CITY OF HUDSON, NEW YORK

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011

CITY OF HUDSON, NEW YORK

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INDEPENDENT AUDITORS' REPORT

To the Common Council
City of Hudson, New York
Hudson, New York

We have audited the accompanying financial statements of the City of Hudson, New York, as of and for the year ended December 31, 2011, which collectively comprise the City of Hudson, New York's general purpose financial statements as listed in the table of contents. These general purpose financial statements are the responsibility of the City of Hudson, New York's management. Our responsibility is to express opinions on these general purpose financial statements based on our audit. We did not audit the financial statements of the Hudson Industrial Development Agency and the Hudson Community Development and Planning Agency. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hudson Industrial Development Agency and Hudson Community Development and Planning Agency is based on the reports of the other auditors.

Except as discussed in the following paragraph, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The City of Hudson, New York, does not maintain a fixed asset inventory.

As described in Note 1 to the financial statements, the City of Hudson, New York's policy is to prepare its financial statements on a basis of accounting prescribed or permitted by the New York State Comptroller's Office. This practice differs from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the other comprehensive basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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Further, in our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of City of Hudson, New York, as of December 31, 2011, and the changes in its financial position, or where applicable, its cash flows for the year then ended. Further, the City of Hudson, New York, has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the general purpose financial statements.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments had we been able to audit the City of Hudson, New York's fixed assets, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Hudson, New York, as of December 31, 2011, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012, on our consideration of the City of Hudson, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sisterle, Parskie, Allen + Chenchet, CPAs, P.C.

Hudson, New York
September 13, 2012

CITY OF HUDSON, NEW YORK
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES, FIDUCIARY FUND TYPES,
ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2011

	Governmental Fund Types					Fiduciary Fund Type	Non-Current		Totals (Memorandum Only)		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Special Grant	Permanent Fund	Trust & Agency	Governmental Assets	Governmental Liabilities	Primary Government	Component Units	Reporting Entity
ASSETS											
Cash:											
Unrestricted	$ 2,870,296	$ 326,095	$ 196,344	$ 44	$ -	$ 68,824	$ -	$ -	$ 3,461,603	$ 377,557	$ 3,839,160
Restricted	84,395	8,232	-	-	769,062	96,608	-	-	958,297	-	958,297
Investments:											
Unrestricted	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	761,814	-	-	761,814	-	761,814
Receivables:											
Taxes, net	2,168,670	-	-	-	-	-	-	-	2,168,670	-	2,168,670
Due from other funds	9,647	200,753	46,959	-	-	22,892	-	-	280,251	-	280,251
State and Federal aid	-	-	167,887	-	-	-	-	-	167,887	10,625	178,512
Due from other governments	-	-	-	-	-	-	-	-	-	127,000	127,000
Other, net of allowance	433,107	572,617	-	-	-	-	-	-	1,005,724	184,886	1,190,610
Inventories	-	-	-	-	-	-	-	-	-	-	-
Deferred expenditures	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-
Land, building and equipment, net	-	-	-	-	-	-	-	-	-	649,821	649,821
Amounts to be provided for retirement of long-term debt	-	-	-	-	-	-	-	20,995,148	20,995,148	-	20,995,148
Total Assets	$ 5,566,115	$ 1,107,697	$ 411,190	$ 44	$ 769,062	$ 950,138	$ -	$ 20,995,148	$ 29,799,394	$ 1,349,889	$ 31,149,283
LIABILITIES											
Payables:											
Accounts payable	$ 970,010	$ 196,194	$ 82,729	$ -	$ -	$ -	$ -	$ -	$ 1,248,933	$ 52,960	$ 1,301,893
Accrued liabilities	115,156	21,035	-	-	-	188,324	-	-	324,515	-	324,515
Due to other funds	95,811	9,647	174,794	-	-	-	-	-	280,252	-	280,252
Due to other governments	997,121	-	-	-	-	-	-	11,208,303	12,205,424	-	12,205,424
Retainage payable	-	-	-	-	-	-	-	-	-	-	-
Bond interest and matured bonds	-	-	-	-	-	-	-	-	-	-	-
Notes payable:											
Tax anticipation	-	-	-	-	-	-	-	-	-	-	-
Revenue anticipation	-	-	-	-	-	-	-	-	-	-	-
Bond anticipation	-	-	-	-	-	-	-	-	-	-	-
Deferred credits:											
Overpayments and collections in advance	-	-	-	-	-	-	-	-	-	-	-
Deferred revenues	1,173,346	-	15,649	-	-	-	-	-	1,188,995	259,090	1,448,085
Planned balance	-	-	-	-	-	-	-	-	-	-	-
Long-term liabilities:											
Due to police and firemen's retirement system	-	-	-	-	-	-	-	-	-	-	-
Due to employees' retirement system	-	-	-	-	-	-	-	-	-	-	-
Compensated absences payable	-	-	-	-	-	-	-	803,830	803,830	-	803,830
Other post employment benefits payable	-	-	-	-	-	-	-	-	-	-	-
Bond & long-term debt	-	-	-	-	-	-	-	8,983,015	8,983,015	-	8,983,015
Other liabilities	5,976	47	-	-	-	761,814	-	-	767,837	-	767,837
Total Liabilities	3,357,420	226,923	273,172	-	-	950,138	-	20,995,148	25,802,801	312,050	26,114,851
FUND EQUITY											
Non-Spendable	-	-	-	-	-	-	-	-	-	505,617	505,617
Restricted	94,257	-	138,018	-	769,062	-	-	-	1,001,337	-	1,001,337
Committed	-	8,232	-	-	-	-	-	-	8,232	-	8,232
Assigned	641,657	872,542	-	44	-	-	-	-	1,514,243	532,222	2,046,465
Unassigned	1,472,781	-	-	-	-	-	-	-	1,472,781	-	1,472,781
Total Fund Equity	2,208,695	880,774	138,018	44	769,062	-	-	-	3,996,593	1,037,839	5,034,432
Total Liabilities and Fund Equity	$ 5,566,115	$ 1,107,697	$ 411,190	$ 44	$ 769,062	$ 950,138	$ -	$ 20,995,148	$ 29,799,394	$ 1,349,889	$ 31,149,283

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK

COMBINED STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND EQUITY - ALL GOVERNMENTAL FUND TYPES, FIDUCIARY FUND TYPES & DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Fund Types					Totals (Memorandum Only)		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Special Grant	Permanent Fund	Primary Government	Component Units	Reporting Entity
REVENUES								
Real property taxes	$ 4,408,209	$ -	$ -	$ -	$ -	$ 4,408,209	$ -	$ 4,408,209
Real property tax items	294,715	-	-	-	-	294,715	-	294,715
Nonproperty taxes	1,424,186	-	-	-	-	1,424,186	-	1,424,186
Departmental income	257,347	2,166,907	-	-	-	2,424,254	341,702	2,765,956
Use of money and property	280,901	201,761	185	-	5,810	488,657	828	489,485
Licenses and permits	78,969	-	-	-	-	78,969	-	78,969
Fines and forfeitures	327,337	-	-	-	-	327,337	-	327,337
Sale of property and compensation for loss	70,811	88,603	-	-	-	159,414	-	159,414
Miscellaneous	71,144	24,884	4,896	-	-	100,924	-	100,924
Interfund revenue	-	-	-	-	-	-	-	-
State sources	2,280,631	-	-	-	-	2,280,631	-	2,280,631
Federal sources	95,199	-	-	-	-	95,199	5,938	101,137
Total Revenues	9,589,449	2,482,155	5,081	-	5,810	12,082,495	348,468	12,430,963
EXPENDITURES								
General governmental support	1,753,437	88,549	-	-	-	1,841,986	-	1,841,986
Public safety	2,960,263	-	-	-	-	2,960,263	-	2,960,263
Health	7,996	-	-	-	-	7,996	-	7,996
Transportation	1,759,646	-	-	-	-	1,759,646	-	1,759,646
Economic assistance and opportunity	12,168	-	-	-	-	12,168	-	12,168
Culture and recreation	757,491	-	-	-	-	757,491	-	757,491
Home and community services	344,530	1,376,043	4,020,186	-	-	5,740,759	81,555	5,822,314
Employee benefits	2,673,747	307,315	-	-	-	2,981,062	-	2,981,062
Debt Service	213,391	475,540	-	-	-	688,931	-	688,931
Total Expenditures	10,482,669	2,247,447	4,020,186	-	-	16,750,302	81,555	16,831,857
Excess (Deficiency) of Revenues Over Expenditures	(893,220)	234,708	(4,015,105)	-	5,810	(4,667,807)	266,913	(4,400,894)
OTHER FINANCING SOURCES AND USES								
BANs redeemed from appropriations	-	-	-	-	-	-	-	-
Proceeds from debt	-	-	3,757,035	-	-	3,757,035	-	3,757,035
Operating transfers in	2,452	-	-	-	-	2,452	-	2,452
Operating transfers (out)	-	-	(2,452)	-	-	(2,452)	-	(2,452)
Rounding	-	-	-	-	-	-	-	-
Total Other Sources (Uses)	2,452	-	3,754,583	-	-	3,757,035	-	3,757,035
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(890,768)	234,708	(260,522)	-	5,810	(910,772)	266,913	(643,859)
Fund Equity - Beginning of Year	3,099,463	646,066	398,540	44	763,252	4,907,365	770,926	5,678,291
Fund Equity - End of Year	$ 2,208,695	$ 880,774	$ 138,018	$ 44	$ 769,062	$ 3,996,593	$ 1,037,839	$ 5,034,432

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET BASIS AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
REVENUES				
Real Property Taxes	$ 4,452,845	$ 4,552,845	$ 4,408,209	$ (144,636)
Real Property Tax Items	1,653,059	1,653,059	1,718,901	65,842
Department Income	223,000	226,419	257,347	30,928
Use of Money and Property	254,250	254,250	280,901	26,651
Sale of Property and Compensation for Loss	362,000	362,000	70,811	(291,189)
Licenses and Permits	331,500	331,500	78,969	(252,531)
Fines and Forfeitures	-	-	327,337	327,337
Miscellaneous and Local Sources	25,000	25,000	71,144	46,144
State Aid	1,838,479	2,190,345	2,280,631	90,286
Federal Aid	-	-	95,199	95,199
Total Revenues	9,140,133	9,595,418	9,589,449	(5,969)
OTHER FINANCING SOURCES				
Transfers from Other Funds	-	-	2,452	2,452
Appropriated Reserves	-	-	-	-
Designated Fund Balance and Encumbrances Carried Forward From Prior Year	650,000	650,000	-	(650,000)
Total Revenues and Other Financing Sources	$ 9,790,133	$ 10,245,418	$ 9,591,901	$ (653,517)

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET BASIS AND ACTUAL - GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance With Budgetary Actual and Encumbrances
EXPENDITURES					
General Government Support	$ 1,580,482	$ 1,678,255	$ 1,753,437	$ 77,800	$ (152,982)
Public Safety	3,092,337	3,000,946	2,960,263	857	39,826
Health	8,066	8,066	7,996	-	70
Transportation	1,370,401	1,778,620	1,759,646	-	18,974
Economic Assistance and Opportunity	11,700	13,244	12,168	-	1,076
Culture and Recreation	536,191	781,192	757,491	13,000	10,701
Home and Community Service	362,636	349,278	344,530	-	4,748
Employee Benefits	2,574,781	2,557,194	2,673,747	-	(116,553)
Debt Service	213,541	213,541	213,391	-	150
Total Expenditures	9,750,135	10,380,336	10,482,669	91,657	(193,990)
OTHER USES					
Other Budgetary Purposes	-	-	-	-	-
Operating Transfers Out	39,998	39,998	-	-	39,998
Total Expenditures and Other Uses	$ 9,790,133	$ 10,420,334	$ 10,482,669	$ 91,657	$ (153,992)

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET BASIS AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Final Budget Variance With Budgetary Actual
REVENUES				
Real Property Taxes	$ -	$ -	$ -	$ -
Real Property Tax Items	-	-	-	-
Department Income	2,060,420	2,059,920	2,166,907	106,987
Use of Money and Property	207,500	208,000	201,761	(6,239)
Sale of Property and Compensation for Loss	-	-	88,603	88,603
Licenses and Permits	-	-	-	-
Fines and Forfeitures	-	-	-	-
Miscellaneous and Local Sources	37,000	37,000	24,884	(12,116)
State Aid	-	-	-	-
Federal Aid	-	-	-	-
Total Revenues	2,304,920	2,304,920	2,482,155	177,235
OTHER FINANCING SOURCES				
Transfers from Other Funds	39,998	39,998	-	(39,998)
Appropriated Reserves	-	-	-	-
Designated Fund Balance and Encumbrances Carried Forward From Prior Year	91,945	180,257	-	(180,257)
Total Revenues and Other Financing Sources	$ 2,436,863	$ 2,525,175	$ 2,482,155	$ (43,020)

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET BASIS AND ACTUAL - SPECIAL REVENUE FUND (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Final Budget	Actual (Budgetary Basis)	Year-End Encumbrances	Final Budget Variance With Budgetary Actual and Encumbrances
EXPENDITURES					
General Government Support	$ 213,373	$ 201,299	$ 88,549	$ 7,431	$ 105,319
Public Safety	-	-	-	-	-
Health	-	-	-	-	-
Transportation	-	-	-	-	-
Economic Assistance and Opportunity	-	-	-	-	-
Culture and Recreation	-	-	-	-	-
Home and Community Service	1,395,010	1,454,683	1,376,043	26,491	52,149
Employee Benefits	335,054	333,826	307,315	-	26,511
Debt Service	493,426	493,426	475,540	-	17,886
Total Expenditures	2,436,863	2,483,234	2,247,447	33,922	201,865
OTHER USES					
Operating transfers out	-	-	-	-	-
Total Expenditures and Other Uses	$ 2,436,863	$ 2,483,234	$ 2,247,447	$ 33,922	$ 201,865

See independent auditors' report and notes to the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the City of Hudson, New York, have been prepared on a regulatory basis in conformity with the *Office of the State Comptroller Accounting and Reporting Manual* covering cities. The basis of presentation is a comprehensive basis of accounting other (OCBOA) than generally accepted accounting principles in the United States of America as applied to government units.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City Council has authorized the presentation of financial information in accordance with the reporting model in effect prior to that described in GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. The basis of accounting used has been applied in a manner consistent with the prior period.

The additional minimum financial reporting requirements of GASB Statement No. 34 for State And Local Governments includes:

- Management's Discussion and Analysis—The MD&A is a component of required supplementary information (RSI). The MD&A is an introduction to the basic financial statements and an analytical overview of the government's financial activities.

- RSI other than the MD&A, such as the required budgetary comparison schedule for the General Fund and major Special Revenue Funds, generally is included immediately following the notes to the financial statements.

- Infrastructure Reporting – Capitalizing and depreciating a government's infrastructure assets. (e.g. roads, bridges, dams, water and sewer systems, etc.).

- Other Post-Employment Benefits (OPEB) – OPEB reporting requiring an actuarial calculated liability for benefits to retirees such as the City's share of health insurance is a reporting required under GASB Statement No. 45 in accordance with GASB Statement No. 34 commencing with the 2008 fiscal year.

- Entity-Wide Financial Reports – Entity-wide Statement of Net Assets, Statement of Activities and Changes in Net Assets use accrual accounting methods similar to private sector companies to report all activities of the City in combined statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A. Financial Reporting Entity:

City of Hudson, New York, which was incorporated in 1785, is governed by its Charter, the City law and other general laws of the State of New York and various local laws. The Common Council, which is the legislative body responsible for the overall operation of the City, consists of ten aldermen representing the five City wards and the President of the Common Council who presides over them. In the proceedings of the Common Council, each member, including the President, is entitled to cast the number of votes established per the Charter for his respective ward or title as it applies to each voting situation (simple majority, two-thirds majority, or three-fourths majority decisions). Apportionment of voting strength is based upon the most recent federal census. The Mayor serves as chief executive officer and the City Treasurer as chief fiscal officer of the City.

All governmental activities and functions performed for City of Hudson, New York, are its direct responsibility. No other governmental organizations have been included or excluded from the reporting entity.

The financial reporting entity consists of (a) the primary government which is City of Hudson, New York, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14 *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*.

The decision to include a potential component unit in the City's reporting entity is based on several criteria set forth in GASB Statements No. 14 and 39 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining City of Hudson, New York's reporting entity.

I. Included in the Reporting Entity:

a. Hudson Community Development and Planning Agency:

Hudson Community Development and Planning Agency was established by the City pursuant to Article 15B of the General Municipal Law. The governing board consists of five members, all of which are either elected City officials or their appointees. Other reasons for its inclusion in the entity are:

1. Title to properties acquired by the Agency during the course of its operations vest in the name of the City.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

2. Performance of financial transactions in the name of the City (e.g., Section 8 Housing Assistance Payments Annual Contributions Contracts, administered by the Agency, bear the authorizing signatures of the Mayor of Hudson and the appropriate HUD official).

3. Applications for federal grants must be approved by the Common Council.

4. The Agency has a September 30 year-end.

b. Hudson Industrial Development Agency:

Hudson Industrial Development Agency is a Public Benefit Corporation created by state legislation to promote the economic welfare, recreational opportunities, and prosperity of the City's inhabitants.

Members of the Agency are appointed by the municipal governing body which also may remove the appointed member for inefficiency, neglect or misconduct in office. The Agency is reported under the Governmental Fund Type as a component unit.

Complete financial statements of individual component units can be obtained from their respective administrative offices:

Hudson Community Development and Planning Agency
444 Warren Street
Hudson, New York 12534

Hudson Industrial Development Agency
444 Warren Street
Hudson, New York 12534

II. Excluded from the Reporting Agency:

Although the following organizations, functions or activities are related to the City, they are not included in the City's reporting entity because of the reasons noted:

a. Hudson City School District:

The School District was created by state legislation which designates the school board as the governing authority. School board members are elected by the qualified voters of the district. The board designates management and exercises complete responsibility for all fiscal matters. The City Common Council exercises no oversight over school operations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Hudson Housing Authority:

The Hudson Housing Authority is a municipal housing authority established pursuant to Title 81 of the Public Housing Law. The governing board consists of seven members, five of whom are appointed by the Mayor. Neither the Mayor nor the Common Council exercises any other form of oversight over the governing board. The Housing Authority has a June 30 year end and its financial statements are available from its offices at Corner of 2nd and State Streets, Hudson, New York 12534.

c. Not-for-Profit Corporations:

The Hudson Housing Development Corporation, the Hudson Housing Services Corporation, and the Hudson Development Corporation are not-for-profit corporations created pursuant to New York State statute.

Members of the governing boards of these corporations may include municipal officials or their appointees; however, municipal subsidies and/or debt guarantees are lacking. Thus, financial control or inter-dependence is nonexistent.

Columbia Hudson Partnership, LLC, is a joint activity with the County of Columbia and is excluded from the financial statements. The basic financial statements for Columbia Hudson Partnership, LLC are available at the administrative office of Columbia Hudson Partnership, LLC at 610 State Street, Hudson, New York 12534-2415.

B. Fund Accounting:

The City of Hudson, New York, uses funds and account groups to report on its financial position and results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The City of Hudson, New York, records its transactions in the fund types and account groups described below.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Governmental Funds:

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

a. General Fund:

This is the principal operating fund and includes all operations not required to be recorded in other funds.

b. Special Revenue Funds:

These are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes. The following Special Revenue Funds are utilized:

1. Cemetery Fund -- This is used to account for cemetery operations not required to be accounted for on an enterprise basis.

2. Permanent Fund (former Nonexpendable Trust) – This is used to account for resources that are legally restricted to the extent that only earnings, not principal, may be used for cemetery purposes.

3. Sewer Fund – This is used to account for sewer operations not required to be accounted for on an enterprise basis.

4. Urban Renewal Fund – This is used to account for HUD Section 108 loans guaranteed and canal corridor grants received not required to be accounted for on an enterprise basis.

5. Water Fund – This is used to account for water operations not required to be accounted for on an enterprise basis.

c. Capital Project Funds:

These are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. Special Grant Fund:

This is used to account for federal police grants.

e. Component Units:

These are used to account for the City's component units, Hudson Community Development and Planning Agency and Hudson Industrial Development Agency.

II. Fiduciary Funds:

These are used to account for assets held by the local government in a trustee or custodial capacity:

- Agency Funds:

These are used to account for money (and/or property) held in the capacity of trustee, custodian or agent.

III. Non-Current Government Assets:

Non-current government assets are used to account for land, buildings, improvements other than buildings, and equipment utilized for general government purposes.

IV. Non-Current Government Liabilities:

Non-current government liabilities are used to account for all long-term debt.

C. Fund Balances:

In fiscal year 2011, the City implemented Governmental Accounting Standards Board Statement No.54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). GASB 54 Changed the classification of fund balance to focus on the constraints imposed on resources in governmental funds, instead of the previous focus on availability for appropriation.

Fund balance is now broken down into five different classifications: non-spendable, restricted, committed, assigned, and unassigned.

I. Non-Spendable:

Consists of assets that are inherently non-spendable 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

II. 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. See Footnote 3, D. II. for December 31, 2011 restricted reserves.

III. 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, by resolution prior to the end of the fiscal year, commit fund balance. The City has $8,232 of committed fund balance as of December 31, 2011 for Urban Development.

IV. 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 of 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. The Council, by resolution has authorized the City Council to assign fund balance. Assigned funds in the General Fund are composed of encumbrances of $91,657 and appropriation to the 2012 budget of $550,000. See Footnote 3, D. I. for December 31, 2011 assigned appropriated fund balance in the Special Revenue Funds.

V. 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 City spends funds in the following order: restricted, committed, assigned, unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

D. Basis of Accounting/Measurement Focus:

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

-- Modified Accrual Basis:

All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Material revenues that are accrued include real property taxes, state and federal aid, sales tax and certain user charges. If expenditures are the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

Expenditures are recorded when incurred except that:

a. expenditures for prepaid expenses and inventory-type items are recognized at the time of purchase;

b. principal and interest on indebtedness are not recognized as an expenditure until due;

c. compensated absences, such as vacation and sick leave which vest or accumulate, are charged as an expenditure when paid;

d. pension costs are recognized as an expenditure when due, and

e. disbursements for inventory type items are considered an expenditure at the time of purchase.

f. Fixed assets are recorded at the fair market value at the time received. However, accounting principles generally accepted in the United States of America require fixed assets to be recorded at actual or estimated cost or, in the case of gifts and contributions, at the fair market value at the time received. No provision for depreciation is made. Long-term debt liabilities are recorded at the par value of the principal amount. No liability is recorded for interest payable to maturity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Property Taxes:

City real property taxes are levied annually on January 1 and are payable in four equal installments due January 1, April 1, July 1 and September 1. Taxes are collected without penalty or interest for a period of 30 business days for the first installment and for 15 business days for each of the remaining installments. Taxes for county purposes apportioned to the area within the City are levied together with taxes for the City and payable per the City Charter in two equal installments due January 1 and July 1. The City assumes enforcement responsibility for all taxes levied in the City.

Unpaid city school district taxes are turned over to the City for collection. The City receives payment on these unpaid school taxes until foreclosure. See Note 3, A, III for further disclosure on taxes receivable.

F. Interfund Transactions:

The operations of the City include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The City typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid with one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the City's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 3, C for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

G. Restricted Resources:

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these Notes.

H. Deferred Revenue:

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The City enforces uncollected real property taxes. An amount representing all uncollected real property taxes must be transmitted by the City to the City School District within two years from the return of unpaid taxes to the City. Real property taxes receivable expected to be collected within 60 days of year-end, less similar amounts collected during this period in the preceding year are recognized as revenue. Otherwise, deferred revenues offset real property taxes receivable.

Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the City has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

I. Departures from Accounting Principles Generally Accepted in the United States of America (GAAP):

At the balance sheet date, assets listed in non-current government assets had not been recorded at actual or estimated cost at the time acquired, as required by accounting principles generally accepted in the United States of America. The City does not maintain a fixed asset account group nor has it conducted a physical inventory. Therefore, audit procedures could not be applied to amounts reported in this account.

J. Vacation and Sick Leave and Compensatory Absences:

Pursuant to contractual agreements, City employees are entitled to accumulate sick leave. Vacation is not cumulative from year to year. Employees covered by the CSEA agreement, upon leaving City employment, are entitled to be paid for the following:

I. All unused vacation up to a maximum of 5 days

II. Fifty percent of their accumulated sick leave, which can be accumulated up to a maximum of 300 days or a maximum of 2,400 hours

Police officers who leave City employment are paid for the following:

- One-half of their accumulated sick leave which can be accumulated up to a maximum of 300 days or a maximum of 2,400 hours

Estimated sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in non-current government liabilities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Payment of vacation and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of sick leave and compensatory absences when such payments become due.

K. Post-Employment Benefits:

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

During the year, $1,615,342 was expensed on behalf of 62 retirees and 83 active employees and is recorded as an expenditure in the General and Special Revenue Funds. The cost of providing benefits for 62 retirees is not separate from the cost of providing benefits for the 83 active employees.

L. Total Columns on the General-Purpose Financial Statements:

Total columns on the general-purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

M. Estimates:

The preparation of financial statements in conformity with OCBOA requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimated. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences and potential contingent liabilities.

N. Accounts Receivable:

An allowance for uncollectible accounts has been provided for certain amounts that may not be collectible within 60 days.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

A. General Budget Policies:

I. The City employs the following budgetary procedures:

a. No later than the tenth day of November, the Board of Estimate and Apportionment, consisting of the Mayor, City Treasurer, and President of the Common Council), submits a tentative budget to the Common Council for the fiscal year commencing the subsequent calendar year. The tentative budget includes proposed expenditures and the proposed means of financing for all funds of the City except for the following:

Special Grant Funds	Trust and Agency Funds
Component Units	Capital Projects Funds
Urban Renewal	

b. After public hearings are conducted to obtain taxpayer comments, no later than the thirtieth day of November, the Common Council adopts the proposed budget. Should the Common Council fail to adopt such a budget before November 30, the proposed budget as submitted by the Board of Estimate and Apportionment shall be deemed adopted.

c. The City Treasurer is authorized to transfer any budgeted amounts not prohibited by law up to $500 upon departmental request; the Treasurer may transfer any amounts not prohibited by law between $500 and $1,000 with approval of the Board of Estimate and Apportionment; the Treasurer may transfer any amounts not prohibited by law in excess of $1,000 with the approval of both the Board of Estimate and Apportionment and the Common Council.

d. Budgetary controls are established for the Capital Projects Fund through Common Council resolutions authorizing individual projects which remain in effect for the life of the project.

e. Urban Renewal Fund is not included in the Schedule of Revenues, Expenditures, and Changes in Fund Equity – Budget Basis and Actual – Special Revenue. The reconciliation of Revenue of the Special Revenue Fund Actual Budgetary Basis of $2,482,155 and Special Revenue Fund actual of $2,482,155 is a difference of $0. The reconciliation of Expenditures of the Special Revenue Fund Actual Budgetary Basis of $2,247,447 and Special Revenue Fund actual of $2,247,447 is a difference of $0.

See independent auditors' report.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED):

II. Encumbrances:

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed in the General and Special Revenue Funds. Encumbrances are reported as assigned fund balances since they do not constitute expenditures or liabilities. Expenditures for such commitments are recorded in the period in which the liability is incurred.

III. Budget Basis of Accounting:

Budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America.

B. Budgetary Overspending:

The following funds had an excess of actual expenditures over final budget for the year:

General Fund:	
General Government Support	$ 152,982
Employee Benefits	116,553

The City did not make transfers among functional units, which would have provided budgetary transfers prior to expenditure of funds. The City did not make budgetary transfers for the County Pilot of $47,952 classified under the General Government Support. The remaining excess is the result of two audit adjustments accruing expenditures. The appropriation source of funds should be identified, or when applicable a resolution to use fund balance should be made to keep the final budget revenue and expenditures in agreement. The City plans to pursue appropriate transfers in ensuing years to enhance budget controls.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS:

A. Assets:

I. Cash:

The City's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The City of Hudson, New York's investment policies are governed by state statutes. In addition, the City has its own written investment policy.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

The City's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The City Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit at 105 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the state and its municipalities and school districts.

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

As of December 31, 2011, $-0- of the government's bank balance of $4,567,659 was exposed to custodial credit risk as follows:

Uncollateralized	$ -
Collateralized with securities held by the pledging financial institiution, or its trust department or agent, but not in the City's name	$ -

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute or contributor guidance to be reserved for various purposes. Restricted cash as of year-end includes $861,689 within the governmental funds and $96,608 in the fiduciary funds.

II. Investment are stated at fair value and are held by the City's third party custodial bank.

Fund:	
Trust & Agency Fund	$ 761,814

See independent auditors' report.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

III. Taxes Receivable and Deferred Revenue:

Total net real property tax receivable of $2,168,670 at December 31, 2011, consisted of the following:

City taxes receivable, 2011	$ 596,562
City taxes receivable, 2010	364,142
City taxes receivable, 2009	153,387
City taxes receivable, 2008	75,542
City taxes receivable, 2007	32,704
City taxes receivable, 2006	6,259
City taxes receivable, 2005	20,069
City taxes receivable, 2004	10,965
City taxes receivable, 2003	6,533
City taxes receivable, 2002	6,816
City taxes receivable, 2001	10,086
City taxes receivable, 2000	7,200
City taxes receivable, 1999	2,751
City taxes receivable, 1998	5,804
City taxes receivable, 1997	9,227
City taxes receivable, 1995-1996	17,409
School taxes receivable	1,190,224
Tax sale certificates	28,357
Property acquired for taxes	400,952
Allowance for uncollectible taxes	(776,319)
Total net real property tax receivable	$ 2,168,670

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

Returned school taxes of approximately $995,324 are offset by liabilities to the school district. A portion of taxes receivable is offset by deferred tax revenue as outlined below.

Total deferred revenue of $1,173,346 at December 31, 2011, consists of the following all of which were uncollected at February 28, 2012:

City taxes receivable, 2011	$ 596,562
City taxes receivable, 2010	364,142
City taxes receivable, 2009	153,387
City taxes receivable, 2008	75,542
City taxes receivable, 2007	32,704
City taxes receivable, 2006	6,259
City taxes receivable, 2005	20,069
City taxes receivable, 2004	10,965
City taxes receivable, 2003	6,533
City taxes receivable, 2002	6,816
City taxes receivable, 2001	10,086
City taxes receivable, 2000	7,200
City taxes receivable, 1999	2,751
City taxes receivable, 1998	5,804
City taxes receivable, 1997	9,227
City taxes receivable, 1995-1996	17,409
School taxes receivable	194,900
Tax sale certificates	28,357
Property acquired for taxes	400,952
Allowance for uncollectible taxes	(776,319)
Total deferred tax revenue	$ 1,173,346

B. Liabilities:

I. Pension Plans:

a. Plan Description:

The City of Hudson, New York, 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.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

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

b. Funding Policy:

The Systems are noncontributory except for employees who joined the New York and Local Employee's Retirement System after July 27, 1976 and who contribute 3% of their salary for the first ten years of membership and employees who joined after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for the length of the service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

	PFRS	ERS
December 31, 2011	$ 344,459	$ 353,971
December 31, 2010	$ 279,356	$ 271,246
December 31, 2009	$ 194,096	$ 148,851

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

H. Short-Term Debt:

Liabilities for bond anticipation notes (BANs) are generally accounted for in the capital projects fund and the enterprise fund. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12-month period thereafter.

State law requires that BANs issued for capital purposes be converted to long term financing with five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

III. Long-Term Debt:

a. At December 31, 2011, the total outstanding indebtedness of the City aggregated $20,995,148.

b. Serial Bonds - The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of these capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in non-current government liabilities. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities. Long-term liabilities also include unbilled liability to the various state retirement systems.

c. Other Long-Term Debt - In addition to the above long-term debt, the City had the following non-current liabilities:

1. Compensated Absences represents the value of earned and unused portion of the liability for compensated absences.

2. Leases represent amount due on leased equipment.

3. Other Debt represents the City's installments from Environmental Facilities Corporation for the Capital Sewer Project received in 2011 and 2010 in the amount of $3,757,035 and $7,069,993, respectively. This debt will be converted into a long-term bond based upon completion of the project. As of December 31, 2011 the total debt for the Capital Sewer Project is $11,208,303.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

d. The following is a summary of changes in long-term liabilities for the period ended December 31, 2011:

	Payable at 12/31/2010	Additions	Deletions	Payable at 12/31/2011
Serial bonds	$ 7,073,363	$ -	$ 420,348	$ 6,653,015
State loan payable	16,720	-	16,720	-
Other Debt	7,547,740	3,757,035	96,472	11,208,303
Unbilled retirement	-	-	-	-
Compensated absences	769,146	34,684	-	803,830
Leases	2,460,000	-	130,000	2,330,000
Total long-term debt	$ 17,866,969	$ 3,791,719	$ 663,540	$ 20,995,148

Additions and deletions to compensated absences are shown net since it is impracticable to determine these amounts separately.

e. Long-Term Debt Maturity Schedule - The following is a summary of the serial bond issues and statutory installment bonds with corresponding maturity schedules.

	Original Amount	Date of Issue	Interest Rate	Balance 12/31/2011	Maturity Date
Fire Ladder Truck	$ 242,000	2002	4.75%	$ 24,200	2012
Churchtown dam	$ 157,500	2002	4.60%	15,750	2012
Computer upgrade	$ 140,000	2003	3.47%	8,600	2013
Green St/Churchtown	$ 500,000	2009	2.99%	300,000	2014
Pumper Truck/Meters	$ 263,204	2010	3.30%	236,884	2020
Water filtration	$ 6,800,000	2003	0.00%	5,205,514	2032
Water filtration	$ 1,000,000	2006	0.00%	862,067	2036
				$ 6,653,015	

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

f. The following summarizes future debt service requirements as of December 31, 2011:

	Bonds & State Loans		Leases	
	Bonds	Interest	Principal	Interest
2012	$ 413,921	$ 18,960	$ 130,000	$ 166,013
2013	377,780	13,078	130,000	156,750
2014	377,290	9,070	130,000	147,488
2015	281,099	5,211	130,000	138,225
2016	284,909	4,343	130,000	128,963
2017-2021	1,455,368	-	650,000	505,875
2022-2026	1,445,315	-	650,000	274,313
2027-2031	1,540,554	-	380,000	42,750
2032-2036	476,779	-	-	-
	$ 6,653,015	$ 50,662	$ 2,330,000	$ 1,560,377

C. Interfund Balances and Activity:

	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General Fund	$ 9,647	$ 95,811	$ 2,452	$ -
Special Revenue Fund	200,753	9,647		
Capital Fund	46,959	174,794	-	2,452
Total government activities	257,359	280,252	2,452	2,452
Fiduciary Agency Fund	22,892	-	-	-
Totals	$ 280,251	$ 280,252	$ 2,452	$ 2,452

In the normal course of its operations, the City budgets for and transfers monies between funds for these budgeted purposes.

See independent auditors' report.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

D. Fund Equity:

I. Allocation of Fund Balance:

Allocations of fund balance within the special revenue fund type at balance sheet date are as follows:

	Assigned	Committed
Cemetery Fund	$ 2,808	$ -
Water Fund	273,066	-
Sewer Fund	596,668	-
Urban Renewal Fund	-	8,232
	$ 872,542	8,232

II. Fund Balance Reserves:

The City has established the following reserves which represent a portion of fund balance segregated for specific purposes:

Fund	Purpose	Amount
Reserves:		
General	Codebook	$ 9,862
	Firehouse escrow	84,395
		$ 94,257
Capital	Repairs	$ 138,018
Permanent Fund	Perpetual Care	$ 769,062

See independent auditors' report.

NOTE 3 – DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED):

E. Deferred Compensation Plan:

In October 1997, the Governmental Accounting Standards Board issued Statement No. 32 Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. This statement established accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

In March 1998, employees of the City were provided the option to elect to participate in the City of Hudson Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years, usually after retirement.

On December 24, 1997, the City created a trust agreement making the City of Hudson Deferred Compensation Committee the trustee and custodian of the plan. Consequently, Statement No. 32 became effective for the City of Hudson Deferred Compensation Plan as of December 31, 1997. Since the City is no longer the trustee of the plan, the plan no longer meets the criteria for inclusion in City's financial statements. Therefore, the City is not required to record the value of the plan assets.

NOTE 4 – COMPONENT UNITS:

A. Hudson Industrial Development Agency:

The Hudson Industrial Development Agency's purpose is to encourage economic growth in the City of Hudson, New York.

Hudson Industrial Development Agency
Condensed Financial Statements - Discretely Presented Component Unit
Statement of Net Assets
December 31, 2011

Assets	
Current Assets:	
Cash and Cash Equivalents	$ 21,710
PILOT Receivable	63,113
Total current assets	84,823
Property and plant, net of accumulated depreciation	140,269
Total Assets	$ 225,092
Liabilities and Fund Balance	
Current Liabilities:	
Accounts payable	$ 2,500
PILOTS Payable	50,460
Deferred Revenue	10,317
Total current liabilities	63,277
Fund balance	161,815
Total Liabililties and fund balance	$ 225,092

See independent auditors' report.

NOTE 4 – COMPONENT UNITS (CONTINUED):

Hudson Industrial Development Agency
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

Revenue:		
Interest	$	603
Other Income		19,052
Total revenue		19,655
Expenditures:		
Accounting and auditing fees		2,500
Legal fees		955
Depreciation		7,873
Total expenditures		11,328
Total expenditures in excess of revenues		8,327
Fund Balance, Beginning of year		153,488
Fund Balance, End of year	$	161,815

B. Hudson Community Development and Planning Agency:

The Hudson Community Development and Planning Agency is a public benefit corporation established by the City of Hudson, New York. The purpose of Hudson Community Development and Planning Agency is to delegate the responsibility to provide safe and sanitary housing to City residents and to seek economic development opportunities.

See independent auditors' report.

NOTE 4 – COMPONENT UNITS (CONTINUED):

Hudson Community Development and Planning Agency
Condensed Financial Statements - Discretely Presented Component Unit
Statement of Financial Position
September 30, 2011

Assets:		
Current Assets	$	355,847
Property, Plant, and Equipment		509,552
Other Assets		259,398
Total Assets	$	1,124,797
Liabilities:		
Current Liabilities	$	17,307
Long-Term Liabilities		231,466
Total Liabilities		248,773
Net Assets:		
Investments in Fixed Assets		505,617
Net Assets		370,407
Total Net Assets		876,024
Total Liabilities and Net Assets	$	1,124,797

Hudson Community Development and Planning Agency
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2011

Revenue:		
Federal Aid	$	5,938
Program Related Income		322,650
Interest Income - Other		225
		328,813
Expenses:		
CDBG Program Related Expenses		5,938
Professional Fees		13,300
Other Program Related Expenses		47,140
Other Administrative and Operating Expenses		3,849
		70,227
Change in Net Assets		258,586
Net Assets, Beginning		617,438
Net Assets, Ending	$	876,024

See independent auditors' report.

NOTE 5 – CONTINGENCY:

The City is subject to several lawsuits. The City, in consultation with its legal council, believes that it is not adequately covered for the claims currently pending or threatened against the City. Accordingly a liability was recorded to reflect the judgment made regarding a tax certiorari in the amount of $129,035. One claim exists that is not covered by the City's insurance. The outcome of this claim, as with other claims cannot be determined at this time. The claim not covered by insurance, while not determinable, could run tens of thousands of dollars.

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

To the Common Council
City of Hudson, New York
Hudson, New York

We have audited the general purpose financial statements of the City of Hudson, New York, as of and for the year ended December 31, 2011, which collectively comprise the City of Hudson, New York's basic financial statements and have issued our report thereon dated September 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Hudson, New York, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Hudson, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hudson, New York's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson, New York's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness 2011-1.

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

Compliance and Other Matters

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

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

City of Hudson, New York's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned costs. We did not audit City of Hudson, New York's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sickler, Loeskin, Allen & Churchill, CPAs P.C.

Hudson, New York
September 13, 2012

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

To the Common Council
City of Hudson, New York
Hudson, New York

Compliance

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

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 City of Hudson, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Hudson, New York's compliance with those requirements.

In our opinion, City of Hudson, New York, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2011-1 and 2011-2.

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Internal Control Over Compliance

Management of City of Hudson, New York, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Hudson, New York's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Hudson, New York's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

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

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the City of Hudson, New York as of and for the year ended December 31, 2011, and have issued our report thereon dated September 13, 2012. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hudson, New York's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial

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

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

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sickler, Lonakis, Allen + Churchill CPAs, P.C.

Hudson, New York
September 13, 2012

CITY OF HUDSON, NEW YORK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

	Federal CFDA No.	Grant #	Federal Expenditures	Sub-Recipients
Environmental Protection Agency:				
Flow Through NYS Envirnomental Protection Agency:				
Capitalization Grants for Clean Water State Revolving Funds (American Recovery and Reinvestment Act):				
ARRA CWSRF	66.458	C4-5415-20-70	$ 3,772,909	$ -
CWSRF	66.458	D0-17288	229,235	-
			4,002,144	-
Department of Justice:				
Flow Through NYS Justice Department:				
Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Cluster:				
ARRA Justice Assistance Grant	16.804	B11-1115-E-00	11,162	-
			11,162	-
Public Safety Partnership and Community Policing Grants	16.61		385	-
Equitable Sharing Program	16.92	NY0100100	12,641	-
ARRA Bulletproof Vest Partnership Program	16.71	PD-00289(011)	57,743	-
			70,769	-
Total Flow Through NYS Justice Department:			81,931	-
Department of Transportation:				
Flow Through NYS Department of Transportation:				
State and Community Highway Safety Cluster:				
STEP (Highway)	20.600	PD-00324(011)	6,292	-
Occupant Protection Incentive Grants	20.602	PD-003240(011)	4,379	-
			10,671	-
BUNY (Seatbelts)	20.604	PD-00316(011)	2,597	-
Total Flow Through NYS Department of Transportation:			13,268	-
Department of Housing and Urban Development:				
Passed through to Hudson Community Development and Planning Agency:				
Community Development Block Grant Cluster:				
Small Cities - Technical Assistance Planning	14.228	558PF35-10	-	5,938
			-	5,938
TOTAL FEDERAL AWARDS			$ 4,097,343	$ 5,938

See independent auditors' report and notes to the financial statements.

CITY OF HUDSON, NEW YORK

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 1 – BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Hudson, New York, and is presented on the 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.

NOTE 2 - LOAN PROGRAMS:

The City of Hudson, New York, received the following new loans during the year ended December 31, 2011. These loans are made by Environmental Facilities Corporation. The value of the loans made during the year is included as federal expenditures presented in the schedule.

Cluster/Program Title	Federal CFDA Number	Value of Current Year Loans
Clean Water State Revolving Funds	66.458	$ 4,002,144

See independent auditors' report.

CITY OF HUDSON, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2011

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued:	Qualified	
Internal control over financial reporting:		
❖ Material weakness(es) identified?	X yes	___ no
❖ Significant Deficiency(ies) identified that are not considered to be material	___ yes	X none reported
Non-compliance material to financial statements noted?	___ yes	X no

Federal Awards:

Internal control over financial reporting:		
❖ Material weakness(es) identified?	___ yes	X no
❖ Significant Deficiency(ies) identified that are not considered to be material	___ yes	X none reported
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes	X no

Identification of Major Programs:

CFDA Number:	Name of Federal Program:
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee	___ yes	X no

II. FINANCIAL STATEMENT FINDING

2011-1
2011-2

III. FEDERAL AWARD FINDING AND QUESTIONED COSTS

2010-3: Allowable Costs/Cost Principles
2010-4: Allowables Costs/Cost Principles

Condition: See Following Page

II. FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

2011-1 **Criteria**: Accounting principles generally accepted in the United States of America require complete and accurate recording and reporting of an entity's fixed assets.

Condition: The City does not maintain a complete listing of the City's fixed assets at historical cost or donated value and no records are maintained for current year acquisitions or disposals.

Response: It is unlikely that the City will ever be able to properly record the cost basis of these properties. Therefore, prior assessed values at the time of the completion of the inventory will remain as the value assigned to these properties. In the future, the City will explore the possibility of utilizing the listing of properties with the assessed values as of 2007 to restate the carrying value of the properties for financial reporting purposes.

2011-2 **Criteria**: Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, results of operations, cash flows, and disclosures in the financial statements.

Condition: Hudson Community Development and Planning Agency's internal control system lacks certain controls with respect to separation of duties. This is mostly due to the small number of staff with relation to the numerous duties they are responsible for.

Response: Management will make every effort to separate financial duties whenever possible, including utilizing the ongoing services of a local accounting firm for assistance with bookkeeping and accounting services.

Prior Year Findings:

Prior year finding 05-1, 06-1, 07-1, 08-1, 09-1 and 10-1 is still an issue, since the City does not maintain an adequate system of recording and reporting fixed assets. Prior year finding is listed as current year finding 2011-1.

Prior year finding 08-2, 09-2 and 10-2 is still an issue, since Hudson Community Development and Planning Agency's internal control system lacks certain controls with respect to separation of duties. Prior year finding is listed as current year finding 2011-2.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-3: Allowable Costs/Cost Principles (Repeat Finding)

Federal Program:

CFDA Nos. 66.458 (Capitalization Grants for Clean Water State Revolving Funds.), U.S. Environmental Protection Agency, New York State Environmental Facilities Corporation.

Criteria:

OMB Circular A-133 section .300 (Auditee responsibilities) reads, in part, that the auditee shall "Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received." and that it should "Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with section .310." OMB Circular A-133 section .310 reads, in part, that "The Auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements." and that, at a minimum, the schedule should include certain requirements including providing total Federal awards expended for each individual Federal program and the CFDA number (or other identifying number when the CFDA number is not available).

Condition:

The City does not have reliable expenditure control procedures, including those to readily account for and report total Federal awards expended for each individual Federal program. The City of Hudson was unable to prepare a schedule of expenditures of Federal awards in a timely manner. A schedule of Federal expenditures was initially received on June 8, 2011, and a subsequent schedule of what is considered to be the complete and accurate expenditures was not received until July 7, 2011, and then only after much collaboration and interim revisions. Also, a $103,817 fiscal year 2009 expenditure was initially included in the fiscal year 2010 Schedule of Federal Expenditures. In addition, amounts totaling $76,748 ($49,293 for October 2009 and $27,455 for March 2010) for Delaware Engineering costs were not billed timely to NYSEFC until May 2011. In addition, amounts of $21,828 and $15,649 were billed to NYSEFC on draws 10 and 9, respectively, for the same (duplicate) BCI interest for late payment of invoices.

Effect:

The reported expenditures and related billings for Federal award programs may be inaccurate.

Context:

This was essentially a repeat finding of 2009.

Cause:

The cause of the condition is not known.

Questioned Cost:

There are no applicable questioned costs.

Recommendation:

The City of Hudson should develop a system of recording and reporting calendar year expenditures that yields accurate and timely reporting for Federal Expenditures. We acknowledge that the timing of availability of the schedules was several months earlier than 2009. It is anticipated that an initial version of such schedule could be available as early as one hundred and twenty days after year end.

Responsible Official's View and Planned Corrective Action:

The Treasurer of the City of Hudson, Eileen Halloran, stated that the City would improve in this area in fiscal year 2011.

Current Year Status:

The City of Hudson did develop a system of recording and reporting calendar year expenditures that yields accurate and timely reporting for Federal Expenditures. **We consider this matter resolved.**

2010-4: Allowable Costs/Cost Principles

Federal Program:

CFDA Nos. 66.458 (Capitalization Grants for Clean Water State Revolving Funds.), U.S. Environmental Protection Agency, New York State Environmental Facilities Corporation.

Criteria:

Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. (OMB Circular A-87, Appendix A, C.1.a. to Part 225 Basic Guidelines). (The City did not perform proper and efficient administration of payments for the contractor's affected invoices.) Costs incurred for interest on borrowed capital for the use of a governmental unit's own funds, however represented, are unallowable except when specifically provided in subsection b. or authorized by Federal legislation. (OMB Circular A-87, Appendix A. C. 23. A. Interest) (Subsection b. states that interest from Financing Costs are allowable, subject to certain conditions, but does not state that late payment penalty interest is allowable.) Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance of such payments. (OMB Circular A-87, Appendix A. D. 16. Fines and Penalties.)

Condition:

Interest expenses of $15,649 for late payment interest charged to the project. In addition, there was a $21,828 duplicate late payment interest charge to the project for the same late payment condition.

Effect:

Project costs were unnecessarily increased.

Cause:

The cause of the late payment penalties resulted from apparent inadequate advance coordination and communication between City departments. The cause of the duplicate $21,828 late payment interest amount appears to be related to the City's inadequate expenditure control system. (Refer to Finding 2010-1.)

Context:

This condition appears to be only related to the late payment of the BCI invoices.

Questioned Cost:

The questioned costs total $37,477.48, comprised of; (1) $15,649.15 paid to BCI Construction, Inc. via BCI invoice 7212010 dated 7/21/10 in NYSEFC draw #9 for interest on late payments through July 9, 2010, and (2) $21,828.33 via BCI invoice 6252010 dated 6/25/10 in draw #10 although not paid to BCI 0 for interest charges on late/non-received payments, was billed to NYSEFC and paid by NYSEFC to the City of Hudson .

Recommendation:

The City should make the accounting and billing adjustments to reduce the project costs for these amounts.

Responsible Official's View:

The Treasurer of the City of Hudson stated in an August 26, 2011, e-mail response that the City would make the necessary accounting and billing adjustments to reduce the project cost by these amounts.

Current Year Status:

The City made the accounting and billing adjustments to reduce the project costs for these amounts. **We consider this matter resolved.**

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September 13, 2012

To the Common Council
City of Hudson, New York
Hudson, New York

In planning and performing our audit of the basic financial statements of City of Hudson, New York, for the year ended December 31, 2011, 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, we considered the City of Hudson, New York's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We have separately reported on the City of Hudson, New York's internal control in our report dated September 13, 2012. This letter does not affect our report dated September 13, 2012, on the basic financial statements of City of Hudson, New York.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City of Hudson, New York, personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sickler, Torchia, Allen + Churchill, CPAs P.C.
Hudson, New York

MEMORANDUM

CURRENT YEAR MEMORANDUM ITEMS

None Noted

PRIOR YEAR MEMORANDUM ITEMS

Accounts Receivable

During our current year audit, we noted several accounts receivable for property acquired for taxes dating back to 2002. The City has not maintained an accurate schedule of property acquired for taxes account receivables. We recommend the City maintain a schedule of accounts receivable for property acquired for taxes and update it on a quarterly basis.

December 31, 2011 Status:

The audit generated similar detail findings to that of the prior year.

Budgets

During our audit procedures, it was noted Final Budget revenues and expenditures did not agree. The budget is an essential ingredient in the financial planning, control and evaluation process. The budget is an estimated financial plan of a government which represents the spending authority for the various purposes and the means of financing those proposed expenditures.

Budgetary accounting is a management control technique used to assist in controlling expenditures and tracking revenues. We suggest the City review its budgetary accounting procedures and State of New York statutory laws.

December 31, 2010 Status:

The audit generated similar detail findings to that of the prior year.

Accordingly, we continue our prior recommendation.

December 31, 2011 Status:

The audit generated similar detail findings to that of the prior year. Dialogue with the City Treasurer indicates the 2012 Final Budget is being properly recorded to reflect the changes in the revenues and expenditures.

Accordingly, we continue our prior recommendation.

Trust and Agency Fund:

During the 2006 audit procedures of the Trust and Agency Fund, it was noted that numerous accounts are carrying small balances in them from year to year with very little change.

We recommend that these accounts be analyzed and adjusted as necessary to reflect only amounts that are valid obligations. Excess amounts most likely would represent refunds of prior year expenses to the appropriate source fund.

December 31, 2008 Status:

The audit generated similar detail findings to that of the prior year.

December 31, 2009 Status:

The audit generated similar detail findings to that of the prior year.

December 31, 2010 Status:

The audit generated similar detail findings to that of the prior year.

December 31, 2011 Status:

During the current year audit we noted the accounts were analyzed and adjusted. **Accordingly, we consider this matter resolved.**

Payroll Testing:

During the payroll testing procedures for 2006, numerous supporting documentation issues were noted.

Part of our initial selection for testing included a City of Hudson, New York, department for which we were not able to obtain documentation. Such department was involved in an ongoing legal investigation, and the related information was being held for that process.

In addition to that, we were not provided with all of the direct deposit authorizations requested. We were advised that there is not a centralized location for maintaining this information.

There were several instances wherein copies of the I-9's could not be located on personnel tested during the process. There was no explanation as to what may have caused this.

There were several cases where gross pay recalculations did not tie in exactly to the payroll being tested. While the variance was not considered material, no explanation could be provided for the variance.

We recommend that the City of Hudson, New York, review its payroll processes. Internal controls would be greatly enhanced by centralizing as much of the process as possible. Additionally, a centralized location could then be established ensuring maintenance of records and compliance with personnel privacy issues.

December 31, 2008 Status:

The audit generated similar detail findings to that of the prior year such as missing W-4s, missing I-9s, incomplete I-9s, issues with gross payroll recalculations, missing direct deposit authorizations and wage authorizations.

December 31, 2009 Status:

The audit generated similar detail findings to that of the prior year such as missing W-4s, missing I-9s, incomplete I-9s, missing direct deposit authorizations and wage authorizations. Gross payroll recalculations was accomplished.

December 31, 2010 Status:

During the audit, four (4) I-9's were noted as not completed correctly and three (3) timesheets were missing approval.

Subsequent to the testing the incomplete I-9's were corrected by the respective departments.

Accordingly, we will continue to monitor.

December 31, 2011 Status:

During the current year audit, eleven (11) I-9's were noted as not completed correctly.

Subsequent to the testing the incomplete I-9's were corrected by the respective departments.

Accordingly, we will continue to monitor.

Interfund Transfers:

During the 2007 audit, it was noted that permanent transfers between funds occurred that were neither budgeted nor approved by the Common Council.

Transfers of this nature tend to impact future tax levies in specific funds in which property taxes and fund balance surplus are utilized to support expenditures.

Policies obtained during the audit process do not indicate an authorization process to accomplish interfund transfers.

We recommend that the City of Hudson, New York, adopt an authorization process for such transfers.

December 31, 2008 Status:

The City did not have any interfund transfers in fiscal year 2008. Inquiry of Treasurer's office personnel indicated that the need for a process was being considered.

PRIOR YEAR MEMORANDUM ITEMS (CONTINUED)

December 31, 2009 Status:

The City did not have any interfund transfers in fiscal year 2009. Inquiry of Treasurer's office personnel indicated that the need for a process was being considered.

December 31, 2010 Status:

The City did not have any interfund transfers in the current year. Inquiry of Treasurer's office personnel indicated that the need for a process was being considered. Adoption of a policy to document current practice for permanent transfers was discussed.

December 31, 2011 Status:

During the current year audit we noted interfund transfers approved by the Common Council. **Accordingly, we consider this matter resolved.**