

CITY OF SCHENECTADY, NEW YORK

REGULATORY BASIS FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

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**INDEPENDENT AUDITOR'S REPORT
ON THE REGULATORY BASIS FINANCIAL STATEMENTS**

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

We have audited the accompanying regulatory basis financial statements of the City of Schenectady, New York as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These regulatory basis financial statements are the responsibility of the City of Schenectady's management. Our responsibility is to express an opinion on these regulatory basis financial statements based on our audits. We did not audit the financial statements of the Schenectady Local Development Corporation, a component unit, which represents 29% and 21% of the assets and 3% of the revenues in the Special Grant Fund for the years ended December 31, 2009 and 2008, respectively. Additionally, we did not audit the financial statements of two other component units, which represent 3% of the assets and 2% and 1% of the revenue in the Special Grant Fund for the years ended December 31, 2009 and 2008, respectively. The financial statements of the Schenectady Local Development Corporation and the two other component units were audited by other auditors whose unqualified report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Schenectady Local Development Corporation and the two other component units as of and for the year ended December 31, 2009 and 2008, is based solely on the report of the other auditors.

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

As described in Note 1, the City prepared these financial statements using accounting principles prescribed by the New York State Office of the State Comptroller to demonstrate compliance with the State's regulatory basis of accounting, which practices differ from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity 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, 2009 and 2008, and the results of its operations for the years then ended.

As more fully described in Note 1, the regulatory basis financial statements referred to above do not include the non-current government asset account group, and do not include the liability for postemployment benefits other than pensions, which should be included in order to conform with accounting practices prescribed or permitted by the Office of the State Comptroller of the State of New York. The amounts that should be recorded in the non-current government asset and the liability for postemployment benefits other than pensions are not known.

In our opinion, based on our audit and the reports of other auditors, except for the effect of such adjustments discussed in the preceding paragraph, the regulatory basis financial statements referred to above present fairly, in all material respects, the financial position of the City of Schenectady, New York as of December 31, 2009 and 2008, and the results of its operations for the years then ended in conformity with the regulatory basis accounting principles prescribed by the New York State Office of the State Comptroller.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2010, on our consideration of the City of Schenectady's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
April 9, 2010

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” 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

The effects on the financial statements taken as a whole 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. *Financial Reporting Entity (Continued)*

GASB Statement No. 14 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. 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 revenue funds 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 Schenectady Local Development Corporation (SLDC) was chartered for the purpose of furthering economic development in the City of Schenectady. The board is comprised of the Mayor and two Schenectady City Council members who then elect eight other members. The day-to-day operations are performed by City of Schenectady personnel.

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 groups 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 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 Types

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.

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, claims and judgments, 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.