

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2014

CITY OF SCHENECTADY, NEW YORK

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INTRODUCTION

This discussion and analysis of financial performance provides an overview of the City of Schenectady, New York's (the "City") financial activities for the fiscal year ending December 31, 2014. Readers are asked to consider this information in conjunction with the City's financial statements.

Except as noted below, the financial statements of the City of Schenectady, New York have been prepared in conformity with regulatory accounting principles prescribed by the New York State Office of the State Comptroller for complying with Article 3, Section 30 of General Municipal Law under which every municipal corporation is required to make an annual financial report.

Acquisitions of equipment and capital facilities should be recorded in the balance sheet in a non-current governmental asset account group to account for all land, buildings, improvements and equipment utilized by the City. The City does not maintain a general fixed asset account group and the amount that should be recorded in this account group is not known.

Further information can be found in the Notes to the Regulatory Basis Financial Statements.

FINANCIAL HIGHLIGHTS

During April 2014 Standard & Poor's upgraded the City's general obligation bond rating by revising it to A with a stable outlook from A- with a stable outlook and, additionally, in January 2015 Moody's Investor Services affirmed the City's general obligation bond A3 rating and removed the negative outlook.

General Fund

- Actual Total Revenues were sufficient to support Total Expenditures without the need to use the budgeted Appropriated Fund Balance.
- Operations, including transfer of reserves for capital use, produced a surplus of \$2.4 million.
- Ending Fund Balance is \$16.8 million and is comprised of \$8.9 million of restricted funds, \$0.2 million of assigned funds and \$7.7 million of unrestricted funds.
- Total Fund Balance increased approximately 17% compared to last fiscal year.

Water Fund

- Actual Total Revenues were sufficient to support Total Expenditures.
- Operations produced a surplus of \$0.7 million.
- Ending Fund Balance is \$5.7 million and is comprised of \$4.5 million of restricted funds and \$1.2 million of assigned funds.
- Total Fund Balance increased approximately 15% compared to last fiscal year.

FINANCIAL HIGHLIGHTS (Continued)

Sewer Fund

- Actual Total Revenues were sufficient to support Total Expenditures without the need to use the budgeted Appropriated Fund Balance.
- Operations, including transfer of reserve for capital use, produced a surplus of \$0.9 million.
- Ending Fund Balance is \$8.3 million and is comprised of \$6.7 million of restricted funds and \$1.6 million of assigned funds.
- Total Fund Balance increased approximately 12% compared to last fiscal year.

Recreation Fund

- Operations, including a \$87.0 thousand reserve transfer used for capital needs, resulted in a slight deficit of \$87.3 thousand.
- Ending Fund Balance of \$599.0 thousand is comprised of \$437.3 thousand of restricted funds, \$150.5 thousand of assigned funds and \$11.2 thousand that is unspendable (pro shop inventory).
- Total Fund Balance decreased slightly, 13% compared to last fiscal year.

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FINANCIAL HIGHLIGHTS (Continued)

The City's Funds

The table that follows illustrates the recent changes in the City's General, Water, Sewer and Recreation Funds balance sheets. The General Fund and Business Type Fund Balances, when combined, have seen credible growth thereby improving the City's financial condition. Specifically, the General Fund has grown 17.0% and the Recreation, Water and Sewer funds combined, 11.8%. When all these funds are combined, growth is 14.5%.

	Governmental Activities (General Fund)		Business Activities (Recreation, Water, Sewer)		Grand Total *	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
	Cash	18.7	18.9	1.8	1.4	20.5
Restricted Cash	7.2	8.9	9.1	11.6	16.3	20.5
Receivables (Net)	<u>8.3</u>	<u>9.6</u>	<u>3.4</u>	<u>3.3</u>	<u>11.7</u>	<u>12.9</u>
Total Assets	<u>34.2</u>	<u>37.4</u>	<u>14.3</u>	<u>16.3</u>	<u>48.5</u>	<u>53.7</u>
Total Short Term Liabilities	18.9	20.1	0.9	1.0	19.8	21.1
Deferred Inflows of Resources	<u>0.9</u>	<u>0.5</u>	<u>0.4</u>	<u>0.7</u>	<u>1.3</u>	<u>1.2</u>
Total Liabilities and Deferred Inflows	<u>19.8</u>	<u>20.6</u>	<u>1.3</u>	<u>1.7</u>	<u>21.1</u>	<u>22.3</u>
Net Assets:						
Restricted	7.2	8.9	9.1	11.6	16.3	20.5
Assigned	0.2	0.2	3.9	3.0	4.1	3.2
Unrestricted	<u>7.0</u>	<u>7.7</u>	<u>0.0</u>	<u>0.0</u>	<u>7.0</u>	<u>7.7</u>
Total Fund Balance	<u>14.4</u>	<u>16.8</u>	<u>13.0</u>	<u>14.6</u>	<u>27.4</u>	<u>31.4</u>

* Excludes Capital Project Fund Activity wherein financial resources used for acquisition or construction of major capital facilities and equipment is recorded. Information regarding the City's Bonds and BANs follow.

CITY OF SCHENECTADY, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2014

The City's Funds (Continued)

	Governmental Activities (General Fund)		Business Activities (Recreation, Water, Sewer)		Grand Total *	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenues						
Real Property Taxes	27.5	29.5	0.0	0.0	27.5	29.5
Real Property Tax Items	3.4	4.2	0.0	0.0	3.4	4.2
Non Property Tax Items	13.3	13.7	0.0	0.0	13.3	13.7
Departmental Income	8.5	9.7	19.7	20.1	28.2	29.8
Intergovernmental						
Charges	0.2	0.2	0.0	0.0	0.2	0.2
Use of Money & Property	0.5	0.1	0.1	0.0	0.6	0.1
Licenses & Permits	1.2	1.2	0.0	0.0	1.2	1.2
Fines & Forfeitures	1.0	1.0	0.0	0.0	1.0	1.0
Sale of Property & Compensation for Loss	1.4	1.1	0.0	0.0	1.4	1.1
Misc Local Sources	0.7	0.5	0.0	0.2	0.7	0.7
Interfund Revenue	4.7	4.6	0.1	0.0	4.8	4.6
State Aid	11.9	12.1	0.0	0.0	11.9	12.1
Federal Aid	0.4	0.1	0.0	0.0	0.4	0.1
Total Revenues	<u>74.7</u>	<u>78.0</u>	<u>19.9</u>	<u>20.3</u>	<u>94.6</u>	<u>98.3</u>
Program Expenses						
General Government						
Support	5.6	6.4	0.9	1.6	6.5	8.0
Public Safety	27.8	28.5	0.0	0.0	27.8	28.5
Transportation	4.5	4.6	0.0	0.0	4.5	4.6
Culture & Recreation	0.8	1.0	0.9	0.8	1.7	1.8
Home & Community						
Service	5.7	6.0	10.8	10.7	16.5	16.7
Employee Benefits	24.5	23.6	1.7	1.8	26.2	25.4
Debt Service	4.2	5.2	3.5	3.8	7.7	9.0
Total Expenses Before Transfers	<u>73.1</u>	<u>75.3</u>	<u>17.8</u>	<u>18.7</u>	<u>90.9</u>	<u>94.0</u>
Excess Before Transfers	1.6	2.7	2.1	1.6	3.7	4.3
Transfers	0.1	0.0	0.0	0.0	0.1	0.0
Capital Transfers	(0.2)	(0.3)	(0.5)	(0.1)	(0.7)	(0.4)
Increase in Net Assets	<u>1.5</u>	<u>2.4</u>	<u>1.6</u>	<u>1.5</u>	<u>3.1</u>	<u>3.9</u>

* Excludes Capital Project Fund Activity wherein financial resources used for acquisition or construction of major capital facilities and equipment is recorded. Information regarding the City's Bonds and BANs follow.

The City's Funds (Continued)

The table on the preceding page illustrates the operation of the City's General, Water, Sewer and Recreation Funds over a two-year period. Further details for those funds as well as other City funds follow:

Governmental

General Fund

This is the chief operating fund of the City. The 2014 operations, including transfer of reserves for capital use, produced a \$2.4 million surplus. The Actual Total Revenues exceeded the Total Revenue budget by approximately \$1.9 million and Actual Total Expenditures were under the Total Expenditure Budget by approximately \$4.3 million. In addition to efficient operations, (in total, department operations were within budget), employee benefit costs were approximately \$3.8 million under budget, largely driven by the success of health care insurance changes and health care initiatives within the City.

During 2014 the City, as planned, used \$0.3 million of its capital project reserve that was funded with previous year's surpluses to fund certain of its capital needs instead of bonding. The City anticipates continuance of this practice, with \$2.0 million of the current year's funds being used to increase its capital project reserve. The current fiscal year end's Unassigned Fund Balance is \$7.7 million and the Total Fund Balance is \$16.8 million. As a measure of the General Fund's liquidity, the Unassigned Fund Balance is 10.2% of the Total Expenditures & Other Uses and the Total Fund Balance is 22.2% of the Total Expenditures and Other Uses.

Special Revenue Funds

Water

Operations of the City's water district are reported here. The 2014 operations produced a \$0.7 million surplus. Although Actual Total Revenues fell slightly short of the budget, the City's management of operations, wherein Actual Total Expenditures were under budget by approximately \$1.1 million, created the positive operating results.

The 2014 Year End Restricted Fund Balance includes a capital project reserve that has been increased by \$1.2 million. The current fiscal year end's Total Fund Balance is \$5.7 million, compared to \$4.9 million the previous year.

The City's Funds (Continued)

Governmental (Continued)

Special Revenue Funds (Continued)

Sewer

Operations of the City's sewer district are reported here. The 2014 operations produced a \$0.9 million surplus.

The 2014 Year End Restricted Fund Balance includes a capital project reserve that has been increased by \$1.3 million. The current fiscal year end's Total Fund Balance is \$8.3 million, compared to \$7.4 million the previous year.

Recreation

Operations of the City's golf course are reported here. The 2014 operations produced a slight deficit of \$87.3 thousand. A component of this deficit is \$87.0 thousand of capital reserve funds being transferred to support capital needs.

The current fiscal year end's Total Fund Balance is \$599.0 thousand, compared to \$686.3 thousand the previous year.

Downtown Schenectady Improvement Fund ("DSIC")

Reflects activities related to the City working with DSIC on the revitalization of Downtown Schenectady. The City implementation of billing and collection of a component of DSIC's annual revenue is represented within this fund.

Miscellaneous Revenue Fund

Reflects activities related to the Revitalization of the Upper Union Street area. The City implementation of billing and collection of a component of the Upper Union Street Business District annual revenue is represented within this fund.

Special Grant Fund

Reflects accounting of special federal, state or local grants wherein expenditures are restricted for a specific purpose. The City managed approximately 28 grants through this fund. The fund's receivables and deferred revenues are largely comprised of loan activities through the Community Development Agency, Schenectady Local Development Agency and the Schenectady Housing Fund Corporation.

The City's Funds (Continued)

Governmental (Continued)

Capital Projects Fund

Reflects accounting of financial resources used or available for capital facilities or equipment. The fund has a deficit totaling \$14,732,408, which reflects the temporary financing of project costs through the issuance of bond anticipation notes (BANs). The deficit will be offset when permanent financing is issued and/or BAN principal payments are budgeted and paid in the governmental fund(s) responsible for the debt.

Fiduciary Funds

Trust and Agency

Reflects accounting of funds and/or property held in capacity as a trustee, custodian or agent. The City manages approximately 20 Trust and Agency Accounts in support of various activities to benefit its facilities and neighborhoods. An additional 43 accounts are used in support of various operational needs, fringe benefits, etc.

DEBT-BONDS AND BOND ANTICIPATION NOTES

The Bonds mature over time, 2017-2038, and have interest rates ranging from 0.0% to 5.9%. The BANs mature May 15, 2015 and with interest ratings ranging from 1.0% to 1.5%.

The table that follows shows that Total Debt Outstanding has increased slightly, approximately .4%, when compared to 2013. In 2013, Total Debt Outstanding increased approximately 2.6% when compared to 2012. The use of capital reserves created from surpluses has contributed to the Total Debt Outstanding increase of only .4% when compared to 2013.

	<u>2013</u>	<u>2014</u>
Bonds and Capital Notes Payable	\$ 35,800,000	\$ 70,496,039
Bond Anticipation Notes	<u>66,886,355</u>	<u>32,636,315</u>
Total Debt Outstanding	<u>\$ 102,686,355</u>	<u>\$ 103,132,354</u>

ECONOMIC FACTORS

Economic factors that influence the City's operations include:

- Creation of Mohawk Harbor
 - \$480 million project on a 60-acre waterfront site, hosting:
 - Casino
 - Hotels
 - Apartments and Condominiums
 - Retail and Office Space
- A re-energized Downtown
 - Home to Proctors Theatre and
 - Containing new restaurants and diverse corporations added during the last few years.
- Reliance on state aid
- Rising Healthcare and Retirement costs
- Distressed housing stock in many neighborhoods

CONTACTING THE CITY'S MANAGEMENT

The City's financial statements are designed to provide all interested parties with a general overview of the City's finances as well as to reflect accountability for all funds/property managed by the City. The address of the City's Commissioner of Finance and Administration is:

City of Schenectady
105 Jay Street-Room 103
Schenectady, NY 12305-1938

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of
the City Council - City of Schenectady
Schenectady, New York

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of the City of Schenectady, New York (the "City") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic regulatory financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions prescribed by the New York State Office of the State Comptroller. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the City of Schenectady, New York, on the basis of the financial reporting provisions of New York State Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of New York State Office of the State Comptroller. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Schenectady, New York, as of December 31, 2014, the changes in its financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As discussed in Note 1, the financial statements referred to above do not include in the balance sheet a general fixed assets account group, which should be included to fully conform with accounting principles prescribed by the New York State Office of the State Comptroller. The additional amounts that should be recorded in the general fixed assets account group are not known.

Opinion on Regulatory Basis of Accounting

In our opinion, except for the effect of such adjustments as might have been determined to be necessary had we been able to audit the item mentioned above, the regulatory basis financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Schenectady, New York as of December 31, 2014, and the results of its operations for the year then ended in accordance with accounting principles prescribed by the New York State Office of the State Comptroller as described in Note 1.

Other Matters

Other Information

Management's discussion and analysis on pages 1-8 is presented to supplement the basic regulatory basis financial statements. We have applied certain limited procedures to the other information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic regulatory basis financial statements, and other knowledge we obtained during our audit of the basic regulatory basis financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 22, 2015

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2014

Assets

Cash	\$ 18,864,691
Cash - restricted	8,911,428
Taxes receivable, net	2,730,643
Other receivables, net	1,501,200
State and federal receivables	478,697
Due from other funds	1,636,686
Due from other governments	<u>3,250,030</u>

Total Assets \$ 37,373,375

Liabilities

Accounts payable	\$ 1,852,502
Accrued liabilities	985,028
Other liabilities	2,324,572
Due to other governments	<u>14,935,069</u>

Total Liabilities 20,097,171

Deferred Inflows of Resources

479,455

Fund Balance

Restricted	8,911,428
Assigned	153,270
Unassigned	<u>7,732,051</u>

Total Fund Balance 16,796,749

Total Liabilities, Deferred Inflows
and Fund Balance \$ 37,373,375

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 28,551,476	\$ 28,551,476	\$ 29,504,493	\$ 953,017
Real property tax items	3,850,170	3,850,170	4,245,377	395,207
Non-property tax items	13,454,000	13,454,000	13,686,831	232,831
Departmental income	9,476,331	9,298,048	9,694,405	396,357
Intergovernmental charges	291,389	291,389	169,268	(122,121)
Use of money and property	328,500	328,500	83,246	(245,254)
Licenses and permits	1,062,550	1,062,550	1,197,049	134,499
Fines and forfeitures	1,337,000	1,327,000	984,724	(342,276)
Sales of property and compensation for loss	995,000	995,000	1,137,179	142,179
Miscellaneous local sources	325,000	335,000	553,595	218,595
Interfund revenues	4,636,059	4,636,059	4,585,631	(50,428)
State aid	11,940,994	11,940,994	12,105,590	164,596
Federal aid	<u>10,000</u>	<u>10,000</u>	<u>85,098</u>	<u>75,098</u>
Total Revenues	76,258,469	76,080,186	78,032,486	1,952,300
Appropriated Fund Balance	<u>3,170,284</u>	<u>3,615,318</u>	<u>-</u>	<u>(3,615,318)</u>
Total Revenue, Other Sources and Appropriated Fund Balance	<u>79,428,753</u>	<u>79,695,504</u>	<u>78,032,486</u>	<u>(1,663,018)</u>
Expenditures				
General government support	6,767,788	6,982,564	6,375,425	607,139
Public safety	27,993,046	28,089,593	28,489,055	(399,462)
Transportation	4,464,926	4,575,169	4,603,778	(28,609)
Economic assistance and opportunity	5,000	5,000	5,000	-
Culture and recreation	992,005	996,596	967,871	28,725
Home and community services	6,138,041	6,213,825	5,982,657	231,168
Employee benefits	27,808,581	27,432,016	23,649,830	3,782,186
Debt service (principal and interest)	<u>5,259,366</u>	<u>5,259,366</u>	<u>5,177,407</u>	<u>81,959</u>
Total Expenditures	79,428,753	79,554,129	75,251,023	4,303,106
Other Uses				
Transfers to Capital Project Fund	<u>-</u>	<u>345,034</u>	<u>345,034</u>	<u>-</u>
Total Expenditures and Other Uses	<u>79,428,753</u>	<u>79,899,163</u>	<u>75,596,057</u>	<u>4,303,106</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Financing Uses	<u>\$ -</u>	<u>\$ (203,659)</u>	2,436,429	<u>\$ 2,640,088</u>
Fund Balance - January 1, 2014			<u>14,360,320</u>	
Fund Balance - December 31, 2014			<u>\$ 16,796,749</u>	

CITY OF SCHENECTADY, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets		
Cash	\$	177,958
Cash-restricted		4,498,992
Other receivables		1,568,565
Total Assets		<u>\$ 6,245,515</u>
Liabilities		
Accounts payable	\$	328,291
Accrued liabilities		32,411
Total Liabilities		<u>360,702</u>
Deferred Inflows of Resources		<u>227,599</u>
Fund Balance		
Restricted		4,498,992
Assigned		1,158,222
Total Fund Balance		<u>5,657,214</u>
Total Liabilities, Deferred Inflows and Fund Balance		<u>\$ 6,245,515</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Departmental income	\$ 8,347,039	\$ 8,347,039	\$ 8,084,892	\$ (262,147)
Use of money and property	51,600	51,600	13,717	(37,883)
Interfund revenue	55,000	55,000	50,026	(4,974)
Total Revenues	<u>8,453,639</u>	<u>8,453,639</u>	8,148,635	(305,004)
Appropriated Fund Balance	<u>7,800</u>	<u>7,800</u>	-	(7,800)
Total Revenues and Appropriated Fund Balance	<u>8,461,439</u>	<u>8,461,439</u>	<u>8,148,635</u>	<u>(312,804)</u>
Expenditures				
General government support	1,314,446	1,356,848	1,351,225	5,623
Home and community services	5,460,184	5,454,904	4,514,479	940,425
Employee benefits	560,809	545,632	480,899	64,733
Debt service (principal and interest)	1,126,000	1,104,055	1,082,955	21,100
Total Expenditures	<u>8,461,439</u>	<u>8,461,439</u>	<u>7,429,558</u>	<u>1,031,881</u>
Excess of Expenditures Over Revenues	<u>\$ -</u>	<u>\$ -</u>	719,077	<u>\$ 719,077</u>
Fund Balance - January 1, 2014			<u>4,938,137</u>	
Fund Balance - December 31, 2014			<u>\$ 5,657,214</u>	

CITY OF SCHENECTADY, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 1,075,857
Cash-restricted	6,673,952
Other receivables	1,714,055
Total Assets	<u>\$ 9,463,864</u>
Liabilities	
Accounts payable	\$ 143,600
Accrued liabilities	259,933
Other liabilities	197,658
Total Liabilities	<u>601,191</u>
Deferred Inflows of Resources	<u>534,756</u>
Fund Balance	
Restricted	6,673,952
Assigned	1,653,965
Total Fund Balance	<u>8,327,917</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 9,463,864</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 15,066	\$ 15,066	\$ 15,861	\$ 795
Departmental income	11,664,386	11,664,386	10,970,825	(693,561)
Use of money and property	45,195	45,195	22,858	(22,337)
Miscellaneous local sources	71,466	71,466	138,966	67,500
Total Revenues	<u>11,796,113</u>	<u>11,796,113</u>	<u>11,148,510</u>	<u>(647,603)</u>
Appropriated Fund Balance	<u>19,600</u>	<u>19,600</u>	<u>-</u>	<u>(19,600)</u>
Total Revenues and Appropriated Fund Balance	<u>11,815,713</u>	<u>11,815,713</u>	<u>11,148,510</u>	<u>(667,203)</u>
Expenditures				
General government support	890,174	936,620	205,185	731,435
Home and community services	6,975,859	7,016,271	6,241,980	774,291
Employee benefits	1,287,725	1,272,762	1,276,071	(3,309)
Debt service (principal and interest)	2,661,955	2,617,384	2,519,002	98,382
Total Expenditures	<u>11,815,713</u>	<u>11,843,037</u>	<u>10,242,238</u>	<u>1,600,799</u>
Excess (Deficiency) of Revenues Over Expenditures Before Reserves	<u>\$ -</u>	<u>\$ (27,324)</u>	906,272	<u>\$ 933,596</u>
Fund Balance - January 1, 2014			<u>7,421,645</u>	
Fund Balance - December 31, 2014			<u>\$ 8,327,917</u>	

CITY OF SCHENECTADY, NEW YORK
RECREATION FUND

**Regulatory Basis Balance Sheet
December 31, 2014**

Assets	
Cash	\$ 173,834
Receivables	710
Inventory	11,211
Cash - restricted	437,319
Total Assets	<u>\$ 623,074</u>
Liabilities	
Accounts payable	\$ 15,607
Other liabilities	8,438
Total Liabilities	<u>24,045</u>
Fund Balance	
Nonspendable	11,211
Restricted	437,319
Assigned	150,499
Total Fund Balance	<u>599,029</u>
Total Liabilities and Fund Balance	<u>\$ 623,074</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Departmental income	\$ 1,132,525	\$ 1,132,525	\$ 1,041,080	\$ (91,445)
Use of money and property	3,500	3,500	1,127	(2,373)
Total Revenues	<u>1,136,025</u>	<u>1,136,025</u>	<u>1,042,207</u>	<u>(93,818)</u>
Appropriated Fund Balance	<u>490</u>	<u>87,487</u>	<u>-</u>	<u>(87,487)</u>
Total Revenue and Appropriated Fund Balance	<u>1,136,515</u>	<u>1,223,512</u>	<u>1,042,207</u>	<u>(181,305)</u>
Expenditures				
General government support	7,000	7,000	6,874	126
Culture and recreation	896,441	888,395	793,541	94,854
Employee benefits	62,123	70,169	71,781	(1,612)
Debt service (principal and interest)	170,951	170,951	170,277	674
Total Expenditures	<u>1,136,515</u>	<u>1,136,515</u>	<u>1,042,473</u>	<u>94,042</u>
Other Uses/Interfund Transfers	<u>-</u>	<u>86,997</u>	<u>86,997</u>	<u>-</u>
Total Expenditures and Other Uses	<u>1,136,515</u>	<u>1,223,512</u>	<u>1,129,470</u>	<u>94,042</u>
Deficiency of Revenue Over Expenditures Before Revenues	<u>\$ -</u>	<u>\$ -</u>	(87,263)	<u>\$ (87,263)</u>
Fund Balance - January 1, 2014			<u>686,292</u>	
Fund Balance - December 31, 2014			<u>\$ 599,029</u>	

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ -
Total Assets	<u>\$ -</u>
Fund Balance	
Assigned	-
Total Liabilities and Fund Balance	<u>\$ -</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

Revenues	
Real property tax	\$ 220,000
Expenditures	
Transportation	<u>220,001</u>
Deficiency of Revenues Over Expenditures	(1)
Fund Balance - January 1, 2014	<u>1</u>
Fund Balance - December 31, 2014	<u>\$ -</u>

CITY OF SCHENECTADY, NEW YORK
MISCELLANEOUS SPECIAL REVENUE

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014**

Revenues	
Real property tax	\$ <u>48,866</u>
Expenditures	
General government support	<u>48,866</u>
Excess of Revenues Over Expenditures	-
Fund Balance - January 1, 2014	<u>-</u>
Fund Balance - December 31, 2014	<u><u>\$ -</u></u>

CITY OF SCHENECTADY, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 398,963
Accounts receivable	117,637
State and federal aid receivables	1,480,837
Total Assets	<u>\$ 1,997,437</u>
Liabilities	
Accounts payable	\$ 337,860
Retainage payable	28,732
Due to other funds	1,173,810
Due to other governments	684
Total Liabilities	<u>1,541,086</u>
Unearned Revenue	<u>187,578</u>
Fund Balance	
Assigned	268,773
Total Liabilities and Fund Balance	<u>\$ 1,997,437</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2014

Revenues	
Departmental income	\$ 374,817
Use of money and property	2
Sale of property and compensation for loss	25,520
Miscellaneous local sources	91,904
State aid	250,150
Federal aid	5,707,753
Total Revenues	<u>6,450,146</u>
Expenditures	
Home and community services	<u>6,389,793</u>
Excess of Revenues Over Expenditures	60,353
Fund Balance - January 1, 2014	<u>208,420</u>
Fund Balance - December 31, 2014	<u>\$ 268,773</u>

CITY OF SCHENECTADY, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 17,782,548
Other receivables	2,400
State and federal aid receivables	1,965,307
Total Assets	<u>\$ 19,750,255</u>
Liabilities	
Accounts payable	\$ 1,169,186
Retained percentages	214,286
Bond anticipation notes	32,636,315
Due to other funds	462,876
Total Liabilities	<u>34,482,663</u>
Fund Balance	
Unassigned Deficit	(14,732,408)
Total Liabilities and Fund Deficit	<u>\$ 19,750,255</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Deficit
For the Year Ended December 31, 2014

Revenues	
Use of money and property	\$ 414
Compensation of Loss	33,348
Miscellaneous local sources	394,769
State aid	1,332,759
Federal aid	1,973,069
Total Revenues	<u>3,734,359</u>
Other Financing Sources	
Interfund transfers	493,888
Serial Bonds	37,085,209
Other long-term proceeds	40,000
Notes redeemed from appropriations	1,735,121
Total Revenues and Other Financing Sources	<u>43,088,577</u>
Expenditures	
General government support	
Public safety	3,485,996
Transportation	724,149
Culture and recreation	2,355,911
Home and community services	587,243
Total Expenditures	<u>5,157,330</u>
	12,310,629
Other Financing Uses	
Interfund transfers	61,857
Total Expenditures and Other Financing Uses	<u>12,372,486</u>
Excess of Expenditures and Other Financing	
Over Revenues and Other Financing Sources	30,716,091
Fund Deficit - January 1, 2014	<u>(45,448,499)</u>
Fund Deficit - December 31, 2014	<u>\$ (14,732,408)</u>

CITY OF SCHENECTADY, NEW YORK
TRUST AND AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2014

Assets	
Cash	\$ 1,012,712
Liabilities	
Agency liabilities	\$ 75,558
Other liabilities	<u>937,154</u>
Total Liabilities	<u>\$ 1,012,712</u>

Regulatory Basis Balance Sheet
December 31, 2014

Assets

Provisions to be made in future budgets	\$ <u>144,499,057</u>
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Liabilities

Installment purchase debt	\$ 3,834,849
Judgments and claims payable	8,387,540
Compensated absences	2,285,872
Due to retirement systems	4,248,544
Due to other governments	306,076
Bonds and capital notes payable	70,496,039
Other post-employment benefits	54,900,137
Other long-term debt	<u>40,000</u>
Total Liabilities	<u>\$ 144,499,057</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as discussed in Note 1G, the financial statements of the City of Schenectady, New York (the “City”) have been prepared in conformity with regulatory accounting principles prescribed by the New York State Office of the State Comptroller for complying with Article 3, Section 30 of General Municipal Law in which every municipal corporation is required to make an annual financial report. The most significant differences between this regulatory basis of accounting and generally accepted accounting principles (“GAAP”) is that Government Accounting Standards Board (“GASB”) Statement 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments” (“GASB 34”) need not be implemented to meet the requirements of General Municipal Law. GASB 34 requires significant changes including:

- Government-Wide Reporting
- Focus on Major Funds
- Changes in Budgetary Reporting
- Full Accrual Accounting Including Depreciation
- Management’s Discussion and Analysis
- Capitalization of Infrastructure Assets

Taken as a whole, the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable are presumed to be material.

Management has considered the costs and benefits of adopting GASB 34 and determined that auditing the financial statements utilizing another Comprehensive Basis of Accounting (regulatory basis) as opposed to GAAP makes fiscal sense for the City.

A. Financial Reporting Entity

The City of Schenectady was incorporated in 1789 and is governed by the City Charter, other general laws of the State of New York and various local laws and ordinances. The City Council, which is the legislative body responsible for the overall operation of the City, consists of the Mayor and seven council members. The Mayor serves as chief executive officer and the Commissioner of Finance and Administration serves as the chief fiscal officer of the City.

The City provides the following basic services: police and law enforcement, fire protection, maintenance of city streets, water and sewer utilities, parks and recreation programs, health services and refuse and garbage services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. *Financial Reporting Entity (Continued)*

GASB Statement No. 61 defines the financial reporting entity for the City to include all funds, account groups, agencies, boards, commissions, and authorities where the elected officials (the Mayor and/or the City Council, respectively) are financially accountable and for which a financial benefit or burden relationship exists. The following terms are used to describe the components of a reporting entity:

- Primary Government

A legally separate state, general purpose local or special purpose government with a separately elected governing body. It must be fiscally independent of other primary governments.

- Component Unit

A legally separate organization for which the elected officials are financially accountable. Also the primary government is able to impose its will on the component unit or there is a potential for the component unit to provide a financial benefit or incur a financial burden on the primary government.

As required by the New York State Office of the State Comptroller, the regulatory basis financial statements include the City of Schenectady as the primary government and its blended component units. The blended component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Blended component units have been included in the special revenue funds of the City.

Operational or financial responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

- Blended Component Units

The City of Schenectady Community Development Agency ("CDA"), a legally separate entity, is governed by a board appointed by the City Council. The CDA is reported as if it were part of the City's operations because its sole activity is to administer federal funds received by the City for urban renewal. The CDA has been included in the City's Special Grant Fund since it was established.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. *Financial Reporting Entity (Continued)*

- Blended Component Units (Continued)

The Schenectady Urban Renewal Agency (“SURA”) is governed by a board that consists of the members of the City Council of the City of Schenectady and the Mayor of the City of Schenectady. The SURA was formed to undertake activities which benefit the City of Schenectady, and influence is assumed due to the composition of the board.

The Schenectady Housing Development Fund Corporation (“SHDFC”) provides down-payment loans to low and moderate income people to purchase homes within the City of Schenectady. The initial funding comes from the CDA. The board is comprised of the Mayor of the City of Schenectady and two Schenectady City Council members who then elect eight other members. The day-to-day operations are performed by City of Schenectady personnel.

The SHDFC blended component unit’s financial statements were audited as of and for the year ended December 31, 2014 by other auditors whose report expressed an unmodified opinion.

B. *Basis of Presentation*

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types and account group are used:

1. Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City’s 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:

General Fund - The general fund is the principal fund and includes all operations not required to be recorded in other funds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

1. Governmental Funds (Continued)

Special Revenue Funds - Used to account for the proceeds of specific revenue sources that are legally or otherwise restricted to expenditures for specified purposes. The Special Revenue Funds are:

Water Fund - used to account for water district operations.

Sewer Fund - used to account for sewer district operations.

Recreation Fund - used to account primarily for golf course operations and other similar rentals.

Downtown Schenectady Improvement Fund - used to account for the Downtown Schenectady Improvement Corporation (“DSIC”) working with the City to expand the functions of the DSIC to provide a broader focus on the revitalization of Downtown Schenectady.

Miscellaneous Special Revenue Fund - used to account for the Upper Union Street Revitalization Program.

Special Grant Fund - used to account for special federal, state or local grants that are legally restricted to expenditures for a specific grant purpose.

Capital Projects Fund - Used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment.

2. Fiduciary Fund

Trust and Agency Group - Used to account for money and/or property received and held in the capacity of trustee, custodian or agent.

3. Account Group

Used to establish accounting control and accountability for general long-term debt. Account groups are not “funds.” They are concerned with measurement of financial position and not results of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

3. Account Group (Continued)

The Non-Current Government Liability Account Group is used to account for general obligation bonds and other forms of long-term debt not required to be recorded in other funds. The bonds are backed by the full faith and credit of the City and are supported by general revenues to be provided for in future budgets. Other obligations include: compensated absences, amounts due to employee retirement systems, other post-employment benefits, claims and judgments, other post-employment benefits, and capital leases to be provided for in future budgets. The account group does not constitute a fund as such but is a supplementary self-balancing group of accounts.

C. Basis of Accounting/Measurement Focus

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

Modified Accrual Basis - All governmental 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, within one year, to be used to pay liabilities of the current period with the exception of property taxes, water and sewer rents, in which a sixty day collection period is utilized.

Material revenues that are accrued include state and federal aid 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 unless it has not been received within one year after the fiscal year has ended.

Expenditures are recorded when the fund liability is incurred except that:

- a. Principal and interest on indebtedness are recognized as an expenditure when due.
- b. Compensated absences, such as vacation and sick leave which vest or accumulate, are charged as an expenditure if anticipated to be paid with available current resources.
- c. Non-current government liabilities are recorded at the par value of the principal amount; no liability is recorded for interest payable to maturity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Excluded from the Financial Reporting Entity

The following potential component units have been excluded from the regulatory basis of reporting based on the criteria established by GASB 61.

a. Municipal Housing Authority (“MHA”)

The Housing Authority of the City of Schenectady (“MHA”) is organized under the laws of the State of New York by the City of Schenectady for the purpose of providing adequate housing for qualified low-income individuals. To accomplish this purpose, the City appoints a Governing Board for five-year staggered terms but the Board designates its own management. Additionally, the MHA has entered into annual contribution contracts with the U.S. Department of Housing and Urban Development (“HUD”) to be the administrator of the housing and housing related programs.

The MHA is considered to be a potential component unit because five of the members are appointed by the Mayor of the City of Schenectady, and the MHA must receive City Council approval to expand their operations. Additionally, all assets and operations can revert to the City after 40 years, if the City Council chooses to take up operations.

The MHA is not considered a blended component unit and, therefore, not included in the reporting entity as the day-to-day operations are independent of City personnel. The MHA’s financial statements can be obtained from City Hall, Schenectady, New York 12305.

b. City of Schenectady Industrial Development Agency

The City of Schenectady Industrial Development Agency (“IDA”) was created during 1977 by the City Council of the City of Schenectady under the provisions of Chapter 783, Section 856.1-a of General Municipal Laws of New York State for the purpose of encouraging economic growth in the City of Schenectady. The IDA is a separate entity and operates independently of the City of Schenectady.

The IDA is not considered a blended component unit and, therefore, not included in the reporting entity as the day-to-day operations are independent of City personnel. The IDA’s financial statements can be obtained from City Hall, Schenectady, New York 12305.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Excluded from the Financial Reporting Entity (Continued)

The following organizations are excluded from the reporting entity.

a. Schenectady City School District

The Schenectady City 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 school board designates management and exercises complete responsibility for all fiscal matters. The City Council exercises no oversight over school district operations.

b. Land Reutilization Corporation of the Capital Region

The Land Reutilization Corporation of the Capital Region (the “Land Bank”) was incorporated on June 29, 2012. The Land Bank was organized and operates as a not-for-profit corporation under the provisions of Article 16 of New York’s Not-For-Profit Corporation Law and the Intergovernmental Cooperation Agreement by and between participating foreclosing governmental entities.

The Land Bank was created by three governmental entities: The City of Schenectady, the County of Schenectady and the City of Amsterdam. The governments will make foreclosed properties available to the Corporation with remuneration being made in the future as the properties are sold, based on a profit margin sharing formula. In the first two years of operation, the governmental entities will provide staffing for operations and property management.

Since the City of Schenectady does not appoint a majority of board members to the Land Bank, and the Land Bank is not financially dependent on the City of Schenectady, the Land Bank is not considered a component unit to be reported on City financial statements. Further information regarding the Land Bank follows:

The Executive Director of the Land Bank is currently a City of Schenectady employee and the 2014 financial statements were provided by another City of Schenectady employee and have been audited by an independent CPA firm engaged by the Land Bank.

E. Property Taxes and Collections

City property taxes are levied annually on January 1st on real property in the City. The annual levy includes City and County taxes, water and sewer rents, and delinquent metered charges for water and sewer. The Schenectady City School District returns its delinquent taxes to the City for collection. The City assumes the responsibility of collection of all unpaid taxes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data

1. Budget Policies - The budget policies are as follows:

- a. No later than October 1, the Mayor submits a tentative budget to the City Council for the fiscal year commencing the following January 1. The tentative budget includes proposed expenditures and the proposed means of financing for all governmental funds, except for the Downtown Schenectady Improvement Fund, Miscellaneous Special Revenue Fund and the Special Grant Fund.
- b. After public hearings are conducted to obtain taxpayer comments, but no later than November 1st, the City Council adopts the budget.
- c. The Commissioner of Finance and Administration, with the approval of the Mayor, is authorized to transfer certain budgeted amounts within departments; however, all revisions that alter appropriations of any department or fund must be approved by the Mayor and City Council.
- d. Budgetary controls are established for the capital project fund through resolutions authorizing individual projects and a capital program budget which remains in effect for the life of the project.

2. Encumbrances

Encumbrances are reservations of fund balance for outstanding purchase commitments. Expenditures for such commitments are recorded in the period in which the liability is incurred.

3. Budget Basis of Accounting

- a. Except as indicated below, budgets are adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior years.
- b. Budgetary controls for the Special Grant Fund are established in accordance with applicable grant agreements which generally cover a period other than the City's fiscal year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgetary Data (Continued)

3. Budget Basis of Accounting (Continued)

- c. Budgetary controls for the component units are established in accordance with internal policies and applicable grant agreements which may cover a period other than the City's fiscal year.

G. Departure from Regulatory Basis of Accounting

Acquisitions of equipment and capital facilities are appropriately recorded as expenditures in the various governmental funds of the City. These acquisitions should also be recorded in the balance sheet in a non-current governmental asset account group, as required by accounting principles prescribed by the New York State Office of the State Comptroller, to account for all land, buildings, improvements and equipment utilized by the City. The City does not maintain a non-current governmental asset account group and the amount that should be recorded in this account group is not known.

H. Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

The significant estimates included in the regulatory basis financial statements include the estimated incurred but not recorded ("IBNR") liability for workers' compensation, health insurance and the realizable value of the taxes receivable. It is at least reasonably possible that a condition, situation, or set of circumstances that existed at the date of the regulatory basis financial statements will change in the near term due to one or more future events.

I. Self-Insurance, Risk Retention, Workers' Compensation and Health Insurance Plans

The City is self-insured for a portion of health insurance and all workers' compensation. The portion of health insurance is determined by employee enrollment choice.

The City has retained a portion of the liability to cover losses under §207-C and §207-A of the Workers' Compensation Law of police officers and firefighters. Employees are entitled to their full pay when out on leave. The City is required to cover any amount of losses not reimbursed by workers' compensation.

Workers' compensation claims are subject to approval by a Workers' Compensation board. Approved claims are paid and charged to the appropriate fund.

The City maintains general liability insurance which carries a deductible of \$50,000 per claim.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*I. Self-Insurance, Risk Retention, Workers' Compensation and Health Insurance Plans
 (Continued)*

The City pays health insurance on a cost-reimbursement basis. The plan allows for an up to 20% coinsurance by the employee/subscriber. Each fund is responsible for the claims incurred for their employees. In 2014, the City is self-insured up to \$150,000 per individual, and is commercially insured for claims exceeding \$150,000 up to \$1,000,000 per subscriber per year. Individual claims exceeding \$1,000,000 per subscriber per year are self-insured. The risk of future claims is retained by the City.

The City establishes workers compensation and health insurance claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculations because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to the liability in the periods in which they are made.

As discussed above, the City establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the City during the past year:

	<u>Workers'</u> <u>Compensation</u>	<u>Health</u> <u>Insurance</u>	<u>Risk</u> <u>Retention</u>
Unpaid Claims and Claims Adjustment Expenses at Beginning of Year	\$ 8,567,170	\$ 737,255	\$ 1,005,205
Provision for Incurred Claims Expense for Events of the Current and Prior Years	246,845	9,226,018	452,002
Payments Made During the Current Year	<u>(1,128,726)</u>	<u>(9,388,551)</u>	<u>(239,903)</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$ 7,685,289</u>	<u>\$ 574,722</u>	<u>\$ 1,217,304</u>
Reflected as Follows:			
General Fund	\$ 1,591,623	\$ 574,722	\$ 608,652
Non-Current Government Liability Account Group	<u>6,093,666</u>	<u>-</u>	<u>608,652</u>
	<u>\$ 7,685,289</u>	<u>\$ 574,722</u>	<u>\$ 1,217,304</u>

2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

J. *Deficit Fund Balances (Unreserved Fund Balance)*

Capital Projects Fund

Capital Projects Fund had deficits totaling \$14,732,408 at December 31, 2014, which was caused by the temporary financing of project costs through the issuance of bond anticipation notes (BANs). The deficit will be offset when permanent financing is issued and/or BAN principal payments are budgeted and paid in the governmental fund(s) responsible for the debt.

K. Overdrawn Appropriations

Expenditures for the year ended December 31, 2014 exceed appropriations as follows:

General Fund:	
Public Safety	\$ 399,462
Transportation	\$ 28,609
Sewer Fund:	
Employee Benefits	\$ 3,309
Recreation Fund:	
Employee Benefits	\$ 1,612

The overexpended amounts were due to the City's approval of expenditures without budgetary transfers or amendments to finance the payments. With the exception of the Recreation Fund all these funds' total revenues exceeded expenditures.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Assets

Cash and Investments

The City's investment policies are governed by State statutes. The City's monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The City is authorized to use demand accounts, certificates of deposit, obligations of the United States of America, New York State and local municipalities and school districts, certificates of participation and repurchase agreements with certain restrictions.

Collateral is required for demand deposits and certificates of deposit for all 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 any state and its municipalities and school districts.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

A. Assets (Continued)

At December 31, 2014, the book amount of the primary government's deposits (excluding \$6,900 in petty cash) was \$59,966,716 and the bank balances were \$60,756,880. The insured and collateral status of the year-end bank balances was as follows:

	<u>Amount</u>
Covered by federal deposit insurance	\$ 764,943
Collateralized with securities held by a third party custodian for the benefit of the City, pursuant to a three-party custody agreement (\$62,304,472 available).	<u>59,231,773</u>
Total	<u>\$ 59,996,716</u>

For the year ended December 31, 2014, the SURA's book amount was \$641 and the bank balance was \$6,170.

For the year ended December 31, 2014, the SHDFC's book amount was \$8,900 and the bank balance was \$8,774.

B. Cash Restricted

Cash restricted consists of the following at December 31, 2014:

<u>General Fund</u>	
Reserve for Debt	\$ 1,233,320
Miscellaneous Reserves	30,361
Capital Reserve	3,225,481
Snow and Ice Removal	202,404
Tax Stabilization	3,332,414
Tax Certiorari	278,796
Litigation and Claims	<u>608,652</u>
	8,911,428
<u>Water Fund</u>	
Reserve for Debt	500,858
Reserve for Capital	<u>3,998,134</u>
	4,498,992
<u>Sewer Fund</u>	
Reserve for Capital	5,065,066
Reserve for Repairs	214,463
Reserve for Debt	1,072,601
Miscellaneous	<u>321,822</u>
	6,673,952
<u>Recreation Fund</u>	
Reserve for Debt	10,193
Reserve for Capital	<u>427,126</u>
	437,319
Total Cash - Restricted	<u>\$ 20,521,691</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

C. Property Taxes

The City tax levy may be paid in four equal installments due January 1st, April 1st, July 1st, and October 1st.

At December 31, 2014, the total real property tax receivable of \$19,140,592 is reduced by an allowance for uncollectible and unavailable taxes in the amount of \$16,409,949 resulting in net realizable taxes receivable of \$2,730,643.

The above-mentioned net realized taxes receivable at December 31, 2014 also include the amount of taxes the City must collect on behalf of the Schenectady City School District. At December 31, 2014 the City is obligated to pay the Schenectady School District \$6,962,781 which is reflected in the Due to Other Governments on the general fund balance sheet.

D. Other Receivables and Unearned Revenue

A majority of the other receivables and deferred inflows of resources in the City's Special Grant Fund is comprised of the following loan activities at December 31, 2014.

Community Development Agency (a blended component unit)

The CDA is the recipient of Community Development Entitlement Grants to operate revolving loan funds. These funds are to be loaned to industry, not-for-profit organizations and individuals for the purpose of creating and retaining permanent jobs within the City or for rehabilitation of property. Loans outstanding at December 31, 2014 require periodic payments of principal and interest, or interest only for loans that have not been fully drawn down. The principal loan balances at December 31, 2014 is as follows:

Total Loans Outstanding	\$ 571,513
Less Allowance for Uncollectible Accounts	<u>(498,629)</u>
Net Loans Receivable	<u><u>\$ 72,884</u></u>

Loans are recorded as a receivable with a corresponding entry to deferred inflows of resources. When the loan payments are received, revenue is recognized to the extent of principal received. As funds are reloaned a corresponding expenditure is recorded. When a loan is written off as uncollectible, a corresponding decrease in the amount of deferred inflows of resources is made in the same period, the effect of which is to reduce the overall amount of funds available for future loans.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

D. Other Receivables and Unearned Revenue (Continued)

Schenectady Housing Development Fund Corporation (a blended component unit)

The SHDFC is a subrecipient of federal funds received by the City through its Community Development Block Grant (CDBG). Draw down requests are made to the City as CDBG funds are needed to meet loans commitments, and revenue is recognized when received by the SHDFC.

Loans are recorded as a receivable with a corresponding entry to deferred inflows of resources. As loans are repaid, the principal is recognized as revenue to be used for future housing loans. As funds are reloaned, a corresponding expenditure is recorded. Many of these loans are subject to a higher than normal risk of default.

Loans receivable consist of the following at December 31, 2014:

Loans receivable, January 1	\$ 29,935
Add new loans made	22,014
Less principal payments received	(15,381)
Write-offs and adjustments	<u>(372)</u>
Loans Receivable, December 31	<u>\$ 36,196</u>

Other receivables in the general fund are comprised primarily of franchise, trash and code violation fees, while other receivables in the water and sewer funds are comprised primarily of rents and metered sales.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities

1. Pension Plans

A. New York State

Plan Description

The City participates in the New York and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July, 1976 who contribute 3% of their salary until such time as they obtain ten years of service credit and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of 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.

On May 14, 2003, Chapter 49 of the Laws of 2003 of the State of New York was enacted which made the following changes to the Systems:

- Required minimum contributions by employers of 4.5% of payroll every year, including the year in which the investment performance would make a lower contribution possible.
- Changed the cycle of annual billing such that the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1st.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

1. Pension Plans (Continued)

A. New York State (Continued)

Change in Payment Due Date

Chapter 260 of the Laws of New York State changed the annual payment due date for employers who participate in the New York State and Local Employees' Retirement System. The December 15 payment due date changed to February 1, however employers were allowed to prepay their payment by December 15. The covered salary period (April 1 - March 31) will not change for the calculation.

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

	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
2014	\$ 2,769,499	\$ 7,041,053	\$ 9,810,552
2013	\$ 2,830,111	\$ 6,877,429	\$ 9,707,540
2012	\$ 2,395,273	\$ 5,340,070	\$ 7,735,343

The City's contributions made to the Systems were equal to 100 percent of the contributions required for 2012. In 2013 the City, as anticipated in its adopted budget, elected to amortize (pay over time) \$3,250,427, the maximum allowed. In 2014 the City, as anticipated in its adopted budget, elected to amortize the amount of \$1,489,734, a portion of the amount allowed; 75% of this payment is reported in the Non-current Government Liability Account Group. All amortizations were done under the NYS Original Contribution Stabilization Program.

Pursuant to the Chapter 260 of the Laws of 2002, the state legislature authorized local governments to make available retirement incentive programs. Additional retirement incentive programs were authorized in 2004 and 2007. The costs of these programs are being billed and paid over ten years beginning December 15, 2004 and 2007, respectively and include interest at 8.75%.

The outstanding balance as of December 31, 2014 for these liabilities was \$4,248,544 (\$155,718 for previous amortized retirement incentive program amount, \$2,975,526 for the balance owed from the February 2014 payment and \$1,117,300, 75% of the amortized amount of the February 2015 payment).

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

1. Pension Plans (Continued)

B. Deferred Compensation

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their current salary (up to \$17,500 for participants under age 50 and \$23,000 for those 50 years of age and older) until future years. During the past year, the employees contributed approximately \$1,060,000. The deferred compensation amounts are not available to the employees until termination, retirement, death, or unforeseeable emergency.

The City has significant administrative involvement for the assets of the deferred compensation plan and is involved in the investment function of the plan. The City has entered into two separate agreements with the trustees of the two plans who invest the funds in accordance with the trust agreements. The City appoints a committee of employees that represent the City in all matters concerning the administration of the plan. The committee has full power and authority to adopt rules and regulations for the administration of the plan. The committee also contracts with providers to manage the investment of plan assets and is responsible for selecting the plan investment options. Additionally, the committee reviews and approves withdrawals, terminations and benefit payments.

The City accounts for and reports its deferred compensation plan under the provisions of GASB Statements No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

The plans issue separate financial reports that include financial statements and required supplementary information. Those reports may be obtained by writing to the City of Schenectady.

2. Compensated Absences

Pursuant to contractual agreements, City employees are entitled to accrue sick, vacation and personal leave. The maximum accrual of these absences depends upon the contractual agreement each employee falls under. The City has eleven different agreements with its employees. All employees, except police and fire, who leave the employment of the City are entitled to be paid for unused vacation leave. Upon retirement, unused vacation and unused sick leave, at rates ranging from twenty-five to seventy-five percent, depending on the contract and hire date, is paid to the employee. Police and fire employees are not entitled to receive payouts of unused vacation and sick leave when they leave the employment of the City.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

2. Compensated Absences (Continued)

The expenditure is recorded at the time the benefit is paid or when anticipated to be paid with available current resources. Estimated vested vacation and sick leave and compensated absences accumulated by City employees have been recorded in the General Fund, for those amounts anticipated to be paid with available current resources, with the remainder recorded in the Non-Current Government Liability account group.

The City has accrued compensated absences for vacation, vesting sick leave and other compensated absences with similar characteristics in accordance with Governmental Accounting Standards Board (GASB) Pronouncement Number 16 - Accounting For Compensated Absences. In accordance with GASB No. 16, additional amounts for employees who are expected to attain vested status and the related fringe benefits have also been accrued.

3. Short-Term Debt

Liabilities for bond anticipation notes (BANs) are generally accounted for in the Capital Project Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date.

At December 31, 2014, BANs outstanding of \$32,636,315 are reflected in the Capital Projects Fund, are used to fund various improvements and have a maturity date of May 15, 2015 with interest rates ranging from 1-1.5%.

The following is a summary of changes in short-term debt for the year ended December 31, 2014:

	<u>Payable at</u> <u>January 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Payable at</u> <u>December 31, 2014</u>
Bond Anticipation Notes	<u>\$ 66,886,355</u>	<u>\$ 4,570,290</u>	<u>\$ 38,820,330</u>	<u>\$ 32,636,315</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

4. Long -Term Debt

At December 31, 2014 the total outstanding serial bonds and capital notes indebtedness of the primary government was \$70,496,039.

Serial Bonds - The local government, like most governmental units, borrows money in order to acquire land or equipment or construct buildings and improvements. This policy 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 the Non-Current Government Liability Account Group. 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.

Other Long-Term Debt - at December 31, 2014 the total outstanding was \$40,000. This represents a US Department of Housing and Urban Development contract for loan guarantee assistance under section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. 5308. The first draw of \$40,000 against a \$3,000,000 line of credit is to be used for the acquisition of real property in fee or by long-term lease pursuant to 24 CFR 570.703 (a), including acquisition of properties from the Schenectady Urban Renewal Agency, which may include costs of surveys, appraisals, the preparation of legal documents, recording fees, and other similar costs that are necessary to effect the acquisition; and the clearance, demolition, and removal of building and improvements on real property acquired with Guaranteed Loan Funds. \$500,000 of this loan may be used toward acquisition of real property and demolition in support of the development of a 14-unit apartment building (of which 8 units will be affordable to low and moderate income persons) by a for-profit developer, pursuant to 24 CFR 570.703 9a) and 570.703 (e) respectively.

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

Capital Notes Payable - Represents the principal outstanding on long-term loans.

Due to Employees' Retirement Systems - Represents amounts accrued primarily for early retirement incentives adopted by the City Council and the amortization of a portion of the 2013 and 2014's invoices.

Compensated Absences - Represents the value of earned and unused portion of the liability for compensated absences.

Installment Purchase Debt- Represents the future minimum lease payments on capital leases.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

4. Long -Term Debt (Continued)

Judgments and Claims - Represents legal judgments and claims and tax certiorari proceedings that have been or will probably be settled against the City. See Note 4C and 4D. In addition, the judgment and claim liability represents the estimate of the City's share of incurred but not reported claim costs for the self-insured workers' compensation and health insurance obligations, net of the amounts recorded in the general fund. See Note 1 I.

Postemployment Benefits - Represents the actuarial present value for the continuation of certain medical and dental insurance for current and future retirees and their spouses.

Due to Other Governments - Represents the estimated net present value of the liability to the Downtown Schenectady Improvement Corporation.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2014:

	<u>Payable at</u> <u>January 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other</u> <u>Increase</u>	<u>Payable at</u> <u>December 31, 2014</u>
Serial Bonds and Capital Notes	\$ 35,800,000	\$ 37,085,210	\$ 3,128,001	\$ 738,830	\$ 70,496,039
Due to Employees'					
Retirement Systems	2,671,397	2,302,342	725,195	-	4,248,544
Compensated Absences	2,389,714	-	-	(103,842)	2,285,872
Installment Purchase Debt	4,778,561	-	943,712	-	3,834,849
Judgment and Claims Payable	8,817,700	-	-	(430,160)	8,387,540
Due to Other Governments	394,344	-	88,268	-	306,076
Other Long-Term Debt	-	40,000	-	-	40,000
Post-employment Benefits	41,867,874	-	6,795,578	19,827,841	54,900,137
Total	<u>\$ 96,719,590</u>	<u>\$ 39,427,552</u>	<u>\$ 11,680,754</u>	<u>\$ 20,032,669</u>	<u>\$144,499,057</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

<u>Payable From/ Description</u>	<u>Issued</u>	<u>Original Amounts</u>	<u>Interest Rate (%)</u>	<u>Final Maturity</u>	<u>Balance Outstanding 2014</u>
General Fund					
General Purpose	2002	\$ 4,184,925	4.00%-4.125%	2017	\$ 590,000
General Purpose	2007	4,973,643	3.29%-4.25%	2026	3,582,715
General Purpose	2008	3,985,323	4.00%-4.5%	2030	3,245,224
General Purpose	2010	3,768,600	2.00%-3.00%	2019	1,178,600
General Purpose	2011	3,769,500	4.375%-5.00%	2038	3,544,500
General Purpose	2014	28,340,209	3.5%	2038	28,340,209
Water Fund					
Water Fund	2002	1,231,344	4.00%-4.125%	2017	300,000
Water Fund	2007	1,012,300	3.29%-4.25%	2026	729,195
Water Fund	2008	1,891,941	4.00%-4.25%	2030	1,540,595
Water Fund	2010	3,220,000	2.00%-3.00%	2019	990,000
Water Fund	2011	1,884,750	4.375%-5.00%	2038	1,772,250
Water Fund	2014	1,469,558	3.5%	2038	1,469,558
Sewer Fund					
Sewer Fund	2002	1,314,731	4.00%-4.125%	2017	300,000
Sewer Fund	2007	3,343,000	3.29%-4.25%	2026	2,408,090
Sewer Fund	2008	5,500,708	4.00%-4.5%	2030	4,479,192
Sewer Fund	2010	3,492,800	2.00%-3.00%	2019	1,116,400
Sewer Fund	2011	6,910,750	4.375%-5.00%	2038	6,498,250
Sewer Fund	2011	210,000	3.40%-5.65%	2016	90,000
Sewer Fund	2011	570,000	3.60%-5.90%	2016	230,000
Sewer Fund	2013	738,830	0%	2017	730,830
Sewer Fund	2014	6,779,671	3.5%	2038	6,779,671
Recreation Fund					
Golf Course	2002	153,000	4.9%-5.0%	2017	30,000
Golf Course	2008	67,528	4.00%-4.5%	2030	54,988
Golf Course	2014	495,771	3.5%	2038	<u>495,772</u>
Total Serial Bonds					<u>\$ 70,496,039</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

Serial bond and capital note maturities, and the related interest, are as follows:

	<u>Serial Bonds</u>	<u>Interest</u>
2015	\$ 4,123,209	\$ 2,605,818
2016	3,633,000	2,467,148
2017	3,794,830	2,341,831
2018	2,680,000	2,235,544
2019	2,770,000	2,135,625
2020-2024	13,920,000	9,135,344
2025-2029	14,840,000	6,293,281
2030-2034	13,040,000	3,660,600
2035-2038	<u>11,695,000</u>	<u>1,009,813</u>
Total	<u>\$ 70,496,039</u>	<u>\$ 31,885,004</u>

Other Debt

Principal payments due are as follows:

2015	\$ 30,000
2016	<u>10,000</u>
Total Payments	<u>\$ 40,000</u>

Installment Purchase Debt

Minimum future lease payments for vehicles and energy improvements are:

2015	\$ 1,344,548
2016	927,392
2017	943,162
2018	203,476
2019	203,476
Thereafter	<u>496,180</u>
Total Payments	4,118,234
Less: amount representing interest	<u>(283,385)</u>
Total Minimum Lease Payments	<u>\$ 3,834,849</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

Due to Employees' Retirement Systems and Police and Fire Retirement Systems

The due to employees' retirement systems maturities are as follows:

2015	\$	77,859
2016		77,859
		<u>155,718</u>

The principal payment schedule from the New York State Retirement System for the amortization of its retirement payment that is described in Note 3 E1 A is reflected below. Note that for the 2014 amortized amount (February 1, 2015 payment) only 75% of the payment is reported in the non-current government liability account group. The remaining 25%, \$372,434, will be recorded in 2015.

2015	\$	414,045
2016		428,570
2017		443,606
2018		459,172
2019		475,288
2020		491,971
2021		509,242
2022		527,123
2023		545,635
2024		170,608
		<u>\$ 4,465,260</u>

5. Post Employment Benefits Payable

As of December 31, 2014, the liability for post-employment benefits payable calculated in accordance with Government Accounting Standards Board No. 45 ("GASB 45") is \$222,185,136 based on an actuarial valuation dated January 1, 2014. The City has elected to amortize this liability over 30 years as permitted by GASB 45, therefore the liability appearing in December 31, 2014 financial statements is \$54,900,137.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

5. Post Employment Benefits Payable (Continued)

A. <i>Present Value of Future Benefits</i>	
1. Retirees	\$ 124,005,105
2. Active employees	98,180,031
3. Total	<u>\$ 222,185,136</u>
B. <i>Calculation of Amortization of UAL (open level dollar method)</i>	
1. Unfunded Actuarial Accrued Liability (“UAL”) at beginning of year	\$ 222,185,136
2. Amortization Period	30
3. Present Value Factor at the beginning of the year	17.9837
4. Amortization Payment at the beginning of the year	<u>\$ 12,354,807</u>
C. <i>Calculation of Annual Required Contribution for the 2013 fiscal year</i>	
1. Normal Cost	\$ 7,428,226
2. Amortization Payment	12,354,807
3. Interest to end of fiscal year at 4.00%	791,321
4. Annual Required Contribution (“ARC”)	<u>\$ 20,574,354</u>
D. <i>Calculation of ARC Adjustment</i>	
1. Net OPEB Obligation/(Asset) as of the beginning of year	\$ 41,867,874
2. Amortization Period	30
3. Present Value Factor at the end of the year	17.2920
4. Amortization Amount at the end of the year (“ARC Adjustment”)	<u>\$ 2,421,228</u>
E. <i>Calculation of OPEB Expense</i>	
1. ARC	\$ 20,574,354
2. Interest at 4.00% on Net OPEB Obligation/(Assets) as of the beginning of year	1,674,715
3. ARC Adjustment	(2,421,228)
3. OPEB	<u>\$ 19,827,841</u>
F. <i>Reconciliation of Net OPEB Obligation</i>	
1. Net OPEB Obligation at the beginning of the year	\$ 41,867,874
2. OPEB Expense	19,827,841
3. Net OPEB Contributions made during the fiscal year	(6,795,578)
4. Net OPEB Obligation at the end of the year	<u>\$ 54,900,137</u>
5. Percentage of Expense Contributed	34.3%
G. <i>Schedule of Funding Progress</i>	
1. Currently retired liability	\$ 124,005,105
2. Actives eligible to retire	27,027,521
3. Actives not yet eligible	71,152,510
4. Actuarial Accrued Liability	222,185,136
5. Actuarial Value of Assets	-
6. Unfunded Actuarial Accrued Liability	<u>\$ 222,185,136</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

E. Liabilities (Continued)

5. Post Employment Benefits Payable (Continued)

<i>H. Schedule of Participants</i>	
1. Currently retired participants	\$ 529
2. Active participants	552
3. Total Participants	<u>\$ 1,081</u>
<i>I. Schedule of Employer Contributions</i>	
Contributions	<u>\$ 6,795,578</u>
<i>J. Actuarial Assumptions</i>	
1. Funding Interest Rate	4%
2. Trend Rates 2014	5-10%
3. Ultimate Trend Rate	5%
4. Fiscal Year Ultimate Trend Rates Reached	2021

6. Deferred Inflows of Resources and Unearned Revenues

Deferred inflows of resources and unearned revenues at December 31, 2014 consists of the following:

<u>General Fund</u>	
Real property taxes	\$ 307,593
Parking fees and unpaid municipal voucher billings	<u>171,862</u>
	<u>\$ 479,455</u>
<u>Water Fund</u>	
Water rents	<u>\$ 227,599</u>
<u>Sewer Fund</u>	
Sewer rents	<u>\$ 534,756</u>
<u>Special Grant Fund</u>	
Community Development Agency State Aid	\$ 20,922
Community Development Agency loans (see Note 3D)	72,884
Community Development Agency Program Income	4,467
Schenectady Housing Development Fund Corporation (see Note 3 D)	36,196
Miscellaneous Grants	52,127
Home Investment Partnership Program	982
Total	<u>\$ 187,578</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

F. Interfund Balances

Interfund receivables and payables at December 31, 2014 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 1,636,686	\$ -
Special Grant	-	1,173,810
Capital Projects	-	462,876
Total	<u>\$ 1,636,686</u>	<u>\$ 1,636,686</u>

G. Fund Equity and Reserves

The City has implemented GASB 54 “Fund Balance Reporting and Governmental Fund Type Definitions.”

GASB 54 defines five categories of fund balances as follows:

- **Non-spendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The City’s non-spendable fund balance includes \$11,211 in prepaid expenses recorded in the recreation fund at December 31, 2014.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The City’s restricted fund balance consists of the following at December 31, 2014:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Recreation Fund</u>
Snow and Ice Removal	\$ 202,404	\$ -	\$ -	\$ -
Tax Stabilization	3,332,414	-	-	-
Bonded Debt	1,233,320	500,858	1,072,601	10,193
Tax Certiorari	278,796	-	-	-
Litigation	608,652	-	-	-
Miscellaneous	30,361	-	321,822	-
Capital Reserve	3,225,481	3,998,134	5,065,066	427,126
Repair Reserve	-	-	214,463	-
	<u>\$ 8,911,428</u>	<u>\$ 4,498,992</u>	<u>\$ 6,673,952</u>	<u>\$ 437,319</u>

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS (CONTINUED)

G. Fund Equity and Reserves (Continued)

Tax Stabilization

In accordance with General Municipal Law 6-e the City has established a tax stabilization reserve to offset anticipated revenue shortfalls.

- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. The City had no committed fund balances at December 31, 2014.
- **Assigned** fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the City or designated by the City for ensuing year's budget. Assigned fund balance includes the following:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Recreation Fund</u>	<u>Special Grant</u>
Encumbrances	\$ 153,270	\$ 138,532	\$ 281,819	\$ 8,769	\$ -
Home and Community Services	-	1,019,690	1,372,146	-	268,773
Culture and Recreation	-	-	-	141,730	-
	<u>\$ 153,270</u>	<u>\$ 1,158,222</u>	<u>\$ 1,653,965</u>	<u>\$ 150,499</u>	<u>\$ 268,773</u>

- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

4. COMMITMENTS AND CONTINGENCIES

- A. The City has received several federal and state grants for special purposes that are subject to review and audit by the grantor agencies. Such audits could lead to request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based upon prior experience, City management believes such disallowances, if any, would not be material.
- B. In 2004, the City of Schenectady entered into an agreement with Schenectady Metroplex Authority (Metroplex) for the sale of five parking lots and the Broadway Center Garage facility for \$1,000,000 with an option for the purchase of two additional parking lots for \$4. The option was for a term of ten years commencing on June 29, 2004.

As part of the sale agreement the City has agreed to pay the Downtown Schenectady Improvement Corporation the total sum of \$1,000,000 in annual installments of \$50,000 per year for a term of twenty years. The estimated net present value of the liability of \$306,076, calculated using an assumed rate of interest of 6%, has been recorded in the Non-Current Government Liability Account Group at December 31, 2014.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

- C. Tax review cases are pending against the City for reductions in the assessed value of property. The petitions are for taxes collected in 1991 through 2013. Management believes that the likelihood of reductions is probable. Provision for losses for cases settled after December 31, 2014 and the City's estimate of losses for cases unsettled to date of \$1,964,018 are included in the Non-Current Government Liability Account Group in judgments and claims payable (\$1.68 million) and in a General Fund reserve (\$.3 million) that comprise the balance.
- D. The City has been named defendant in various actions. A review of these actions with the City's Attorney indicates that the risk of loss to the City is probable for certain cases, reasonably possible for other cases or unable to assess risk of loss. The remaining cases are either fully covered by insurance or without substantial merit. Provision for losses for these cases that have a probable risk of loss are included in the Non-Current Government Liability Account Group (\$608,652) and those that are reasonably possible for which a range of loss has been estimated are included in the miscellaneous reserves in the General Fund (\$608,652) at December 31, 2014.
- E. The City has entered into an agreement with the Downtown Schenectady Improvement Corporation (the "Corporation") to provide certain services to the Downtown Special Assessment District (the "District"). If unanticipated expenses are incurred by the Corporation as a result of performing the contracted services, the District would be required to pay the Corporation the additional amount. For the year ended December 31, 2014, no additional amount was owed.
- F. The City is the lead agency for a Consortium consisting of the City of Troy and the Town of Colonie and is responsible for the administration of the HOME Investment Partnership Program Grant (HOME) awarded to the Consortium by the U.S. Department of Housing and Urban Development. The City of Troy was not able to commit the funds as required by the grant. To prevent the loss of HOME Grant, the City acting in its fiduciary capacity on behalf of the Consortium, prudently and lawfully recaptured the sum of \$1,108,519 allocated to Troy for fiscal year 2004 and reallocated to the Town of Colonie and the City. For ten years ending 2016, the City will pay the City of Troy \$100,000 each year from the City's HOME Grant.
- G. *Environmental Concerns* - The City is engaged in many activities (e.g., water and sewer service, refuse collection, gasoline storage), in the normal course of operations, that are potentially hazardous to the environment. As of December 31, 2014, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

In May 2014 the City received a Consent Order from the New York State Department of Environmental Conservation (DEC) to remedy sewer overflow events. Under the Consent Order, the City has until December 2023 to complete the necessary infrastructure changes. When the final infrastructure changes required are identified, if it is determined that more time is needed to complete the required changes, the City may request DEC consider amending the 2023 completion date.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

H. Union Contracts - Police, Fire Department and general city employees are each represented by collective bargaining agents. The agents that represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
AFSCME - Local 1037A	December 31, 2016
Civil Service Employees Association - Local 1000	December 31, 2016
Empire State Regional Council of Carpenters	December 31, 2015
Electrical Workers - Local 236	December 31, 2015
Schenectady Police Benevolent Association	December 31, 2013
City Fire Fighters Union	December 31, 2014
Trade Unions	December 31, 2015
Operating Engineers	December 31, 2015

Expired contracts are currently under negotiation.

I. *Constitutional Debt Limit* - Inclusive of the City of Schenectady's borrowing in May 2014, the City had exhausted 59.44% of its constitutional debt limit.

5. JOINT VENTURES

The following activities are undertaken jointly with other municipalities. These activities are excluded from the financial statements of all participating municipalities. Separate financial statements are issued for such joint ventures.

A. Intermunicipal Watershed Rules and Regulations Board

The City of Schenectady and the Towns of Niskayuna, Glenville, Rotterdam and the Village of Scotia, New York, jointly comprise the Intermunicipal Watershed Rules and Regulations Board. The venture operates under the terms of an agreement dated July 11, 1991. The agreement is for the period of five years with an option for renewal increments of five year periods. The first option for renewal was executed in 1996. Although no written extension has been negotiated since, the venture has been operating as if renewal options have been exercised. Significant provisions of the agreement are as follows:

1. The board of each municipality jointly act as the governing body for the joint venture.
2. The governing body has established a contribution formula to fund the costs of the Board. The initial formula for municipal contributions to the operating budget of the Board was based upon the total number of gallons pumped from the aquifer by each of the municipalities between 1980 and 1989. In subsequent years the allocation has been based on actual gallons used during that year. The fee based on the water used by the Town of Niskayuna was initially reported and paid for by the City of Schenectady and is included in the cost of the water purchased by the Town of Niskayuna from the City of Schenectady.

5. JOINT VENTURES (CONTINUED)

The following is an unaudited summary of financial information included in financial statements issued for the joint venture for the years ended November 1, 2014:

Total Assets	\$ 17,776
Total Liabilities	\$ 1,537
Joint Venture Equity	\$ 16,239
Total Revenues	\$ -
Total Expenses	\$ 3,537

B. Great Flats Aquifer

In 1987 the City of Schenectady and the Town of Niskayuna entered into an agreement on the use of \$300,000 received from a developer as a settlement of a legal proceeding. The two parties agreed to use the proceeds for matters related to the Great Flats Aquifer and to require all expenditures of these funds and the related interest earned to be approved by the Chief Executive Officer of each municipality.

The following is an unaudited summary of financial information included in financial statements issued for the joint venture for the years ended December 31, 2014:

Total Assets	\$ 187,833
Joint Venture Equity	\$ 187,833
Total Revenues	\$ 375
Total Expenses	\$ -

6. SALES TAX

The City renewed its sales tax agreement with the County of Schenectady effective December 1, 2012 providing the City with an annual sales tax of \$11,700,000 in fiscal year 2013 and then in each fiscal year through November 30, 2020, the same percentage of the 3% tax revenue collected as received in fiscal year 2013.

7. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts deferred under the plan, all property rights and rights purchased with such amounts, and all income attributed to such amounts, property, or rights, are solely the property and rights of the employees. Therefore, the fair value of the plan assets and corresponding liability to employees is not reported in these regulatory basis financial statements.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions as to potential material impact on operations or financial position occurring through April 22, 2015, the date the financial statements were available to be issued. The following were noted:

- A. The City anticipates it will refinance the \$31,573,815 BAN due May 15, 2015 with a BAN issue which will total to no more than \$40,688,310. This total includes funding for the capital projects listed in the 2014 adopted budget; the projects' cost, including cost of issuance, total approximately \$9.1 million.
- B. The City is responsible to extend, apportion, collect and enforce collection of the real property tax within the City. In February 2014, the City entered into an agreement with the County that addresses payment of county taxes (collected or uncollected) by the City beginning with the 2012 taxes. The February 2014 agreement requires that the City pay the County an amount equal to the balance of County taxes uncollected for: a) 2012 during 2014; and b) 2013 over a multi-year period with payments due February 2015 and 2016. For taxes due in 2014 and thereafter the City will only pay to the County the amount of taxes collected. The agreement also contains terms regarding enforcement of unpaid taxes and reporting requirements. The City has paid \$581,564, the amount due per a) above. The City has paid \$207,169 per b) above in January 2015.

As of December 31, 2014 the unpaid balance due to the County for taxes uncollected was \$1,720,442.

- C. On March 6, 2015 a fire occurred in the City that destroyed two large privately-owned apartment buildings. As a matter of public safety the City had to arrange for demolition of both buildings. The value of the contract for demolishing both buildings is approximately \$433,900. Funds from the City's unassigned fund balance will be used to pay for this expense. The City will work to recover this and all of the costs it incurred due to the fire from the building owners or any other appropriate avenue.