOSALS)	BALANCE DECEMBER 31, 2012
Land	$ 10,686,296	$ 15,986	$ -	$ 10,702,282
Buildings	15,155,052	104,403	-	15,259,455
Town Roads and Other Infrastruture	86,615,213	1,075,805	-	87,691,017
Improvements other than buildings	2,000,123	24,426	-	2,024,549
Machinery & equipment	10,404,900	866,708	(32,800)	11,238,808
Construction in Progress	1,937,831	618,856	(651,073)	1,905,614
Total	126,799,415	2,706,184	(683,873)	128,821,725
Less accumulated depreciation				
Buildings	(7,956,614)	(367,747)	-	(8,324,361)
Town Roads and Other Infrastruture	(63,866,864)	(5,817)	-	(63,872,681)
Improvements	(1,723,168)	(50,797)	-	(1,773,965)
Machinery & equipment	(7,372,768)	(921,003)	32,800	(8,260,971)
Total accumulated depreciation	(80,919,414)	(1,345,364)	32,800	(82,231,978)
Governmental activities capital assets, net	$ 45,880,001	$ 1,360,820	$ (651,073)	$ 46,589,747

*Depreciation was charged to governmental activities as follows:

General government support	$ 187,537
Public Safety	629,587
Transportation	273,726
Home & community	214,328
Culture & recreation	40,186
Total depreciation expense	**$ 1,345,364**

Note E - Bond Anticipation Notes Payable

Bond Anticipation Notes Payable are renewed annually and are not to exceed five renewals, except for water and sewer improvements which may be renewed for the life of the improvement not to exceed twenty years.

The changes in Bond Anticipation Notes Payable are:

PURPOSE	BALANCE JANUARY 1, 2012	NEW ISSUES	PAYMENTS	BALANCE DECEMBER 31, 2012
Various Purposes	$ 10,360,000	$ -	$ (1,177,000)	$ 9,183,000
Total	$ 10,360,000	$ -	$ (1,177,000)	$ 9,183,000

NOTE F - Long Term Debt

1. Serial Bonds Outstanding

The Serial Bonds Payable, as of December 31, 2012, are as follows:

PURPOSE	ORIGINAL ISSUE DATE	FINAL MATURITY DATE	INTEREST RATE	ORIGINAL AMOUNT OF ISSUE	AMOUNT OUTSTANDING DECEMBER 31, 2012
Public Improvements Police/Court Facility	2/15/1998	8/15/2017	6.74%	$ 1,400,000	$ 380,000
Public Improvements Water Improvements	2/14/2002	10/15/2023	1.51%	7,194,417	4,285,000
Various Purpose	6/1/2003	6/1/2018	2.98%	6,445,000	2,235,000
Public Improvements	9/15/2004	3/15/2019	3.529%	5,555,000	2,695,000
Public Improvements Refunding	9/15/2004	12/15/2016	Various	3,025,000	810,000
Public Improvements Refunding	9/15/2004	12/15/2016	Various	6,415,000	1,905,000
Water Improvements	7/15/2006	7/15/2016	4.600%	901,057	680,000
Public Improvements Refunding	4/15/2008	4/15/017	Various	4,100,000	2,045,000
Library	12/1/2008	12/1/2031	Various	8,465,148	7,315,000
Landfill- Refunding	6/24/2010	10/1/2023	0.29%	3,315,000	2,645,000
Water Improvements Refunding	6/24/2010	4/15/2019	Various	2,250,000	1,785,000
Public Improvements	3/16/2011	3/1/2022	Various	3,890,000	3,630,000
TOTALS				$ 52,955,622	$ 30,410,000

NOTE F - Long Term Debt, (Continued)

2. Capital Lease Program

The Town has entered into capital leases for certain police and highway vehicles with a total asset cost of $1,951,320 with accumulated amortization of $1,913,701. These leases are considered to be capital leases for accounting purposes, wherein, at the end of the lease the Town may purchase the asset for a nominal amount. Payments for 2012 amounted to $331,821 including interest of $12,231. At December 31, 2012, the annual capital lease payments are as follows:

YEAR ENDING DECEMBER 31,	CAPITAL LEASES
2013	$ 38,627
Total minimum lease payments	$ 38,627

NOTE F - Long Term Debt, (Continued)

3. Changes in Long Term Debt:

The changes in the Town's indebtedness during the year ended December 31, 2012, are summarized as follows:

	BALANCE JANUARY 1, 2012	INCREASE	(DECREASE)	BALANCE DECEMBER 31, 2012	AMOUNTS DUE WITHIN ONE YEAR
Serial Bonds	$ 33,630,000		$ (3,220,000)	$ 30,410,000	$ 3,330,000
Capital Lease	370,448	-	(331,821)	38,627	38,627
Landfill Closure and Post Closure	511,336	-	(5,680)	505,656	12,387
Compensated Absences	2,196,444	75,205	-	2,271,649	227,000
TOTAL	$ 36,708,228	$ 75,205	$ (3,557,501)	$ 33,225,932	$ 3,608,014

The Compensated Absence liability includes a funded and an un-funded portion, as described in Note 5E.

4. Amortization of Bonded Debt

The annual requirements to amortize bonded debt, as of December 31, 2012, are as follows:

YEAR ENDING DECEMBER 31,	PRINCIPAL	INTEREST	TOTAL
2013	$ 3,330,000	$ 1,132,065	$ 4,462,065
2014	3,405,000	1,017,489	4,422,489
2015	3,490,000	898,382	4,388,382
2016	3,575,000	769,326	4,344,326
2017	2,830,000	635,755	3,465,755
2018-2022	8,670,000	1,979,813	10,649,813
2023-2027	3,060,000	758,399	3,818,399
2028-2031	2,050,000	223,580	2,273,580
Total	**$ 30,410,000**	**$ 7,414,809**	**$ 37,824,809**

Note G - Joint Ventures

The following activities have been undertaken by the Town jointly with other municipalities. These activities are excluded from the financial statements of the Town. Separate financial statements are issued for these joint ventures.

1. Tri-Municipal Sewer Commission

In 1975, the Town joined with the Village of Wappingers Falls and the Towns of Wappinger and LaGrange to construct and operate an inter-municipal sewer treatment system. In 1982, the Towns of Wappinger and LaGrange elected to discontinue participation in the system, and the Town of Poughkeepsie and the Village of Wappingers Falls continued joint construction and operation of the system under the name, Tri-Municipal Sewer Commission.

Operation and maintenance costs are allocated between the parties based on waste flow. For the year ended December 31, 2012, the Town incurred a cost of approximately $212,411 for its share of operation and maintenance costs.

The following is a summary of unaudited financial information at December 31, 2012 included in the financial statements issued for this joint venture. A copy of the Commission's financial statements can be obtained from the Tri-Municipal Sewer Commission.

The un-audited balances as of December 31, 2012, are as follows:

Total Assets (excluding fixed assets)	$ 1,078,460
Total Liabilities	$ 712,158
Joint Venture Equity	$ 366,302
Total Revenues - 2012	$ 1,472,199
Total Expenditures - 2012	$ 1,395,602
Total Fixed Assets	$ 40,269,545

Note G - Joint Ventures (Continued)

2. Poughkeepsie Joint Water Project

In August 1995, the Town entered into an inter-municipal agreement with the City of Poughkeepsie to provide for the planning, design, technological enhancement, construction or expansion, and operation and maintenance of the above named water treatment facility. This agreement amends and supersedes an agreement dated October 11, 1991 covering a joint water project. Under the terms of the 1995 agreement, the Town obtained an one-half interest in the City's Water treatment plant; the Town would finance studies for and upgrades and/or expansions to the plant to increase capacity; the Town would pay 50% of the cost to design and build an alum sludge treatment plant; and the Town would pay for administrative costs related to obtaining approvals to enable the project to proceed. The agreement also provided for the creation of a joint board to administer planning, design, construction, as well as operations and maintenance of the facility. It is made up of three members from each municipality. Water rates for each municipality are also described in the agreement. Operations as a joint venture began in 1996.

The Town financed the purchase of its interest in the water plant and payment of certain capital improvements by issuing serial bonds in December 1996 in the amount of $6,425,000, which is recorded as Long-Term Debt. The bond was refinanced during 2004 and is included as Refunding Improvement Bonds for 2004.

The following is a summary of financial information included in financial statements issued for the joint venture. These financial statements are issued separately and can be obtained from the Joint Water Project at 62 Civic Center Plaza, Poughkeepsie, NY 12601.

Note G - Joint Ventures (Continued)

2. Poughkeepsie Joint Water Project (Continued)

Balances as of December 31, 2012, are as follows:

Total Assets	$ 16,396,746
Total Liabilities	$ 1,054,762
Joint Venture Equity	$ 15,341,984
Total Revenues – 2012	$ 3,489,782
Total Expenditures - 2012	$ 4,261,548

The Town's net share of operating expenditures amounted to $1,383,635 which is recorded in the Water Fund - Home and Community Service. Included in Due from Related Party is $216,365 representing the balance due to the Town for overpayment of its operating costs.

As part of the Joint Project agreement described above, the Town has committed to financing studies and a portion of construction costs related to the expansion of the Joint Water treatment facility. The Town estimated total construction costs to approximate $19,363,000 with $11,232,000 being financed by the Town and $8,131,000 being financed by the City of Poughkeepsie. The Town issued debt to fund this commitment. As of December 31, 2012 the outstanding balance is $7,975,000.

The Town has presented its equity interest in the Joint Venture in the Statement of Net Assets as $19,816,090, representing the Town's capital expenditures to date and the amount of net assets invested in the Joint Venture, net of outstanding debt as $11,841,090.

3. Poughkeepsie-Wappingers-LaGrange Joint Landfill

The Town has shared in the monitoring costs of a closed landfill, the Poughkeepsie-Wappinger-LaGrange Joint Landfill. This joint activity includes the City and Town of Poughkeepsie, New York, the Village of Wappingers Falls, New York, the Town of LaGrange, New York and the Town of Wappinger, New York. All costs associated with monitoring are recognized as incurred.

Note G - Joint Ventures (Continued)

3. Poughkeepsie-Wappingers-LaGrange Joint Landfill (Continued)

The following is a summary of unaudited financial information at December 31, 2012, which is included in the separate financial statements available from the Joint Landfill Board of Governors c/o Town of Poughkeepsie, Poughkeepsie, New York, 12603.

Un-audited balances at December 31, 2012, are as follows:

Total Assets	$ 81,879
Total Liabilities	$ -
Total Venture Equity	$ 81,879
Total Revenues	$ 1
Total Expenditures	$ 16,220

During 2003, an Order of Consent was issued through the New York State Department of Environmental Conservation to remediate Environmental Conservation Law and New York Codes Rule and Regulations violations. To comply with this order, the member municipalities must complete final closure of the landfill under current regulations by December 31, 2005 and perform post closure care and monitoring for a minimum of thirty years thereafter. The estimated cost of final closure is $10,000,000. All costs will be borne proportionately by each municipality; the Town of Poughkeepsie's share being 42.4208%, or $4,242,074. Post closure and monitoring costs, commenced in 2009 and continue for 30 years, are estimated to amount to $1,192,000 with the Town's share being $505,656.

Note H - Legal Compliance

1. Deficit Fund Balances

The following special districts and funds have material deficit fund balances at year-end as shown. The Town intends to increase revenues to fund these deficits.

	Fund Balance (Deficit)
General Fund A	$ (522,698)
Capital Projects Fund	$ (5,617,595)
Street Lighting Fund	$ (26,188)
Special Grant Fund	$ (11,654)

Note H - Legal Compliance (Continued)

2. Overdrawn Appropriations

Expenditures in the following fund/categories materially exceeded appropriations:

FUND/CATEGORY	APPROPRIATION	EXPENDITURE	VARIANCE (UNFAVORABLE)
General Fund A			
General Government Support	$ 4,086,241	$ 4,403,117	$ (316,876)
Culture and Recreation	$ 710,859	$ 890,201	$ (179,342)
Employee Benefits	$ 196,200	$ 223,674	$ (27,474)
Debt Service	$ 581,030	$ 619,481	$ (38,451)
General Fund B			
Public Safety	$ 14,454,271	$ 14,324,861	$ 129,410
Employee Benefits	$ 1,261,610	$ 1,452,811	$ (191,201)
Highway			
Debt Service	$ 1,824,950	$ 1,753,950	$ 71,000
Water Fund			
Home and Community Service	$ 3,896,859	$ 3,353,898	$ 542,961
Employee Benefits	$ 141,000	$ 167,958	$ (26,958)
Sewer Fund			
Home and Community Service	$ 4,547,721	$ 4,287,312	$ 260,409
Employee Benefits	$ 127,000	$ 221,019	$ (94,019)

Note I - Economic Dependency

The Town receives approximately 14% of its real property taxes from ten corporate taxpayers. A significant reduction in these corporate taxpayer's real property taxes could have a significant impact on the Town's programs and services.

Note J - Commitments and Contingent Liabilities

1. Lawsuits and Claims

The Town is a defendant in various lawsuits and tax certiorari cases. The ultimate outcome of these cases and lawsuits is not determinable as of report date. However, in the opinion of the Town's counsel, while the ultimate resolution of these proceedings will not have a material effect on the Town's financial position, although they could have a material effect on operating results when finally resolved in a future period.

Note J - Commitments and Contingent Liabilities (Continued)

2. Grants

The Town has received amounts from grantor agencies, principally the Department of Housing and Urban Development. Any allowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time.

3. Authorized Debt

As of December 31, 2012, the Town Board had authorized debt which was not issued:

PURPOSE	AUTHORIZED
Tri-Municipal Sewer System	$ 1,755,000
Town-Wide Drainage	395,197
Additions & Reconstruction of Buildings	2,786,000
Assessment Update - 2001	125,000
Water Improvement	1,448,332
Arlington Sewer Improvement Area 1 - 2002	5,200,000
Arlington Sewer Improvement- 2008	16,000,000
Library District - Boardman Road Branch	3,694,978
TOTAL	**$ 31,404,507**

Most of the above projects have been completed, so that, with the exception of the Town-Wide Drainage, Water Improvement, Sewer Improvement Projects, the Town does not expect to exercise these authorizations. The Library District debt was issued in 2013.

Note K – New Reporting Standards

In June 2011, the Government Accounting Standards Board (GASB) issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement provided guidance for reporting deferred outflows and inflows of resources and net position as defined in Concepts Statement No.4. This Statement was implemented for the year ended December 31, 2012. There was no effect on operations.

In March 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. When implemented, this Statement will require the re-consideration of the reporting of assets and liabilities. The Town is required to implement this standard for the year ending December 31, 2013. The implementation of GASB Statement No. 65 could have a substantive effect on the Town's fund balance.

REQUIRED SUPPLEMENTAL INFORMATION

EXHIBIT I

TOWN OF POUGHKEEPSIE, NEW YORK
BUDGETARY COMPARISON SCHEDULE
DECEMBER 31, 2012

	GENERAL FUND A			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Real property taxes	$ 3,371,736	$ 3,342,593	$ 3,353,004	$ 10,411
Real property tax items	200,000	200,000	238,464	38,464
Non property tax items	-	-	-	-
Departmental income	176,070	176,070	152,341	(23,729)
Intergovernmental charges	-	-	-	-
Use of money and property	25,000	25,000	39,097	14,097
Licenses and permits	10,050	40,050	49,239	9,189
Fines and forfeitures	925,000	958,000	969,350	11,350
Sale of property and compensation for loss	52,200	52,200	40,631	(11,569)
Miscellaneous local sources	71,000	71,000	225,219	154,219
Interfund revenues	-	-	-	-
State aid	808,000	808,000	976,547	168,547
Federal aid	-	-	164,796	164,796
Total revenues	5,639,056	5,672,913	6,208,688	535,775
Appropriation of prior's year's fund balance	-	-	-	-
Total revenues and appropriation of prior year's fund balance	5,639,056	5,672,913	6,208,688	535,775
EXPENDITURES AND ENCUMBRANCES				
General Government Support	4,078,446	4,086,241	4,403,117	(316,876)
Public safety	-	-	-	-
Transportation	379,719	378,719	374,593	4,126
Economic assistance & opportunity	76,865	76,865	76,694	171
Culture and recreation	681,859	710,859	890,201	(179,342)
Home and community service	144,937	142,999	120,694	22,305
Employee benefits	196,200	196,200	223,674	(27,474)
Debt service	581,030	581,030	619,481	(38,451)
Total expenditures and encumbrances	6,139,056	6,172,913	6,708,454	(535,541)
Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances	(500,000)	(500,000)	(499,766)	234
Other financing sources (uses):				
Operating transfers in	500,000	500,000	500,000	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	500,000	500,000	500,000	-
Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances and other uses	$ -	$ -	$ 234	$ 234

Explanation of Differences Between Budgetary and GAAP Basis:

Excess of revenues over (under) expenditures - budgetary basis	$ 234
Expenditures do not include encumbrances	177,912
Excess (deficiency) of revenues over expenditures - GAAP Basis	$ 178,146

See independent auditors' report

GENERAL FUND B

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 12,641,819	$ 12,565,953	$ 12,572,213	$ 6,260
250,000	250,000	304,019	54,019
3,000,000	3,000,000	3,196,894	196,894
108,276	108,276	183,260	74,984
-	-	28,558	28,558
285,000	285,000	294,046	9,046
660,000	660,000	648,097	(11,903)
-	-	-	-
1,000	1,000	54,604	53,604
137,765	137,765	173,809	36,044
-	-	-	-
333,848	333,848	431,159	97,311
-	-	13,177	13,177
17,417,708	17,341,842	17,899,836	557,994
-	-	-	-
17,417,708	17,341,842	17,899,836	557,994
630,711	629,211	530,321	98,890
14,527,137	14,454,271	14,324,861	129,410
-	-	-	-
-	-	-	-
-	-	-	-
654,052	652,552	631,238	21,314
1,261,610	1,261,610	1,452,811	(191,201)
344,198	344,198	344,197	1
17,417,708	17,341,842	17,283,428	58,414
-	-	616,408	616,408
-	-	-	-
-	-	-	-
-	-	-	-
$ -	$ -	$ 616,408	$ 616,408
		$ 616,408	
		-	
		$ 616,408	

HIGHWAY FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 5,854,023	$ 6,159,032	$ 6,159,032	$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
7,500	7,500	5,521	(1,979)
-	-	2,040	2,040
-	-	-	-
5,000	5,000	28,195	23,195
47,000	47,000	25,273	(21,727)
-	-	-	-
-	-	251,292	251,292
237,111	237,111	34,976	(202,135)
6,150,634	6,455,643	6,506,329	50,686
-	-	-	-
6,150,634	6,455,643	6,506,329	50,686
83,000	83,000	59,342	23,658
-	-	-	-
4,040,424	4,345,433	4,005,976	339,457
-	-	-	-
-	-	-	-
-	-	-	-
202,260	202,260	155,185	47,075
1,824,950	1,824,950	1,753,950	71,000
6,150,634	6,455,643	5,974,453	481,190
-	-	531,876	531,876
-	-	-	-
-	-	-	-
-	-	-	-
$ -	$ -	$ 531,876	$ 531,876
		$ 531,876	
		-	
		$ 531,876	

WATER FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 2,584,516	$ 2,575,516	$ 2,577,516	$ 2,000
-	-	-	-
-	-	-	-
2,887,000	2,887,000	2,733,763	(153,237)
-	-	-	-
40,000	40,000	141,148	101,148
-	-	7,410	7,410
-	-	-	-
-	-	4,767	4,767
32,045	32,045	8,776	(23,269)
-	-	-	-
-	-	967	967
-	-	-	-
5,543,561	5,534,561	5,474,347	(60,214)
600,000	600,000	-	(600,000)
6,143,561	6,134,561	5,474,347	(660,214)
119,500	119,500	69,247	50,253
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
3,905,859	3,896,859	3,353,898	542,961
141,000	141,000	167,958	(26,958)
1,477,202	1,477,202	1,427,184	50,018
5,643,561	5,634,561	5,018,287	616,274
500,000	500,000	456,060	(43,940)
-	-	40,000	40,000
(500,000)	(500,000)	(500,000)	-
(500,000)	(500,000)	(460,000)	40,000
$ -	$ -	$ (3,940)	$ (3,940)
		$ (3,940)	
		-	
		$ (3,940)	

EXHIBIT I

SEWER FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
$ 2,597,349	$ 2,597,349	$ 2,618,724	$ 21,375
-	-	-	-
-	-	-	-
2,245,200	2,245,200	2,354,650	109,450
-	-	-	-
4,260	4,260	7,759	3,499
-	-	-	-
-	-	-	-
4,500	4,500	5,217	717
5,851	5,851	214,615	208,764
-	-	-	-
-	-	2,772	2,772
-	-	-	-
4,857,160	4,857,160	5,203,737	346,577
-	-	-	-
4,857,160	4,857,160	5,203,737	346,577
89,500	89,500	47,121	42,379
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
4,547,721	4,547,721	4,287,312	260,409
127,000	127,000	221,019	(94,019)
92,299	92,299	92,299	-
4,856,520	4,856,520	4,647,751	208,769
640	640	555,986	555,346
4,033,820	4,033,820	4,130,000	96,180
(4,034,460)	(4,034,460)	(4,130,000)	(95,540)
(640)	(640)	-	640
$ -	$ -	$ 555,986	$ 555,986
		$ 555,986	
		-	
		$ 555,986	

TOWN OF POUGHKEEPSIE, NEW YORK
OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2012

EXHIBIT II:

Year Ended,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	12/31/2012	$ -	$ 37,312,623	$ 37,312,623	0.0%	$ 14,551,726	274.25%
12/31/2011	12/31/2011	$ -	$ 38,613,230	$ 38,613,230	0.0%	$ 15,169,799	254.54%
12/31/2010	1/1/2010	$ -	$ 35,400,367	$ 35,400,367	0.0%	$ 15,707,355	225.37%

OTHER SUPPLEMENTAL INFORMATION

TOWN OF POUGHKEEPSIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT III

FEDERAL GRANTOR/ PROGRAM TITLE	Federal CFDA Number	Pass-Through Entity Indentifying Numbers	Expenditures - Year Ended December 31, 2012
US Dept of Housing and Urban Development:			
Section 8 Housing Choice Vouchers	14.871		$ 596,589 *
US Dept of Transportation:			
Pass-thru Programs From:			
New York State Department of Transportation (NYSDOT)-			
Highway Planning and Construction- American Reinvestment and Recovery Act (ARRA)	20.205	D030263 D032419	738,088 *
US Dept of Homeland Security:			
Disaster Grants (FEMA)	97.036		97,094
US Dept of Energy	81.128		153,841
Disaster Grants (FEMA)			
US Dept of Justice:			
Bullet Proof Vest Partnership Program	16.710		13,155
NYS Edward Byrne Grant	16.738		49,500
TOTAL			$ 1,648,267

*Major Programs

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

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Poughkeepsie, New York and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

TOWN OF POUGHKEEPSIE
SCHEDULE OF EXPENDITURES OF NEW YORK STATE TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

EXHIBIT IV

FEDERAL GRANTOR/ PROGRAM TITLE	NYS DOT Contract Ref Number	Expenditures - Year Ended December 31, 2012
Consolidated Local Streets & Highway Improvement Program (CHIPS)	820686	$ 251,292

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF NEW YORK STATE TRANSPORTATION ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of New York State Transportation Assistance includes the activity of the financial assistance programs provided by the New York State Department of Transportation to the Town of Poughkeepsie, New York and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements described in the preliminary Draft Part 43 of the New York State Codification of Rules and Regulations (NYCRR) that are applicable to State transportation assistance programs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statement

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified:	One Noted
• Significant deficiencies identified that are not considered to be material weaknesses:	Two Noted
Noncompliance material to financial statements noted:	None Noted

Federal Awards

Internal control over major programs:	
Material weakness identified:	None Noted
• Significant deficiencies identified that are not considered to be material weaknesses:	None Noted
Type of report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133:	None Noted

State Awards

Internal Control over state transportation assistance expended:	
Material weakness identified:	None Noted
• Significant deficiencies identified that are not considered to be material weaknesses:	None Noted
Type of report issued on compliance for program tested:	Unmodified
Summary of audit findings listed in Section II:	None Noted

TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS, (Continued)

Identification of major programs:

CFDA NUMBER	NAME OF FEDERAL PROGRAM
14.871	Housing Assistance Payments Program for Low-Income Families - Section 8 programs
20.205	Highway Planning and Construction- American Reinvestment and Recovery Act (ARRA)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee classified as a low-risk auditee:	Yes

Identification of State Transportation Assistance Programs:

Consolidated Local Street and Highway Improvement Program (CHIPS)

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year Findings:

Material Weakness:

Finding 1: Financial Statement Adjustments - 2012

Under auditing standards in accordance with generally accepted accounting principles, Town personnel are responsible for preparation and review of financial information as part of the audit, and for recording approved audit adjustments at the completion of the audit to ensure that ending balances are carried forward and that relative opening balances are properly stated. During our audit we recorded significant adjustments to the Town's accounts receivable, accounts payable, retirement accruals and encumbrances, primarily due to prior period audit adjustments not being recorded properly.

Effect:

The Town's accounts receivables, accounts payable, retirement accruals and encumbrances were all materially misstated.

Cause:

The Town improperly recorded all prior year audit entries in the current year, and did not record all material accruals for its accounts receivable, accounts payable, retirement and encumbrances.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Material Weakness: (Continued)

Finding 1: Financial Statement Adjustments – 2012 (Continued)

Recommendation:

We recommend the Town record board approved auditors' adjustments to properly reconcile opening fund balances. In addition, opening balances should be reconciled to the audited financial statements for the prior reporting period to ensure that the balance forwarded are properly stated, which would also facilitate the properly reconciliation of key control accounts related to accounts payable and accounts receivable. The Town should seriously consider reviewing its financial statements and its internal control procedures over the areas noted above to ensure that all material adjustments and disclosures have been made for the audit.

Significant Deficiencies:

Finding 2 – Grant Revenues

The Town receives aid from both federal and state sources. It must maintain appropriate records to ensure that awards are properly identified by Catalog of Federal Domestic Aid number (CFDA#) and submission requests for funding through the respective federal agency are supported by appropriate documentation and in accordance with applicable regulations and agreements. These records support the entries made in the Town's accounting system. During 2012, the accounting records were not reconciled to the supporting records by contract period and by fiscal year to ensure that federal aid was properly recognized within the respective reporting period.

Effect:

The Town's accounting information systems incorrectly identified federal aid as state aid, and respective accounts required adjustments to correct year end balances. Therefore the initial copy of the Town's analysis of Expenditures of Federal Awards was incorrect.

Cause:

The Town did not reconcile its grant revenue receipts with accruals on an on-going basis.

Recommendation:

The Town should implement procedures to ensure that revenue accruals are recorded upon submission of grant funding requests. Further, the Town should periodically monitor the receipt of those revenues, including using a control schedule which would be the basis for its annual Statement of Expenditures of Federal Awards. Following such procedures on a consistent and timely basis will result in more effective internal controls and improved financial reporting.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Significant Deficiencies: (Continued)

Finding 3 – Capital Projects Coding on the Annual Update Document

General ledger accounts are not being shown under the appropriate account codes on the Annual Update Document.

Effect:

Accounts in the Annual Update Document may not be properly stated.

Cause:

Improper account codes have been assigned to general ledger accounts in the Town's accounting software. This has resulted in the misstatement of some accounts reported on the Annual Update Document because the general ledger accounts are not being reported on the appropriate line.

Recommendation:

The Town should review all of the account coding in the their accounting software to ensure that each general ledger account is being coded to the appropriate line on the Annual Update Document.

Other Matters:

Finding 4 – Due To & Due From's

The Town has significant interfund borrowings on their books at year end. According to General Municipal Law, any interfund borrowings made during the year are required to be paid back before the end of the fiscal year.

Effect:

The Town has not repaid back its borrowing of monies before the end of the fiscal year and the Town may be borrowing money from different tax bases without charging interest.

Cause:

The Town has been experiencing deficits and cash flow shortfalls in some of its funds.

Recommendation:

The Town should approve a formal resolution for any borrowing between funds with different taxpayer bases and all borrowings between funds should be repaid before the end of the fiscal year.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Other Matters: (Continued)

Finding 5 - Fraud Risk Assessment

The Town has not performed a formal review of its internal controls and identified potential areas of fraud and prepares a response to mitigate any potential internal control weaknesses.

Effect:

The Town may have weaknesses in its internal controls leaving itself susceptible to fraud.

Cause:

The Town has not performed a full fraud risk assessment process over the Town's operations.

Recommendation:

The Town should implement a fraud risk assessment study from its Finance Committee in which it reviews the Town's internal controls at an entity-wide level to ensure proper controls are implemented and effective.

Finding 6 – Encumbrances

During our audit we noted that the Town does not track its encumbrances throughout the year on its general ledger. In addition, the Town provided a year-end report from its accounting software that did not agree to the Annual Updated Document.

Effect:

The encumbrances per the open purchase order report did not agree to the Annual Update Document.

Cause:

The Town did not generate an open purchase order report at year-end and agree that report to the general ledger.

Recommendation:

We recommend that the Town print an open purchase order report at year-end and agree this report to the general ledger.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Other Matters: (Continued)

Finding 7 - Over-expended Appropriations

Certain appropriations were over-expended during the year.

Effect:

The Town has not provided for revenues sufficient to cover all expenditures since appropriations, i.e., planned expenditures, have been exceeded. The Town is also in violation of its legally adopted budget.

Cause:

The following appropriations were over-expended:

FUND/CATEGORY	APPROPRIATION	EXPENDITURE	VARIANCE (UNFAVORABLE)
General Fund A			
General Government Support	$ 4,086,241	$ 4,403,117	$ (316,876)
Culture and Recreation	$ 710,859	$ 890,201	$ (179,342)
Employee Benefits	$ 196,200	$ 223,674	$ (27,474)
Debt Service	$ 581,030	$ 619,481	$ (38,451)
General Fund B			
Public Safety	$ 14,454,271	$ 14,324,861	$ 129,410
Employee Benefits	$ 1,261,610	$ 1,452,811	$ (191,201)
Highway			
Debt Service	$ 1,824,950	$ 1,753,950	$ 71,000
Water Fund			
Home and Community Service	$ 3,896,859	$ 3,353,898	$ 542,961
Employee Benefits	$ 141,000	$ 167,958	$ (26,958)
Sewer Fund			
Home and Community Service	$ 4,547,721	$ 4,287,312	$ 260,409
Employee Benefits	$ 127,000	$ 221,019	$ (94,019)

Recommendation:

The Town should periodically review comparisons of budgeted and actual expenditures and provide for budget modifications as needed.

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Other Matters: (Continued)

Finding 8 - Debt Service Fund

The Town has established a Debt Service Fund, but is not using the fund for the purpose of debt service. Rather, it is being used to accumulate interest revenue.

Effect:

Funds set aside for debt service are not being used for that purpose.

Cause:

Debt Service expenditures are being recorded in the operating funds instead of the Debt Service Fund.

Recommendation:

The Town should modify its budgets for its operating funds and the Debt Service Fund to reflect debt service expenditures in the Debt Service Fund and the use of Debt Service reserve to fund those expenditures.

Finding 9 - Deficit Fund Balance

Several funds have incurred or increased a deficit fund balance during 2012.

Effect:

Future rate payers will be funding past expenditures.

Cause:

Deficit fund balances have occurred as follows:

	Fund Balance (Deficit)
General Fund A	$ (522,698)
Capital Projects Fund	$ (5,617,595)
Street Lighting Fund	$ (26,188)
Special Grant Fund	$ (11,654)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

Current Year Findings: (Continued)

Other Matters: (Continued)

Finding 9 - Deficit Fund Balance (Continued)

Recommendation:

The Town should establish plans to provide for funding these deficits as well as improving budgeting procedures to prevent deficits from occurring and accumulating in the future.

Finding 10 – U.S. Department of Housing and Urban Development

In June of 2013, the U.S. Department of Housing and Urban Development Quality Assurance Division staff was onsite at the Town, to conduct a Financial Management Review of the Town's Housing Choice Voucher Program. The primary goal of the visit was to ensure that HCV funds have been expended appropriately.

Effect:

HCV Fund expenditures may not be in accordance with HUD regulations.

Cause:

The Town's HCV Program reporting may not be accurate as it relates to HAP payments and administrative expenditures for the program.

Recommendation:

The Town should verify whether or not its reporting requirements are in accordance with HCV Program regulations. The Town should verify HUD's recalculation of net asset balances as it relates to the HCV Program.

OFFICE OF THE COMPTROLLER
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Dated 09/30/2013

Responses to 12/31/2012 audit findings

Financial Statement findings

Finding 1- (Financial statement Adjustments):

Response: All future financial information will be prepared and reviewed by Comptroller prior to audit field work ensuring accuracy and proper communication/ disclosure. Improvements continue to be made in this area; as the received audit adjustments that are required for accurate subsequent year opening balances need to be reviewed by staff and auditor at point of delivery. I will ensure that this essential communication between auditor and staff take place when the final 2012 audit adjustments are received.

Finding 2- (Grant Revenues):

Response: The Town Comptroller and Town Engineer work diligently on these Federal and State revenue sources. All of the said files are meticulously kept. Reconciliations will continue to be performed between these files and the town's accounting records. It should be noted that our town has been complimented by both federal and state agencies for our accuracy and timely responses.

Finding 3 – (Capital Projects coding on the Annual Update Document):

Response: All account coding will be reviewed prior to the filing of the town's 2013 Annual Update document. All Capital Project expenses were accurately processed and recorded in 2012.

Other Matters:

Finding 4- (Due to & Due From's):

Response: All due to/ due from accounts are in balance. All balances are monitored on a monthly basis to ensure we remain in compliance. Effective with 1/1/2012 no borrowing between funds has been permitted. A plan is currently in place that ensures the repayment of said funds. In 2012 the balances were reduced by $427,930.

Finding 5- (Fraud Risk Assessment):

Response: The Town's Comptroller will review this recommendation with the town's Finance Committee. Good sound procedures are constantly being reviewed and implemented throughout all departments within the Town of Poughkeepsie.

Finding 6- (Encumbrances):

Response: Much work and energy has been expended in this area as our software program continues to fault in this matter. We do however compensate for this (software) shortcoming by ensuring that the year- end Purchase order report reconciles to the General Ledger at year end. A procedure is currently in place where all year- end encumbrances are sent out to all departments to ensure their accuracy going into the subsequent year.

Finding 7- (Over- expended Appropriations):

Response: All departments receive budget to actual reports on a current/ monthly basis for their review. Comptroller ensures that all budgetary levels are met. These unfavorable variances are *misleading* as four of the major funds identified contributed positively to their respective funds' fund balance (i.e. the four respective funds General A, Part-Town General B, Highway, and Sewer Fund had actual revenues exceed actual appropriations (the fifth fund was basically flat a negative $3,940 in the Water fund which stands with a current fund balance of $5,404,113. For the 2012 year in our five major funds revenues exceeded appropriations by $1,878,476.

Finding 8- (Debt Service Fund):

Response: All debt service requirements are accurately and timely met through the respective operating fund budgets. The Comptroller is committed to reviewing the viability of said fund in regard to purpose and necessity.

Finding 9- (Deficit Fund Balance):

Response: All deficit fund balances are reviewed on a constant basis. All town budgets will incorporate said deficits during preparation of future plans.

A) *General Fund A*- 2012 reflects a reduction of this deficit by $178,146
B) *Capital Projects Fund*- This deficit comes from funding various projects through Bond Anticipation Notes. Revenue from this type of funding is not recorded until the notes are paid/ or serial bonds are issued. The Town has used this source of funding to maximize financing costs and minimize the size of the final financing.
C) *Street Lightning Fund*- 2012 reflects a reduction of this deficit by $66,823 (this fund will be in surplus position in year 2013).
D) Special Grant Fund- Current plan call for deficit to be eliminated in 2013.

Finding 10- (U.S. Department of Housing and Urban Development):

Response: The town is in process of reviewing the audit findings and we will be filing our Corrective Action plan on a timely basis.