

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2016

CITY OF SCHENECTADY, NEW YORK

TABLE OF CONTENTS

DECEMBER 31, 2016

	<u>Page</u>
Management's Discussion and Analysis (Unaudited)	1-8
Independent Auditor's Report	9-11
Regulatory Basis Financial Statements	
Regulatory Basis Balance Sheet - General Fund	12
Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance - General Fund	13
Regulatory Basis Balance Sheets and Statements of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds	
Water Fund	14
Sewer Fund	15
Recreation Fund	16
Downtown Schenectady Improvement Fund	17
Miscellaneous Special Revenue	18
Special Grant Fund	19
Debt Service Fund	20
Regulatory Basis Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Capital Projects Fund	21
Regulatory Basis Balance Sheet - Agency Fund	22
Regulatory Basis Balance Sheet - Non-Current Government Liability Account Group	23
Notes to Regulatory Basis Financial Statements	24-61

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 year ended December 31, 2016. 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 accordance 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

In April 2017 Standard & Poor's affirmed the City's general obligation bond A rating with a stable outlook and Moody's Investor Services affirmed the City's general obligation bond A3 rating and revised the outlook to positive in January 2016.

General Fund

- Actual total revenues did not require \$3.6 million fund balance that was appropriated in the 2016 budget to support actual total expenditures.
- Ending fund balance is \$15.2 million and is comprised of \$4.4 million of restricted funds, \$3.9 million of assigned funds and \$6.9 million of unrestricted funds.
 - Total fund balance increased approximately 4.3% when compared to last year.
 - Transfer of reserves for capital use of \$1.6 million
 - Appropriation of fund balance to pay the 2016 retirement bill in full for \$0.4 million
 - Appropriation of fund balance to settle the police union contract for \$1.65 million
 - Mortgage tax revenue (part of state aid revenue) higher than budgeted by \$1.1 million in relation to the casino/harbor project
 - The City received \$2.5 million host fee for the casino (part of state aid revenue)
 - Licenses and permit revenues higher than budgeted by \$0.95 million in relation to the casino/harbor project
 - Refinanced older serial bond debt at lower interest rates to save \$1.6 million over a 15 year period (also includes the water fund, sewer fund and recreation fund)
 - Unrestricted fund balance is 8% of the 2017 adopted budget.

FINANCIAL HIGHLIGHTS (Continued)

Water Fund

- Actual total revenues were sufficient to support total expenditures.
- Operations, including transfer of reserves for capital use of \$0.4 million, produced a surplus of \$0.8 million.
- Ending fund balance is \$6.9 million and is comprised of \$5.3 million of restricted funds and \$1.6 million of assigned funds.
 - Total fund balance increased approximately 13% when compared to last year.

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 \$0.3 million.
- Ending fund balance is \$9.4 million and is comprised of \$7.1 million of restricted funds and \$2.3 million of assigned funds.
 - Total fund balance increased approximately 3% when compared to last year.

Recreation Fund

- Operations, including a \$46.9 thousand reserve transfer used for capital needs, resulted in a slight surplus of \$143.9 thousand.
- Ending fund balance of \$876.2 thousand is comprised of \$659.6 thousand of restricted funds, \$209 thousand of assigned funds and \$7.6 thousand that is unspendable (pro shop inventory).
 - Total fund balance increased approximately 20%, when compared to last year.

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FINANCIAL HIGHLIGHTS (Continued)

The City's Funds

The table, in millions, 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, represent a slight increase in fund balances. Specifically, the General Fund has increased 4.3% and the Recreation, Water and Sewer funds combined have increased 7.7%. When all these funds are combined, fund balance has increased 6%.

	Governmental Activities (General Fund)		Business Activities (Recreation, Water, Sewer)		Grand Total *	
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
	Cash	19.7	21.0	1.0	2.0	20.7
Restricted Cash	5.7	4.4	13.1	13.1	18.8	17.5
Receivables (Net)	<u>9.5</u>	<u>10.5</u>	<u>3.2</u>	<u>3.1</u>	<u>12.7</u>	<u>13.6</u>
Total Assets	<u>34.9</u>	<u>35.9</u>	<u>17.3</u>	<u>18.2</u>	<u>52.2</u>	<u>54.1</u>
Total Short Term Liabilities	19.8	20.0	0.6	0.5	20.4	20.5
Deferred Inflows of Resources	<u>0.5</u>	<u>0.7</u>	<u>0.7</u>	<u>0.5</u>	<u>1.2</u>	<u>1.2</u>
Total Liabilities and Deferred Inflows	<u>20.3</u>	<u>20.7</u>	<u>1.3</u>	<u>1.0</u>	<u>21.6</u>	<u>21.7</u>
Fund Balances:						
Restricted	5.7	4.4	13.0	13.1	18.7	17.5
Assigned	0.1	3.9	3.0	4.1	3.1	8.0
Unrestricted	<u>8.8</u>	<u>6.9</u>	<u>0.0</u>	<u>0.0</u>	<u>8.8</u>	<u>6.9</u>
Total Fund Balance	<u>14.6</u>	<u>15.2</u>	<u>16.0</u>	<u>17.2</u>	<u>30.6</u>	<u>32.4</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)(CONTINUED)
DECEMBER 31, 2016

The City's Funds (Continued)

	Governmental		Business		Grand Total *	
	Activities		Activities			
	(General Fund)		(Recreation, Water, Sewer)			
	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>
Revenues						
Real Property Taxes	28.3	28.1	0.0	0.0	28.3	28.1
Real Property Tax Items	3.7	3.5	0.0	0.0	3.7	3.5
Non Property Tax Items	13.8	13.7	0.0	0.0	13.8	13.7
Departmental Income	8.4	8.7	20.6	21.8	29.0	30.5
Intergovernmental						
Charges	0.1	0.2	0.0	0.0	0.1	0.2
Use of Money and Property	0.1	0.0	0.0	0.0	0.1	0.0
Licenses and Permits	1.3	2.3	0.0	0.0	1.3	2.3
Fines and Forfeitures	0.9	1.0	0.0	0.0	0.9	1.0
Sale of Property and Compensation for Loss	2.6	2.5	0.0	0.0	2.6	2.5
Misc Local Sources	0.4	0.7	0.1	0.1	0.5	0.8
Interfund Revenue	4.5	5.0	0.0	0.0	4.5	5.0
State Aid	11.9	15.6	0.0	0.0	11.9	15.6
Federal Aid	<u>0.2</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.1</u>
Total Revenues	<u>76.2</u>	<u>81.4</u>	<u>20.7</u>	<u>21.9</u>	<u>96.9</u>	<u>103.3</u>
Program Expenses						
General Government						
Support	6.2	6.4	1.5	1.9	7.7	8.3
Public Safety	28.4	30.0	0.0	0.0	28.4	30.0
Transportation	4.3	4.3	0.0	0.0	4.3	4.3
Culture and Recreation	0.9	0.8	0.8	0.7	1.7	1.5
Home and Community						
Service	5.8	5.7	11.0	11.2	16.8	16.9
Employee Benefits	26.9	26.5	2.0	1.9	28.9	28.4
Debt Service	<u>5.6</u>	<u>5.5</u>	<u>4.0</u>	<u>3.7</u>	<u>9.6</u>	<u>9.2</u>
Total Expenses Before Transfers	<u>78.1</u>	<u>79.2</u>	<u>19.3</u>	<u>19.4</u>	<u>97.4</u>	<u>98.6</u>
Excess (Deficiency)						
Before Transfers	<u>(1.9)</u>	<u>2.2</u>	<u>1.4</u>	<u>2.5</u>	<u>(0.5)</u>	<u>4.7</u>
Transfers	0.2	0.0	0.0	0.0	0.2	0.0
Capital Contributions	<u>(0.6)</u>	<u>(1.6)</u>	<u>(0.0)</u>	<u>(1.3)</u>	<u>(0.6)</u>	<u>(2.9)</u>
Increase (Decrease) in Fund Balances	<u>(2.3)</u>	<u>0.6</u>	<u>1.4</u>	<u>1.2</u>	<u>(0.9)</u>	<u>1.8</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, in millions, over a two-year period. Across all the funds represented, Fund Balances remained relatively unchanged. 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 2016 operations, including transfer of reserves for capital use, produced a \$0.6 million surplus. The actual total revenues, excluding appropriated fund balance and interfund transfers, exceeded the total revenue budget by approximately \$3.1 million and actual total expenditures were under the actual total expenditure budget by approximately \$4.8 million. In the 2016 adopted budget, \$4.9 million of fund balance was appropriated to support expenditures. No portion of the fund balance was needed to support overall expenditures. Regarding expenditures, all departments were within budget due to efficient operations.

During 2016 the City, as planned, used \$1.6 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 and with the close of fiscal year 2016 has a capital project reserve of \$1.7 million. The current fiscal year end's unassigned fund balance is \$6.9 million and the total fund balance is \$15.2 million. As a measure of the general fund's liquidity, the unassigned fund balance is 8.5% of the total expenditures and other uses and the total fund balance is 18.7%.

Special Revenue Funds

Water

Operations of the City's water district are reported here. The 2016 operations produced a \$0.8 million surplus.

The 2016 year end restricted fund balance includes a capital project reserve that has been increased by 0.95 million. The current year end's total fund balance is \$6.9 million, compared to \$6.1 million in 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 2016 operations produced a \$0.3 million surplus.

The 2016 year end restricted fund balance includes a capital project reserve that has been increased by \$.6 million. The current year end's total fund balance is \$9.4 million, compared to \$9.1 million in the previous year.

Recreation

Operations of the City's golf course are reported here. The 2016 operations produced a \$144 thousand surplus.

The 2016 year end restricted fund balance includes a capital project reserve that has been increased by \$150 thousand. The current year end's total fund balance is \$876.2 thousand, compared to \$732.3 thousand in 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's 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's implementation of billing and collection of a component of the Upper Union Street Business District's 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 35 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 Development Fund Corporation.

The City's Funds (Continued)

Governmental (Continued)

Special Revenue Funds (Continued)

Capital Projects Fund

Reflects accounting of financial resources used or available for capital facilities or equipment. The fund has a deficit totaling \$18,238,989, which reflects the temporary financing of project costs through the issuance of bond anticipation notes (BANs). This 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

Agency

Reflects accounting of funds and/or property held in capacity as a trustee, custodian or agent. The City manages approximately 14 Agency accounts in support of various activities to benefit its facilities and neighborhoods. An additional 51 accounts are used in support of various operational needs, fringe benefits, etc.

DEBT-BONDS AND BOND ANTICIPATION NOTES

The bonds mature over time, from 2019-2043, and have interest rates ranging from 2.0% to 5.9%. The BANs mature May 11, 2017 with a 0.8-1.0% interest rate.

The table that follows shows that total debt outstanding has increased slightly, approximately 5.3%, when compared to 2015. The City continues to use capital reserves created from surpluses to assist in the funding of its capital projects.

	<u>2015</u>	<u>2016</u>
Bonds	\$ 66,372,830	\$ 68,840,000
Bond Anticipation Notes	<u>40,688,310</u>	<u>43,862,072</u>
Total Debt Outstanding	<u>\$ 107,061,140</u>	<u>\$ 112,702,072</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, 2016, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 the 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, 2016, 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 general fixed assets, 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 non-current government asset account group for fixed assets is not known.

Qualified 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 items 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, 2016, 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

Supplementary 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 May 26, 2017 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
May 26, 2017

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2016

Assets

Cash	\$ 21,015,958
Cash - restricted	4,375,591
Taxes receivable, net	2,850,151
Other receivables, net	1,852,683
State and federal receivables	286,946
Due from other funds	1,730,366
Due from other governments	<u>3,761,965</u>

Total Assets \$ 35,873,660

Liabilities

Accounts payable	\$ 1,419,851
Accrued liabilities	917,020
Other liabilities	2,880,367
Due to other governments	<u>14,802,584</u>

Total Liabilities 20,019,822

Deferred Inflows of Resources

Deferred Revenue	<u>688,481</u>
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Fund Balance

Restricted	4,375,591
Assigned	3,894,046
Unassigned	<u>6,895,720</u>

Total Fund Balance 15,165,357

Total Liabilities, Deferred Inflows
and Fund Balance \$ 35,873,660

CITY OF SCHENECTADY, NEW YORK
REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 29,900,500	\$ 29,900,500	\$ 28,096,772	\$ (1,803,728)
Real property tax items	3,600,295	3,600,295	3,524,968	(75,327)
Non-property tax items	13,770,000	13,770,000	13,676,705	(93,295)
Departmental income	9,196,706	8,995,706	8,718,381	(277,325)
Intergovernmental charges	157,389	157,389	171,095	13,706
Use of money and property	56,800	56,800	59,581	2,781
Licenses and permits	1,101,000	1,386,803	2,336,423	949,620
Fines and forfeitures	902,700	902,700	910,305	7,605
Sales of property and compensation for loss	1,959,981	1,959,981	2,547,143	587,162
Miscellaneous local sources	330,000	330,000	754,209	424,209
Interfund revenues	5,022,745	5,022,745	5,022,745	-
State aid	12,131,226	12,131,226	15,566,130	3,434,904
Federal aid	<u>119,000</u>	<u>119,000</u>	<u>64,502</u>	<u>(54,498)</u>
Total Revenues	78,248,342	78,333,145	81,448,959	3,115,814
Other Sources				
Interfund Transfer	-	-	917	917
Appropriated Fund Balance	<u>3,565,637</u>	<u>7,220,838</u>	<u>-</u>	<u>(7,220,838)</u>
Total Revenues, Other Sources and Appropriated Fund Balance	<u>81,813,979</u>	<u>85,553,983</u>	<u>81,449,876</u>	<u>(4,104,107)</u>
Expenditures				
General government support	6,730,806	6,857,180	6,366,677	490,503
Public safety	29,750,122	31,332,665	29,947,532	1,385,133
Transportation	5,326,407	5,348,121	4,328,168	1,019,953
Economic assistance and opportunity	5,000	5,000	5,000	-
Culture and recreation	961,887	961,887	838,672	123,215
Home and community services	6,168,377	6,456,448	5,668,330	788,118
Employee benefits	27,298,735	27,568,285	26,525,922	1,042,363
Debt service (principal and interest)	<u>5,572,645</u>	<u>5,514,870</u>	<u>5,514,145</u>	<u>725</u>
Total Expenditures	81,813,979	84,044,456	79,194,446	4,850,010
Other Uses				
Transfers to Capital Project Fund	<u>-</u>	<u>1,633,553</u>	<u>1,633,553</u>	<u>-</u>
Total Expenditures and Other Uses	<u>81,813,979</u>	<u>85,678,009</u>	<u>80,827,999</u>	<u>4,850,010</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ -</u>	<u>\$ (124,026)</u>	621,877	<u>\$ 745,903</u>
Fund Balance, January 1, 2016			<u>14,543,480</u>	
Fund Balance, December 31, 2016			<u>\$ 15,165,357</u>	

CITY OF SCHENECTADY, NEW YORK
WATER FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets		
Cash	\$	345,163
Cash-restricted		5,359,068
Other receivables		1,398,590
Total Assets	<u>\$</u>	<u>7,102,821</u>
Liabilities		
Accounts payable	\$	87,585
Accrued liabilities		28,119
Total Liabilities	<u></u>	<u>115,704</u>
Deferred Inflows of Resources		
Deferred revenue		<u>37,564</u>
Fund Balance		
Restricted		5,359,068
Assigned		<u>1,590,485</u>
Total Fund Balance		<u>6,949,553</u>
Total Liabilities, Deferred Inflows and Fund Balance		<u>\$ 7,102,821</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Departmental income	\$ 7,991,477	\$ 7,991,477	\$ 8,657,121	\$ 665,644
Use of money and property	15,000	15,000	14,651	(349)
Refund prior year expenditure	-	-	4,720	4,720
Interfund revenue	<u>60,000</u>	<u>60,000</u>	<u>45,295</u>	<u>(14,705)</u>
Total Revenues	8,066,477	8,066,477	8,721,787	655,310
Appropriated Fund Balance	<u>180,000</u>	<u>609,409</u>	<u>-</u>	<u>(609,409)</u>
Total Revenues and Appropriated Fund Balance	<u>8,246,477</u>	<u>8,675,886</u>	<u>8,721,787</u>	<u>45,901</u>
Expenditures				
General government support	1,087,282	1,165,218	862,795	302,423
Home and community services	5,653,472	5,806,431	5,129,664	676,767
Employee benefits	571,003	591,003	583,413	7,590
Debt service (principal and interest)	<u>934,720</u>	<u>914,720</u>	<u>907,061</u>	<u>7,659</u>
Total Expenditures	8,246,477	8,477,372	7,482,933	994,439
Other Uses - Transfer to Other Funds	<u>-</u>	<u>429,408</u>	<u>429,408</u>	<u>-</u>
Total Expenditures and Other Uses	<u>8,246,477</u>	<u>8,906,780</u>	<u>7,912,341</u>	<u>994,439</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (230,894)</u>	809,446	<u>\$ 1,040,340</u>
Fund Balance, January 1, 2016			<u>6,140,107</u>	
Fund Balance, December 31, 2016			<u>\$ 6,949,553</u>	

CITY OF SCHENECTADY, NEW YORK
SEWER FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets		
Cash	\$	1,477,245
Cash-restricted		7,124,669
Other receivables		1,613,985
Total Assets		<u>\$ 10,215,899</u>
Liabilities		
Accounts payable	\$	214,530
Accrued liabilities		127,027
Other liabilities		24,978
Total Liabilities		<u>366,535</u>
Deferred Inflows of Resources		
Deferred revenue		<u>423,618</u>
Fund Balance		
Restricted		7,124,669
Assigned		<u>2,301,077</u>
Total Fund Balance		<u>9,425,746</u>
Total Liabilities, Deferred Inflows and Fund Balance		<u>\$ 10,215,899</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Real property tax	\$ 11,844	\$ 11,844	\$ 15,721	\$ 3,877
Departmental income	11,418,243	11,418,243	11,910,800	492,557
Use of money and property	13,350	13,350	18,348	4,998
Miscellaneous local sources	<u>64,302</u>	<u>64,302</u>	<u>79,259</u>	<u>14,957</u>
Total Revenues	11,507,739	11,507,739	12,024,128	516,389
Other Sources				
Interfund transfers	-	-	16,000	16,000
Appropriated Fund Balance	<u>250,000</u>	<u>1,082,194</u>	<u>-</u>	<u>(1,082,194)</u>
Total Revenues, Other Sources and Appropriated Fund Balance	<u>11,757,739</u>	<u>12,589,933</u>	<u>12,040,128</u>	<u>(549,805)</u>
Expenditures				
General government support	709,796	1,256,269	1,092,771	163,498
Home and community services	7,116,876	7,208,976	6,077,354	1,131,622
Employee benefits	1,405,512	1,405,512	1,282,593	122,919
Debt service (principal and interest)	<u>2,525,555</u>	<u>2,525,555</u>	<u>2,468,978</u>	<u>56,577</u>
Total Expenditures	11,757,739	12,396,312	10,921,696	1,474,616
Other Uses - Transfers to other funds	<u>-</u>	<u>832,194</u>	<u>832,194</u>	<u>-</u>
Total Expenditures and Other Uses	<u>11,757,739</u>	<u>13,228,506</u>	<u>11,753,890</u>	<u>1,474,616</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (638,573)</u>	286,238	<u>\$ 924,811</u>
Fund Balance, January 1, 2016			<u>9,139,508</u>	
Fund Balance, December 31, 2016			<u>\$ 9,425,746</u>	

CITY OF SCHENECTADY, NEW YORK
RECREATION FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 225,387
Cash - restricted	659,597
Receivables	1,024
Inventory	7,647
Total Assets	<u>\$ 893,655</u>
Liabilities	
Accounts payable	\$ 8,877
Other liabilities	8,562
Total Liabilities	<u>17,439</u>
Fund Balance	
Nonspendable	7,647
Restricted	659,597
Assigned	208,972
Total Fund Balance	<u>876,216</u>
Total Liabilities and Fund Balance	<u>\$ 893,655</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues				
Departmental income	\$ 1,108,500	\$ 1,108,500	\$ 1,215,959	\$ 107,459
Use of money and property	1,000	1,000	1,328	328
State aid	-	-	5,000	5,000
Total Revenues	<u>1,109,500</u>	<u>1,109,500</u>	<u>1,222,287</u>	<u>112,787</u>
Appropriated Fund Balance	<u>9,694</u>	<u>56,612</u>	<u>-</u>	<u>(56,612)</u>
Total Revenue, Other Sources and Appropriated Fund Balance	<u>1,119,194</u>	<u>1,166,112</u>	<u>1,222,287</u>	<u>56,175</u>
Expenditures				
General government support	7,171	7,427	7,426	1
Culture and recreation	749,883	751,576	683,449	68,127
Employee benefits	74,118	74,118	53,518	20,600
Debt service (principal and interest)	288,022	287,766	287,055	711
Total Expenditures	<u>1,119,194</u>	<u>1,120,887</u>	<u>1,031,448</u>	<u>89,439</u>
Other Uses				
Interfund transfers	<u>-</u>	<u>46,918</u>	<u>46,918</u>	<u>-</u>
Total Expenditures and Other Uses	<u>1,119,194</u>	<u>1,167,805</u>	<u>1,078,366</u>	<u>89,439</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (1,693)</u>	143,921	<u>\$ 145,614</u>
Fund Balance, January 1, 2016			<u>732,295</u>	
Fund Balance, December 31, 2016			<u>\$ 876,216</u>	

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016**

Revenues	
Real property tax	\$ 264,000
Expenditures	
Transportation	<u>264,000</u>
Excess of Revenues Over Expenditures and Fund Balance, December, 31, 2016	<u><u>\$ -</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, 2016**

Revenues	
Real property tax	\$ 48,231
Expenditures	
General government support	<u>48,231</u>
Excess of Revenues Over Expenditures and Fund Balance, December 31, 2016	<u><u>\$ -</u></u>

CITY OF SCHENECTADY, NEW YORK
SPECIAL GRANT FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 858,814
State and federal aid receivables	1,567,349
Accounts receivable	159,993
Total Assets	<u>\$ 2,586,156</u>
Liabilities	
Accounts payable	\$ 943,680
Retainage payable	36,796
Due to other funds	676,187
Due to other governments	800
Total Liabilities	<u>1,657,463</u>
Deferred Inflows of Resources	548,222
Fund Balance	
Assigned	<u>380,471</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 2,586,156</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended December 31, 2016

Revenues	
Departmental income	\$ 74,864
Use of money and property	2
Sale of property and compensation for loss	80,958
Miscellaneous local sources	384,492
State aid	2,480,426
Federal aid	4,915,570
Total Revenues	<u>7,936,312</u>
Expenditures	
Home and community services	<u>7,996,241</u>
Deficiency of Revenues Over Expenditures	(59,929)
Fund Balance, January 1, 2016	<u>440,400</u>
Fund Balance, December 31, 2016	<u>\$ 380,471</u>

CITY OF SCHENECTADY, NEW YORK
DEBT SERVICE FUND

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Balance
for the Year Ended December 31, 2016**

Other Sources

Premium and accrued interest on obligations	\$ 1,846,898
Advanced refunding of bonds	<u>13,525,000</u>
Total Other Sources	<u>15,371,898</u>

Other Uses

Fiscal agent fees	\$ 79,684
Debt principal, serial bonds	14,610,000
Repayment to escrow agent, advanced refunding of bonds	<u>682,214</u>
Total Other Uses	<u>15,371,898</u>

Find Balance, December 31, 2016 \$ -

CITY OF SCHENECTADY, NEW YORK
CAPITAL PROJECTS FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ 26,954,230
State and federal aid receivables	<u>2,083,322</u>
Total Assets	<u>\$ 29,037,552</u>
Liabilities	
Accounts payable	\$ 2,036,412
Retained percentages	323,878
Bond anticipation notes	43,862,072
Due to other funds	<u>1,054,179</u>
Total Liabilities	47,276,541
Fund Balance	
Unassigned Deficit	<u>(18,238,989)</u>
Total Liabilities and Fund Deficit	<u>\$ 29,037,552</u>

Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Deficit
For the Year Ended December 31, 2016

Revenues	
Use of money and property	\$ 272
Miscellaneous local sources	72,600
State aid	1,687,228
Federal aid	<u>2,938,213</u>
Total Revenues	4,698,313
Other Sources	
Interfund transfers	2,954,308
Serial bonds	7,985,000
Notes redeemed from appropriations	1,424,500
Installment purchase debt	<u>39,487</u>
Total Revenues and Other Sources	<u>17,101,608</u>
Expenditures	
General government support	2,117,814
Public safety	785,316
Transportation	6,493,252
Culture and recreation	615,303
Home and community services	5,789,678
Debt principal	<u>722,830</u>
Total Expenditures	16,524,193
Other Uses	
Interfund transfers	<u>29,152</u>
Total Expenditures and Other Uses	<u>16,553,345</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	548,263
Fund Deficit, January 1, 2016	<u>(18,787,252)</u>
Fund Deficit, December 31, 2016	<u>\$ (18,238,989)</u>

CITY OF SCHENECTADY, NEW YORK
AGENCY FUND

Regulatory Basis Balance Sheet
December 31, 2016

Assets	
Cash	\$ <u>900,429</u>
Liabilities	
Agency liabilities	\$ 122,048
Other liabilities	<u>778,381</u>
Total Liabilities	<u>\$ 900,429</u>

Regulatory Basis Balance Sheet
December 31, 2016

Assets

Provisions to be made in future budgets	\$ <u>222,494,494</u>
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Liabilities

Installment purchase debt	\$ 3,777,231
Judgments and claims payable	10,893,198
Compensated absences	2,305,550
Due to retirement systems	3,622,645
Due to other governments	1,091,825
Bonds and capital notes payable	68,840,000
Other post-employment benefits	89,082,723
Net pension liability - proportionate share	33,303,192
Other debt	2,840,000
Deferred inflows of resources - pensions	6,738,130
Total Liabilities	<u>\$ 222,494,494</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 accordance 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, an Annual Update Document (AUD). 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

Management has implemented certain of the provisions of GASB 34 including the budgetary reporting and management’s discussion and analysis, however 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 preparing the financial statements utilizing another comprehensive basis of accounting (regulatory basis) as opposed to GAAP makes fiscal sense for the City.

Although the AUD does not require the reporting of modified budget information, a budget to actual comparison has been included in these financial statements for each applicable fund.

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 of the City, consists of 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 and grant 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 SURA blended component unit’s financial statements were audited as of and for the year ended December 31, 2016 by auditors whose report expressed an unmodified opinion.

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, 2016 by 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 operations.

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 federal, state or local grants that are legally restricted to expenditures for a specific grant purpose.

Debt Service Fund - used to account for the advance refunding of serial bonds.

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

Agency Fund - 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 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 in 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 also 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 in June 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.

Since the City of Schenectady does not appoint a majority of the 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 in the City financial statements.

The Land Bank is currently operated under contract by Schenectady Metroplex Development Authority and the 2016 financial statements have been audited by an independent CPA firm engaged by the Land Bank. The Land Bank’s financial statements can be obtained from Schenectady Metroplex Development Authority, 433 State Street, Schenectady, New York, 12305.

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 accordance 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*

Excluding certain vision coverage, the City is self-insured for the healthcare benefits offered and all workers' compensation.

The City has retained a portion of the liability to cover losses under §207-C and §207-A of the Workers' Compensation Law for 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 to \$100,000 per claim based on the type of 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 2016, 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 claim liabilities does not necessarily result in an exact amount. Claim 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	\$ 9,493,848	\$ 906,941	\$ 845,054
Provision for Incurred Claims Expense for Events of the Current and Prior Years	1,423,080	10,924,267	1,885,484
Payments Made During the Current Year	<u>(1,563,080)</u>	<u>(10,949,066)</u>	<u>(147,554)</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$ 9,353,848</u>	<u>\$ 882,142</u>	<u>\$ 2,582,984</u>
Reflected as Follows:			
General Fund	\$ 1,839,902	\$ 882,142	\$ 1,000,248
Non-Current Government Liability Account Group	<u>7,513,946</u>	<u>-</u>	<u>1,582,736</u>
	<u>\$ 9,353,848</u>	<u>\$ 882,142</u>	<u>\$ 2,582,984</u>

2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

Capital Projects Fund

Capital Projects Fund had deficits totaling \$18,238,939 at December 31, 2016, 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.

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 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.

At December 31, 2016, the book amount of the primary government's deposits (excluding \$6,900 in petty cash) was \$69,289,251 and the bank balances were \$70,942,571. The insured and collateral status of the year-end bank balances was as follows:

	<u>Amount</u>
Covered by federal deposit insurance	\$ 523,894
Collateralized with securities held by a third party custodian for the benefit of the City, pursuant to a three-party custody agreement (\$71,169,988 available).	<u>70,418,677</u>
Total	<u><u>\$ 70,942,571</u></u>

For the year ended December 31, 2016, the SURA's book and bank balance amount was \$4,070.

For the year ended December 31, 2016, the SHDFC's book and bank balance amount was \$19,824.

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

B. Cash Restricted

Cash restricted consists of the following at December 31, 2016:

<u>General Fund</u>	
Reserve for Debt	\$ 440,639
Capital Reserve	1,695,794
Snow and Ice Removal	203,214
Tax Stabilization	586,565
Tax Certiorari	449,129
Litigation and Claims	1,000,250
	<u>4,375,591</u>
<u>Water Fund</u>	
Reserve for Debt	92,162
Reserve for Capital	5,266,906
	<u>5,359,068</u>
<u>Sewer Fund</u>	
Reserve for Capital	6,291,118
Reserve for Repairs	215,322
Reserve for Debt	618,229
	<u>7,124,669</u>
<u>Recreation Fund</u>	
Reserve for Debt	1,016
Reserve for Capital	658,581
	<u>659,597</u>
 Total Cash - Restricted	 <u>\$ 17,518,925</u>

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, 2016, the total real property tax receivable of \$19,279,793 is reduced by an allowance for uncollectible and unavailable taxes in the amount of \$16,429,642 resulting in net realizable taxes receivable of \$2,850,151.

The above-mentioned net realized taxes receivable at December 31, 2016 also include the amount of taxes the City must collect on behalf of the Schenectady City School District. At December 31, 2016 the City is obligated to pay the Schenectady School District \$6,651,471 which is reflected in the Due to Other Governments on the general fund balance sheet.

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

C. Property Taxes (Continued)

GASB Statement No. 77 requires municipalities to disclose agreements with various taxpayers to reduce the amount of taxes they would otherwise have to pay. The agreements may call for Payment in Lieu of Taxes (PILOT) payments, Payment in Lieu of Services payments, reduced taxable assessed value or no tax payments at all. These agreements place certain limitations on a government's ability to raise revenues from property taxes (or other tax revenue sources).

The City of Schenectady has a number of Payments in Lieu of Taxes ("PILOTS") and other tax abatement agreements in place with local businesses. All agreements are for abatement of property taxes. Most of these agreements are entered into by agencies other than the City of Schenectady.

1. The City of Schenectady Industrial Development Agency (IDA) enters into such agreements under Article 18-A of the General Municipal Law of the State of New York. They are located at: Center City Plaza; Schenectady, NY 12305; Jayme Lahut, Executive Director.
2. There are a small number of agreements under the Moral & Mental Health Improvements Law (under the IDA, under Title 1 of Article 18-A of GML, Chapter 24 of consolidated Laws of NYS, Chapter 389 of 1978 Laws, Section 874 of the act and Section 412-a of the Real Property Tax Law).
3. The Schenectady Metroplex Development Authority enters into such agreements under Title 28-B of Article 8 of the Public Authorities Law of NYS. They are located at: Center City Plaza; Schenectady, NY 12305; Ray Gillen, Chairman.
4. There are a small number of agreements under Section 125 of the Private Housing Finance Law of the State of New York (City agreement).

Items one and three above are for commercial or industrial development for the purpose of attracting or retaining businesses within their jurisdictions. PILOT agreements normally provide for payment of amounts lesser than would have been collected for real estate taxes for a number of years.

For the year ended December 31, 2016, the City recognized \$1,818,784 in PILOT revenue for all programs listed above. Abated property taxes amounted to \$2,958,876 under these programs.

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

C. Property Taxes (Continued)

<u>Parcel Count</u>	<u>Agency</u>	<u>Full Tax Potential</u>	<u>Pilot/Abatement Revenue Paid</u>	<u>Lost</u>
35	IDA	\$ 2,610,122	\$ 1,484,891	\$ 1,125,231
2	IDA/Moral and Mental Health Improvements	170,832	25,626	145,206
67	Metroplex	1,912,346	234,304	1,678,042
2	City of Schenectady/PHF Law 125	<u>84,360</u>	<u>73,963</u>	<u>10,397</u>
	Total	<u>\$ 4,777,660</u>	<u>\$ 1,818,784</u>	<u>\$ 2,958,876</u>

The City of Schenectady will disclose all tax abatements over 9.5% of the total abatements of \$2,958,876 (\$281,093). They are as follows:

The Schenectady Industrial Development Agency has an agreement with DMN Realty Associates, LLC for a property located at 526 Altamont Avenue, for which the amount of abated property taxes is \$292,671 (at 9.9% of the total abatements).

The Schenectady Metroplex Development Authority has an agreement with BN Partners Associates LLC for a property at 461-467 Nott Street, for which the amount of abated property taxes is \$455,827 (at 15.4% of the total abatements).

The Schenectady Metroplex Development Authority has an agreement with PTR Redevelopment LLC for a property at Stratton Plaza/Clinnton St./430-432 State Street, for which the amount of abated property taxes is \$371,908 (at 12.6% of the total abatements).

D. Other Receivables and Deferred Inflows of Resources

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, 2016.

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

D. Other Receivables and Deferred Inflows of Resources (Continued)

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, 2016 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, 2016 are as follows:

Total Loans Outstanding	\$ 466,119
Less Allowance for Uncollectible Accounts	<u>(449,581)</u>
Net Loans Receivable	<u>\$ 16,538</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.

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, 2016:

Loans receivable, January 1	\$ 34,265
Add new loans made	21,461
Less principal payments received	(13,576)
Write-offs and adjustments	<u>2,251</u>
Loans Receivable, December 31	<u>\$ 44,401</u>

See Note 3E6 for other deferred inflows of resources in the special grant fund.

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

Schenectady Housing Development Fund Corporation (a blended component unit) (Continued)

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.

E. Liabilities

1. Pension Plans

General Information

The City participates in the New York State and Local Employees' Retirement System ("ERS") and New York State and Local Police and Fire Retirement System ("PFRS") collectively the "Systems". The Systems are cost sharing multiple-employer, public employee retirement systems. The Systems offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

Plan Description and Benefits Provided

The Systems provide retirement benefits as well as death and disability benefits. The net position of the Systems are held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the Systems. The Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the Systems. System benefits are established under provisions of the New York State Retirement and Social Security Laws ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. 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 System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory except for ERS employees who joined the System after July 27, 1976 who contribute 3% of their salary, for the first ten years of membership and employees who joined on or after January 1, 2010 who generally must contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

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

Schenectady Housing Development Fund Corporation (a blended component unit)
(Continued)

E. Liabilities (Continued)

1. Pension Plans (Continued)

Plan Description and Benefit Provided (Continued)

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

	ERS		PFRS	
	<u>Amount</u>	<u>Rate*</u>	<u>Amount</u>	<u>Police/Fire Rates*</u>
2016	\$ 2,118,360	16.0%	\$ 6,456,476	24.1/29.7%
2015	\$ 2,145,142	18.8%	\$ 5,956,178	24.7/30.1%
2014	\$ 2,769,499	20.3%	\$ 7,041,053	27.3/33.0%

* Reflects rates of most populated tier.

The City's contributions made to the Systems were equal to 100 percent of the contributions required for 2016. 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. 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 and include interest at 8.75%.

The outstanding balance as of December 31, 2016 for the all pension liabilities was \$3,622,645, of which \$2,395,085 is for the 2013 amortization and \$1,227,560 is for the 2014 amortization.

Covered Payroll

The City of Schenectady's covered payrolls for 2016 are as follows:

ERS	\$ 14,900,190
PFRS	<u>24,989,230</u>
Total	<u>\$ 39,889,420</u>

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

E. Liabilities (Continued)

1. Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions

At December 31, 2016, the City reported a liability in the non-current government liability account group of \$8,285,607 for ERS and \$25,017,585 for PFRS for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined, and is reflected in the non-current government liability group at December 31, 2016.

At December 31, 2016, the City's proportion was .052% percent ERS and .845% PFRS.

At December 31, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Total Deferred Outflows of Resources
Differences between expected and actual experience	\$ 266,255
Change in assumptions	12,994,520
Net difference between projected and actual earnings on pension plan investments	18,935,811
Contributions made subsequent to measurement date	<u>6,431,127</u>
	<u>\$38,627,713</u>

At December 31, 2016, the City reported deferred inflows of resources related to pensions from the following sources:

	Total Deferred Inflows of Resources
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 1,973,651
Differences between expected and actual expenses	<u>4,764,479</u>
	<u>\$ 6,738,130</u>

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

E. Liabilities (Continued)

1. Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions (Continued)

Differences between expected and actual experience

The net amount of the employer's balances of deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

December 31, 2017	\$ 12,567,199
December 31, 2018	6,136,069
December 31, 2019	6,136,069
December 31, 2020	5,860,833
December 31, 2021	1,189,413
	\$ 31,889,583

Actuarial Assumptions. The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions:

Interest rate	7.0%
Salary increase	4.5% (3.8% ERS)
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%
Cost of living adjustment	1.3%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period August 1, 2010 - March 31, 2015.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

E. Liabilities (Continued)

1. Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Inflows and Outflows of Resources Related to Pensions (Continued)

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 were as follows:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	7.30%
International equity	8.55%
Private equity	11.0%
Real estate	8.25%
Absolute return strategies	6.75%
Opportunistic portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation-indexed bonds	4.00%

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and PFRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

E. Liabilities (Continued)

1. Pension Plans (Continued)

Sensitivity of the Proportionate Share of the Net Pension Assets/Liability to the Discount Rate Assumption

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the City's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Assumption</u>	<u>1%</u> <u>Increase</u>
<u>ERS</u>			
Employers' proportionate share of the net pension asset (liability)	<u>\$ (18,683,442)</u>	<u>\$ (8,285,607)</u>	<u>\$ 500,119</u>

<u>PFRS</u>			
Employers' proportionate share of the net pension asset (liability)	<u>\$ (55,879,407)</u>	<u>\$ (25,017,585)</u>	<u>\$ 851,311</u>

Pension Plan Fiduciary Net Position

The components of the net pension liability of the Systems as of March 31, 2016 was as follows (in thousands):

	<u>ERS</u>	<u>PFRS</u>
Systems total pension liability	\$ 172,303,544	\$ 30,347,727
Systems net position	<u>156,253,265</u>	<u>27,386,940</u>
Systems net pension liability	<u>(16,050,279)</u>	<u>(2,960,787)</u>
Ratio of systems net position to the employers' total pension liability	<u>90.7%</u>	<u>90.2%</u>

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

E. Liabilities (Continued)

1. Pension Plans (Continued)

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 \$18,000 for participants under age 50 and \$24,000 for those 50 years of age and older) until future years. During the past year, the employees contributed approximately \$1,073,000. 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 Statement 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. All employees who leave the employment of the City are entitled to be paid for unused vacation leave up to a maximum of 10 weeks. Unused sick leave, at rates ranging from twenty-five to seventy-five percent, depending on the contract and hire date, is paid to all employees, except police and fire, upon retirement, layoff or death.

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

E. Liabilities (Continued)

1. 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 Projects 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, 2016, BANs outstanding of \$43,862,072 are reflected in the Capital Projects Fund. The BANs fund various improvements and have a maturity date of May 11, 2017 with an interest rate of 0.8-1%.

The following is a summary of changes in short-term debt for the year ended December 31, 2016:

	<u>Payable at January 1, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Payable at December 31, 2016</u>
Bond Anticipation Notes	<u>\$ 40,688,310</u>	<u>\$ 12,583,262</u>	<u>\$ 9,409,500</u>	<u>\$ 43,862,072</u>

4. Long -Term Debt

At December 31, 2016 the total outstanding serial bonds of the primary government was \$68,840,000.

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

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

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 Debt - Other debt at December 31, 2016 includes the total outstanding of \$2,840,000 on a \$3,000,000 US Department of Housing and Urban Development contract for loan guarantee assistance provided under section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. 5308. \$2,500,000 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. It is anticipated that \$500,000 will be used in support of the development or redevelopment of a low-income residential facility.

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

Due to Retirement Systems - Represents amounts accrued for early retirement incentives adopted by the City Council and the amortization of a portion of the bills due in 2013 and 2014 under the contribution stabilization program.

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.

Judgments and Claims - Represents legal judgments, claims and tax certiorari proceedings that are anticipated to 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.

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

E. Liabilities (Continued)

4. Long -Term Debt (Continued)

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

Net Pension Liability - Represents the City of Schenectady's proportionate share of the NYS pension liability under GASB 68.

Deferred Inflows of Resources - Pensions - Represents changes between employer contributions and proportionate share of contributions as required by GASB 68.

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

The following is a summary of changes in long-term liabilities for the year ended December 31, 2016:

	<u>Payable at</u> <u>January 1, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other</u> <u>Increase</u>	<u>Payable at</u> <u>December 31, 2016</u>
Serial Bonds	\$ 66,372,830	\$ 21,510,000	\$ 19,042,830	\$ -	\$ 68,840,000
Due to Retirement Systems	4,129,074	-	506,429	-	3,622,645
Compensated Absences	2,279,003	-	-	26,547	2,305,550
Installment Purchase Debt	5,010,687	39,487	1,272,943	-	3,777,231
Judgment and Claims Payable	9,835,701	-	-	1,057,497	10,893,198
Due to Other Governments	310,490	-	-	781,335	1,091,825
Other Debt	2,970,000	-	130,000	-	2,840,000
Net Pension Liability	4,187,303	-	-	29,115,889	33,303,192
Deferred Inflows of Resources-Pensions	834,648	-	-	5,903,482	6,738,130
Post-employment Benefits	71,073,902	-	8,712,109	26,720,930	89,082,723
Total	<u>\$ 167,003,638</u>	<u>\$ 21,549,487</u>	<u>\$ 29,664,311</u>	<u>\$ 63,605,680</u>	<u>\$ 222,494,494</u>

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

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

Serial bonds are comprised of the following at December 31, 2016:

<u>Payable From/ Description</u>	<u>Issued</u>	<u>Original Amounts</u>	<u>Interest Rate (%)</u>	<u>Final Maturity</u>	<u>Balance Outstanding 2016</u>
General Fund					
General Purpose	2016	\$ 5,677,245	4.0%	2030	\$ 5,352,943
General Purpose	2016	\$ 2,140,000	3.0%	2043	2,140,000
General Purpose	2008	\$ 3,985,323	4.00%-4.5%	2030	153,790
General Purpose	2010	\$ 3,768,600	2.00%-3.00%	2019	410,600
General Purpose	2011	\$ 3,769,500	4.375%-5.00%	2038	3,376,500
General Purpose	2014	\$ 28,340,209	3.5%	2038	26,792,555
Water Fund					
Water Fund	2016	\$ 1,930,575	4.00%	2030	1,817,742
Water Fund	2016	\$ 1,595,000	3.0%	2043	1,595,000
Water Fund	2008	\$ 1,891,941	4.00%-4.25%	2030	69,031
Water Fund	2010	\$ 3,220,000	2.00%-3.00%	2019	340,000
Water Fund	2011	\$ 1,884,750	4.375%-5.00%	2038	1,688,250
Water Fund	2014	\$ 1,469,558	3.5%	2038	1,389,306
Sewer Fund					
Sewer Fund	2016	\$ 5,849,721	4.00%	2030	5,712,427
Sewer Fund	2016	\$ 4,250,000	3.0%	2043	4,250,000
Sewer Fund	2008	\$ 5,500,708	4.00%-4.5%	2030	224,399
Sewer Fund	2010	\$ 3,492,800	2.00%-3.00%	2019	399,400
Sewer Fund	2011	\$ 6,910,750	4.375%-5.00%	2038	6,190,250
Sewer Fund	2014	\$ 6,779,671	3.5%	2038	6,409,439
Recreation Fund					
Golf Course	2016	\$ 67,459	4.0%	2030	56,888
Golf Course	2008	\$ 67,528	4.00%-4.5%	2030	2,780
Golf Course	2014	\$ 495,771	3.5%	2038	<u>468,700</u>
Total Serial Bonds					<u>\$ 68,840,000</u>

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

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

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

	<u>Serial Bonds</u>	<u>Interest</u>
2017	\$ 3,125,000	\$ 2,614,698
2018	2,800,000	2,404,344
2019	2,885,000	2,306,394
2020	2,680,000	2,209,618
2021	2,780,000	2,107,875
2022-2026	15,765,000	8,741,456
2027-2031	15,035,000	5,849,785
2032-2036	14,890,000	3,203,994
2037-2041	8,025,000	538,825
2042-2043	855,000	25,875
Total	<u>\$ 68,840,000</u>	<u>\$ 30,002,864</u>

Other Long-Term Debt

Principal payments and interest due are as follows:

	<u>Principal</u>	<u>Interest</u>
2017	\$ 130,000	\$ 80,456
2018	155,000	79,247
2019	155,000	77,186
2020	155,000	74,271
2021	155,000	71,203
2022-2026	785,000	296,035
2027-2031	800,000	174,545
2032-2034	505,000	37,975
Total	<u>\$ 2,840,000</u>	<u>\$ 890,918</u>

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

E. Liabilities (Continued)

4. Long-Term Debt (Continued)

Installment Purchase Debt (Continued)

Minimum future lease payments for vehicles and energy improvements are:

2017	\$ 1,380,758
2018	641,071
2019	577,175
2020	1,155,750
2021	203,475
Thereafter	<u>89,228</u>
Total Payments	4,047,457
Less: interest	<u>(270,226)</u>
Total	<u><u>\$ 3,777,231</u></u>

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

The due to retirement systems maturities are as follows:

The principal payment schedule from the New York State Retirement Systems for the amortization of its retirement payment as described in Note 3 E1 is reflected below.

2017	\$ 443,606
2018	459,172
2019	475,288
2020	491,971
2021	509,242
Thereafter	<u>1,243,366</u>
	<u><u>\$ 3,622,645</u></u>

5. Post Employment Benefits Payable

As of December 31, 2016, the liability for post-employment benefits payable calculated in accordance with Government Accounting Standards Board No. 45 ("GASB 45") is \$311,166,447 based on an actuarial valuation dated December 31, 2016. The City has elected to amortize this liability over 30 years as permitted by GASB 45, therefore the liability appearing in the December 31, 2016 financial statements is \$89,082,723.

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	\$ 175,677,825
2. Active employees	135,488,622
3. Total	<u>\$ 311,166,447</u>
B. <i>Calculation of Amortization of UAL (open level dollar method)</i>	
1. Unfunded Actuarial Accrued Liability (“UAL”) at beginning of year	\$ 311,166,447
2. Amortization Period	30 years
3. Present Value Factor at the beginning of the year	17.292%
4. Amortization Payment at the beginning of the year	<u>\$ 16,409,928</u>
C. <i>Calculation of Annual Required Contribution for the 2015 fiscal year</i>	
1. Normal Cost	\$ 10,921,860
2. Amortization Payment	16,409,928
3. Interest to end of fiscal year at 4.00%	656,397
4. Annual Required Contribution (“ARC”)	<u>\$ 27,988,185</u>
D. <i>Calculation of ARC Adjustment</i>	
1. Net OPEB Obligation/(Asset) as of the beginning of year	\$ 71,073,902
2. Amortization Period	30 years
3. Present Value Factor at the end of the year	17.9837%
4. Amortization Amount at the end of the year (“ARC Adjustment”)	<u>\$ 4,110,211</u>
E. <i>Calculation of OPEB Expense</i>	
1. ARC	\$ 27,988,185
2. Interest at 4.00% on Net OPEB Obligation/(Assets) as of the beginning of year	2,842,956
3. ARC Adjustment	(4,110,211)
3. OPEB Expense	<u>\$ 26,720,930</u>
F. <i>Reconciliation of Net OPEB Obligation</i>	
1. Net OPEB Obligation at the beginning of the year	\$ 71,073,902
2. OPEB Expense	26,720,930
3. Net OPEB Contributions made during the fiscal year	(8,712,109)
4. Net OPEB Obligation at the end of the year	<u>\$ 89,082,723</u>
5. Percentage of Expense Contributed	32.60%
G. <i>Schedule of Funding Progress</i>	
1. Currently retired liability	\$ 175,677,825
2. Actives eligible to retire	31,427,270
3. Actives not yet eligible	104,061,352
4. Actuarial Accrued Liability	311,166,447
5. Actuarial Value of Assets	-
6. Unfunded Actuarial Accrued Liability	<u>\$ 311,166,447</u>

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

E. Liabilities (Continued)

5. Post Employment Benefits Payable (Continued)

H. *Schedule of Participants*

1. Currently retired participants	\$ 547
2. Active participants	523
3. Dependants	371
4. Total Participants	<u>\$ 1,441</u>

I. *Schedule of Employer Contributions*
 Contributions

\$ 8,712,109

J. *Actuarial Assumptions*

1. Funding Interest Rate	4.000%
2. Trend Rates 2016	3.886-11.000%
3. Ultimate Trend Rate	3.886%
4. Fiscal Year Ultimate Trend Rates Reached	2075

6. Deferred Inflows of Resources and Unearned Revenues

Deferred inflows of resources arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both recognition criteria are met, the deferred inflows of resources is reduced and revenue is recognized.

Unearned revenue arises when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, or when the City has legal claim to the resources, the liability is removed and revenue is recognized.

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

E. Liabilities (Continued)

6. Deferred Inflows of Resources and Unearned Revenues (Continued)

Deferred inflows of resources and unearned revenues at December 31, 2016 consists of the following:

<u>General Fund</u>	
Real property taxes	\$ 96,538
Parking fees and unpaid municipal voucher billings	<u>591,943</u>
	<u>\$ 688,481</u>
 <u>Water Fund</u>	
Water rents	<u>\$ 37,564</u>
 <u>Sewer Fund</u>	
Sewer rents	<u>\$ 423,618</u>
 <u>Special Grant Fund</u>	
Community Development Agency Federal Aid	\$ 180
Community Development Agency State Aid	20,924
Community Development Agency loans (see Note 3D)	16,538
Community Development Agency Program Income	208,578
Schenectady Housing Development Fund Corporation (see Note 3 D)	44,401
Miscellaneous Grants	<u>257,601</u>
Total	<u>\$ 548,222</u>
 <u>Non-Current Government Liability Group</u>	
Pensions	<u>\$ 6,738,130</u>

F. Interfund Balances

Interfund transfers and receivables and payables at December 31, 2016 and for the year then ended are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 917	\$ 1,633,553	\$ 1,730,366	\$ -
Sewer	16,000	832,194	-	-
Water	-	429,408	-	-
Recreation	-	46,918	-	-
Special Grant	-	-	-	676,187
Capital Projects	<u>2,954,308</u>	<u>29,152</u>	-	<u>1,054,179</u>
Total	<u>\$ 2,971,225</u>	<u>\$ 2,971,225</u>	<u>\$ 1,730,366</u>	<u>\$ 1,730,366</u>

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

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 \$7,647 in inventory expenses recorded in the recreation fund at December 31, 2016.
- **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, 2016:

	General Fund	Water Fund	Sewer Fund	Recreation Fund
Snow and Ice Removal	\$ 203,214	\$ -	\$ -	\$ -
Tax Stabilization	586,565	-	-	-
Bonded Debt	440,639	92,162	618,229	1,016
Tax Certiorari	449,129	-	-	-
Litigation	1,000,250	-	-	-
Capital Reserve	1,695,794	5,266,906	6,291,118	658,581
Repair Reserve	-	-	215,322	-
	<u>\$ 4,375,591</u>	<u>\$ 5,395,068</u>	<u>\$ 7,124,669</u>	<u>\$ 659,597</u>

- **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, 2016.
- **Assigned** fund balance includes amounts that are constrained by the City 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 the ensuing year’s budget. Assigned fund balance includes the following:

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

G. Fund Equity and Reserves (Continued)

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Recreation Fund</u>	<u>Special Grant</u>
Encumbrances	\$ 207,425	\$ 281,576	\$ 23,825	\$ -	\$ -
Appropriated Fund Balance	3,686,621	-	-	-	-
Home and Community Services	-	1,308,909	2,277,252	-	380,471
Culture and Recreation	-	-	-	208,972	-
	<u>\$ 3,894,046</u>	<u>\$ 1,590,485</u>	<u>\$ 2,301,077</u>	<u>\$ 208,972</u>	<u>\$ 380,471</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.

The City determines whether restricted, committed or unassigned amounts are considered to have been spent first when resources are available from multiple constraint levels. The default policy is that resources are first spent from the highest constraint level.

4. COMMITMENTS AND CONTINGENCIES

- A. Grants** - 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. Parking Lots** - 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 that expired June 2014.

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 \$279,119, calculated using an assumed rate of interest of 6%, has been recorded in the Non-Current Government Liability Account Group at December 31, 2016.

- C. Tax review cases** - Tax review cases are pending against the City for reductions in the assessed value of property. The petitions are for taxes collected in 2009 through 2016. Management believes that the likelihood of reductions is probable. Provision for losses for cases settled after December 31, 2016 and the City's estimate of losses for cases unsettled to date of \$2,245,645 are included in the Non-Current Government Liability Account Group in judgments and claims payable of \$1,796,516 and in a General Fund reserve of \$449,129 that comprise the balance.

4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

- D. *Litigation*** - 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 the 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 of \$1,582,736 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 of \$1,000,250 at December 31, 2016.
- E. *Downtown Schenectady Improvement Corporation*** - 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, 2016, no additional amount was owed.
- F. *Consortium*** - 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 the 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 funds to the Town of Colonie and the City. For ten years ending 2016, the City paid 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, 2016, the City is not aware of any significant environmental conditions 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.

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
United Brotherhood of Carpenters & Joiners of America, Local 146	December 31, 2016
Brotherhood of Electrical Works - Local 236	December 31, 2016
Schenectady Police Benevolent Association	December 31, 2017
IAFF, Local 28 (City Fire Fighters Union)	December 31, 2014
National Union of Painters & Allied Tradesman, Local 62	December 31, 2016
IOUE, Local 106 (Operating Engineers)	December 31, 2016

All bargaining units other than the Schenectady Police Benevolent Association are currently under negotiation.

I. *Housing and Urban Development (HUD)*

During 2015, the City became aware of Housing and Urban Development (“HUD”) concerns regarding Community Development Block Grant (“CDBG”) revenue drawn by the City for neighborhood assistance and police activity. Specifically, 2013 and 2014 activity was reviewed by HUD and, as a result, the City is revisiting its plan for use of certain CDBG revenue and will have to repay \$812,706 to HUD. The repayment has to be taken from City funds (non federal funds) and placed into a CDBG line of credit in the City’s name to utilize for an eligible project. This amount is represented in the Non-Current Government Liability Account Group under Due to Other Governments. In November 2016, the following payment schedule was finalized:

2017	\$ 270,902
2018	\$ 270,902
2019	<u>\$ 270,902</u>
	<u>\$ 812,706</u>

J. *Constitutional Debt Limit* - As of December 31, 2016, the City had exhausted 41.88% 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.

5. JOINT VENTURES (CONTINUED)

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.

The following is an unaudited summary of financial information included in financial statements issued for the joint venture for the year ended November 1, 2016:

Total Assets	\$	11,120
Total Liabilities	\$	1,625
Joint Venture Equity	\$	9,495
Total Revenues	\$	-
Total Expenses	\$	3,623

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 year ended December 31, 2016:

Total Assets	\$	188,586
Joint Venture Equity	\$	188,586
Total Revenues	\$	377
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. SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions as to potential material impact on operations or financial position occurring through May 26, 2017, the date the financial statements were available to be issued. The following were noted:

- A. The City has a \$43,862,072 BAN due May 11, 2017. After reflecting a principal paydown of \$1,264,500 it anticipates it will refinance \$21,357,757 of that amount with a BAN and issue Bonds for the balance of the maturing BAN of \$21,239,815. In addition, the City will include in the May 2017 BAN issuance funding for the capital projects listed in the 2017 adopted budget; the projects' cost, including cost of issuance, total approximately \$7.5 million.
- B. The City settled a lawsuit with American Tax Funding, LLC. In January 2017, the City Council passed resolution 2017-16 as amended by resolution 2017-22) for \$1,750,000 to be paid to American Tax Funding, LLC over a period of three years. The final contract was executed on April 10, 2017. The City has set aside additional reserves in the general fund (under Litigation) for one third of this amount, and the balance is in the Long Term Debt fund (under Judgments & Claims). Both of these amounts are in the December 31, 2016 financial statements.
- C. In January 2017, the City entered into an agreement with NYS Environmental Facilities Corporation to assist the City with complying with the NYS DEC consent order mentioned in Note 4G. This agreement has a \$5,000,000 grant component, a \$15,000,000 zero interest loan and a \$3,480,500 low interest loan. The funds will be drawn upon to offset expenditures by the City. The debt repayment schedule will be established based on the draw down schedule.
- D. In 2016, the City issued \$13,525,000 in general obligation bonds with an average interest rate of 4% to advance refund \$14,610,000 (of which \$14,110,000 is still outstanding at December 31, 2016) of general obligation bonds with interest rates of 4.25 - 5.0%. The net proceeds of \$15,292,214 (after payment of \$79,684 in underwriting fees, insurance and other issuance costs) was used to purchase United States government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased, and the liability for those bonds has been removed from the District's financial statements.

7. SUBSEQUENT EVENTS (CONTINUED)

- E. On April 7, 2017, Engineers declared the Nicholas Building structurally unstable and in imminent danger of collapsing, posing a threat to life and surrounding property. As a matter of public safety, the City arranged for the demolition of the Nicholas Building (located on the corner of State Street and Erie Boulevard), a preliminary cost estimate for this is approximately \$125,000. Funds will come from the City's unreserved general fund balance. The City will work to recover this and all of the costs it incurred in this matter from the building owners and any other appropriate avenue.

On April 19, 2017, the City determined that the structure at 543 Schenectady Street was unstable and, as a matter of public safety, the City arranged for the demolition of this property (owned by SURA). The preliminary cost estimate for this is approximately \$157,000. Funds will come from the City's general unreserved fund balance.