

*CITY OF SCHENECTADY, NEW YORK*  
*REGULATORY BASIS FINANCIAL STATEMENTS*  
*DECEMBER 31, 2011*

*CITY OF SCHENECTADY, NEW YORK*

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*DECEMBER 31, 2011*

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

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

We have audited the accompanying regulatory basis financial statements of the City of Schenectady, New York as of and for the year ended December 31, 2011, as listed in the table of contents. These regulatory basis financial statements are the responsibility of the City of Schenectady's management. Our responsibility is to express an opinion on these regulatory basis financial statements based on our audits. We did not audit the financial statements of the Schenectady Local Development Corporation, a component unit, which represents 23% of the assets and 1% of the revenues in the Special Grant Fund for the year ended December 31, 2011. Additionally, we did not audit the financial statements of two other component units, which represent 3% of the assets and 1% of the revenue in the Special Grant Fund for the year ended December 31, 2011. The financial statements of the Schenectady Local Development Corporation and the two other component units were audited by other auditors whose unqualified report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Schenectady Local Development Corporation and the two other component units as of and for the year ended December 31, 2011, is based solely on the report of the other auditors.

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

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

America are also described in Note 1. The effect 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.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Schenectady, New York as of December 31, 2011, and the results of its operations for the year then ended. Further, the City of Schenectady, New York has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

In our opinion, based on our audit and the reports of other auditors, except for the effect of such adjustments discussed in the preceding paragraph, the regulatory basis financial statements referred to above present fairly, in all material respects, the financial position of the City of Schenectady, New York as of December 31, 2011, and the results of its operations for the year then ended in conformity with the regulatory basis accounting principles prescribed by the New York State Office of the State Comptroller.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2012, on our consideration of the City of Schenectady's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
May 3, 2012

**CITY OF SCHENECTADY, NEW YORK**  
*REGULATORY BASIS BALANCE SHEET*  
*GENERAL FUND*  
*DECEMBER 31, 2011*

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<b>Assets</b>	
Cash	\$ 474,628
Cash - restricted	9,120,122
Taxes receivable, net	1,364,067
Other receivables, net	1,529,064
State and federal receivables	506,990
Due from other funds	1,809,889
Due from other governments	3,101,491
Prepaid expenses	<u>1,950,312</u>
 Total Assets	 <u>\$ 19,856,563</u>
 <b>Liabilities</b>	
Accounts payable	\$ 2,955,645
Accrued liabilities	819,943
Other liabilities	2,183,598
Due to other governments	3,938,506
Deferred revenue	<u>543,828</u>
 Total Liabilities	 <u>10,441,520</u>
 <b>Fund Balance</b>	
Restricted	9,120,122
Assigned	218,738
Unassigned and nonspendable	<u>76,183</u>
 Total Fund Balance	 <u>9,415,043</u>
 Total Liabilities and Fund Balance	 <u>\$ 19,856,563</u>

**CITY OF SCHENECTADY, NEW YORK**  
**REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Real property tax	\$ 28,327,565	\$ 28,459,800	\$ 24,840,260	\$ (3,619,540)
Real property tax items	1,346,304	1,346,304	2,071,919	725,615
Non-property tax items	12,525,000	12,525,000	12,717,485	192,485
Departmental income	8,377,410	8,377,410	7,620,032	(757,378)
Intergovernmental charges	159,795	159,795	239,875	80,080
Use of money and property	237,800	237,800	317,367	79,567
Licenses and permits	963,850	963,850	937,446	(26,404)
Fines and forfeitures	1,054,000	1,054,000	1,080,497	26,497
Sales of property and compensation for loss	200,700	200,700	606,391	405,691
Miscellaneous local sources	1,202,824	870,972	1,042,795	171,823
Interfund revenues	3,206,840	3,206,840	3,206,840	-
State aid	12,611,688	12,611,688	12,037,722	(573,966)
Federal aid	<u>-</u>	<u>-</u>	<u>212,809</u>	<u>212,809</u>
Total Revenues	70,213,776	70,014,159	66,931,438	(3,082,721)
<b>Other Sources</b>				
Interfund Transfer	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>400,000</u>
Total Revenues and Other Sources	70,213,776	70,014,159	<u>67,331,438</u>	<u>(2,682,721)</u>
<b>Appropriated Fund Balance</b>	<u>7,148,000</u>	<u>7,666,151</u>		
Total Revenue, Other Sources and Appropriated Fund Balance	<u>77,361,776</u>	<u>77,680,310</u>		
<b>Expenditures</b>				
General government support	6,084,240	5,975,503	5,388,292	(587,211)
Public safety	24,587,462	24,971,428	25,072,936	101,508
Transportation	5,470,248	6,140,803	5,696,734	(444,069)
Economic assistance and opportunity	5,000	5,000	5,000	-
Culture and recreation	1,022,347	1,031,943	840,001	(191,942)
Home and community services	5,569,060	5,343,967	5,268,315	(75,652)
Employee benefits	28,367,903	27,956,150	24,315,240	(3,640,910)
Debt service (principal and interest)	<u>6,255,516</u>	<u>6,255,516</u>	<u>5,566,232</u>	<u>(689,284)</u>
Total Expenditures	<u>77,361,776</u>	<u>77,680,310</u>	<u>72,152,750</u>	<u>(5,527,560)</u>
<b>Deficiency of Revenues and Other Sources Over Expenditures and Other Financing Uses</b>	<u>\$ -</u>	<u>\$ -</u>	\$ (4,821,312)	
Fund Balance - January 1, 2011			<u>14,236,355</u>	
<b>Fund Balance - December 31, 2011</b>			<u>\$ 9,415,043</u>	

**CITY OF SCHENECTADY, NEW YORK**  
**WATER FUND**

**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>		
Cash-unrestricted	\$	477,330
Cash-restricted		3,169,622
Other receivables		1,418,496
Total Assets		<u>\$ 5,065,448</u>
<b>Liabilities</b>		
Accounts payable	\$	88,085
Accrued liabilities		18,728
Deferred revenue		91,950
Total Liabilities		<u>198,763</u>
<b>Fund Balance</b>		
Restricted		3,169,622
Assigned		70,009
Unassigned		<u>1,627,054</u>
Total Fund Balance		4,866,685
Total Liabilities and Fund Balance		<u>\$ 5,065,448</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Departmental income	\$ 7,519,509	\$ 7,544,509	\$ 7,782,397	\$ 237,888
Use of money and property	45,000	20,000	43,731	23,731
Interfund revenue	<u>55,000</u>	<u>55,000</u>	<u>40,000</u>	<u>(15,000)</u>
Total Revenues	7,619,509	7,619,509	7,866,128	<u>246,619</u>
<b>Appropriated Fund Balance</b>	<u>-</u>	<u>338,534</u>		
Total Revenues and Appropriated Fund Balance	<u>7,619,509</u>	<u>7,958,043</u>		
<b>Expenditures</b>				
General government support	856,445	841,245	722,145	(119,100)
Home and community services	4,681,543	4,696,743	3,953,763	(742,980)
Employee benefits	584,776	584,776	415,611	(169,165)
Debt service (principal and interest)	<u>1,496,745</u>	<u>1,835,279</u>	<u>1,623,396</u>	<u>(211,883)</u>
Total Expenditures	<u>7,619,509</u>	<u>7,958,043</u>	<u>6,714,915</u>	<u>(1,243,128)</u>
<b>Excess of Revenues Over Expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	1,151,213	
Fund Balance - January 1, 2011			<u>3,715,472</u>	
<b>Fund Balance - December 31, 2011</b>			<u>\$ 4,866,685</u>	

**CITY OF SCHENECTADY, NEW YORK**  
SEWER FUND

**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash-unrestricted	\$ 1,279,994
Cash-restricted	3,285,509
Other receivables	<u>2,250,355</u>
Total Assets	<u><u>\$ 6,815,858</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 718,829
Accrued liabilities	73,546
Other liabilities	44,671
Deferred revenues	<u>235,990</u>
Total Liabilities	<u>1,073,036</u>
<b>Fund Balance</b>	
Restricted	3,285,509
Assigned	348,497
Unassigned	<u>2,108,816</u>
Total Fund Balance	<u>5,742,822</u>
Total Liabilities and Fund Balance	<u><u>\$ 6,815,858</u></u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>				
Real property tax	\$ -	\$ 16,567	\$ 15,546	\$ (1,021)
Departmental income	9,901,112	9,905,913	10,721,690	815,777
Use of money and property	72,768	50,000	76,034	26,034
Miscellaneous local sources	-	-	61,677	61,677
Interfund Revenue	<u>14,000</u>	<u>15,400</u>	<u>-</u>	<u>(15,400)</u>
Total Revenues	<u>9,987,880</u>	<u>9,987,880</u>	<u>10,874,947</u>	<u>887,067</u>
<b>Appropriated Fund Balance</b>	<u>-</u>	<u>612,317</u>	<u>-</u>	
Total Revenues and Appropriated Fund Balance	<u>9,987,880</u>	<u>10,600,197</u>	<u>10,874,947</u>	
<b>Expenditures</b>				
General government support	150,114	150,114	85,169	(64,945)
Home and community services	6,409,832	7,022,149	6,978,446	(43,703)
Employee benefits	829,735	829,735	568,758	(260,977)
Debt service (principal and interest)	<u>2,598,199</u>	<u>2,598,199</u>	<u>2,561,918</u>	<u>(36,281)</u>
Total Expenditures	<u>9,987,880</u>	<u>10,600,197</u>	<u>10,194,291</u>	<u>(405,906)</u>
<b>Excess of Revenues Over Expenditures</b>				
<b>Before Reserves</b>	<u>\$ -</u>	<u>\$ -</u>	680,656	
Fund Balance - January 1, 2011			<u>5,062,166</u>	
<b>Fund Balance - December 31, 2011</b>			<u><u>\$ 5,742,822</u></u>	



**CITY OF SCHENECTADY, NEW YORK**  
**RECREATION FUND**

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**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash - unrestricted	\$ 263,926
Cash - restricted	<u>588,967</u>
Total Assets	<u><u>\$ 852,893</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 7,157
Other liabilities	<u>7,200</u>
Total Liabilities	<u><u>14,357</u></u>
<b>Fund Balance</b>	
Restricted	588,967
Assigned	1,353
Unassigned	<u>248,216</u>
Total Fund Balance	<u><u>838,536</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 852,893</u></u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

<b>Revenues</b>	
Departmental income	\$ 983,678
Use of money and property	<u>5,488</u>
Total Revenues	<u><u>989,166</u></u>
<b>Expenditures</b>	
General government support	6,291
Culture and recreation	788,520
Employee benefits	24,524
Debt service (principal and interest)	<u>97,927</u>
Total Expenditures	<u><u>917,262</u></u>
<b>Excess of Revenues Over Expenditures</b>	71,904
Fund Balance - as Restated January 1, 2011	<u>766,632</u>
<b>Fund Balance - December 31, 2011</b>	<u><u>\$ 838,536</u></u>

**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash	\$ 55,001
Total Assets	<u>\$ 55,001</u>
<b>Liabilities</b>	
Accounts Payable	<u>\$ 55,000</u>
<b>Fund Balance</b>	
Unassigned	<u>1</u>
Total Liabilities and Fund Balance	<u>\$ 55,001</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

<b>Revenues</b>	
Real property tax	\$ 220,000
Total Revenues	<u>220,000</u>
<b>Expenditures</b>	
Transportation	<u>220,000</u>
Total Expenditures	<u>220,000</u>
<b>Excess of Revenues Over Expenditures</b>	-
Fund Balance - January 1, 2011	<u>-</u>
<b>Fund Balance - December 31, 2011</b>	<u>\$ -</u>

**CITY OF SCHENECTADY, NEW YORK**  
*MISCELLANEOUS SPECIAL REVENUE*

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**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash	\$ 11,735
Total Assets	<u>\$ 11,735</u>
<b>Liabilities</b>	
Accounts Payable	<u>\$ 11,735</u>
<b>Fund Balance</b>	
Unassigned:	-
Total Liabilities and Fund Balance	<u>\$ 11,735</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

<b>Revenues</b>	
Real property tax	\$ 46,940
Total Revenues	<u>46,940</u>
<b>Expenditures</b>	
General government support	<u>46,940</u>
Total Expenditures	<u>46,940</u>
<b>Excess of Revenues Over Expenditures</b>	-
Fund Balance - January 1, 2011	-
<b>Fund Balance - December 31, 2011</b>	<u>\$ -</u>

**CITY OF SCHENECTADY, NEW YORK**  
*SPECIAL GRANT FUND*

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**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash	\$ 487,619
Other receivables	719,786
State and federal aid receivables	<u>1,629,904</u>
Total Assets	<u>\$ 2,837,309</u>
<b>Liabilities</b>	
Accounts payable	\$ 452,095
Due to other funds	1,264,286
Due to other governments	863
Deferred revenues	<u>907,821</u>
Total Liabilities	<u>2,625,065</u>
<b>Fund Balance</b>	
Assigned	2,202,174
Unassigned Deficit	<u>(1,989,930)</u>
Total Fund Balance	<u>212,244</u>
Total Liabilities and Fund Balance	<u>\$ 2,837,309</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended December 31, 2011**

<b>Revenues</b>	
Departmental income	\$ 586,947
Use of money and property	20
Miscellaneous local sources	20,259
State aid	486,627
Federal aid	<u>5,539,233</u>
Total Revenues	6,633,086
<b>Expenditures</b>	
Home and community services	<u>6,561,937</u>
Total Expenditures	<u>6,561,937</u>
<b>Excess of Revenues Over Expenditures</b>	71,149
Fund Balance - as Restated January 1, 2011	<u>141,095</u>
<b>Fund Balance - December 31, 2011</b>	<u>\$ 212,244</u>

**CITY OF SCHENECTADY, NEW YORK**  
**CAPITAL PROJECTS FUND**

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**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash	\$ 10,815,709
Other receivables	202,616
State and federal aid receivables	1,149,679
Due from Other Funds	53,949
Total Assets	<u>\$ 12,221,953</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,349,648
Retained percentages	522,625
Bond anticipation notes	50,305,594
Due to other funds	599,552
Total Liabilities	<u>52,777,419</u>
<b>Fund Balance</b>	
Assigned	1,163,754
Unassigned Deficit	<u>(41,719,220)</u>
Total Fund Deficit	<u>(40,555,466)</u>
Total Liabilities and Fund Deficit	<u>\$ 12,221,953</u>

**Regulatory Basis Statement of Revenues, Expenditures and Changes in Fund Deficit**  
**For the Year Ended December 31, 2011**

<b>Revenues</b>	
Use of money and property	\$ 8,289
Miscellaneous local sources	626,500
State aid	1,784,305
Federal aid	170,256
Total Revenues	<u>2,589,350</u>
<b>Other Financing Sources</b>	
Interfund transfers	461,470
Proceeds from serial bond issuance	12,565,000
Notes redeemed from appropriations	1,200,000
Installment Purchase Debt	188,756
Total Revenues and Other Financing Sources	<u>17,004,576</u>
<b>Expenditures</b>	
General government support	1,173,240
Public safety	318,084
Transportation	3,707,202
Culture and recreation	264,105
Home and community services	4,799,528
Total Expenditures	<u>10,262,159</u>
<b>Other Financing Uses</b>	
Interfund transfers	861,470
Total Expenditures and Other Financing Uses	<u>11,123,629</u>
<b>Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	5,880,947
Fund Deficit - January 1, 2011	<u>(46,436,413)</u>
<b>Fund Deficit - December 31, 2011</b>	<u>\$ (40,555,466)</u>

**CITY OF SCHENECTADY, NEW YORK**  
*TRUST AND AGENCY FUND*

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**Regulatory Basis Balance Sheet**  
**December 31, 2011**

<b>Assets</b>	
Cash	\$ 936,803
Total Assets	<u>\$ 936,803</u>
<b>Liabilities</b>	
Agency liabilities	\$ 67,929
Other liabilities	<u>868,874</u>
Total Liabilities	<u>\$ 936,803</u>

**Regulatory Basis Balance Sheet**  
**December 31, 2011**

**Assets**

Provisions to be made in future budgets	\$ 73,930,175
Total Assets	<u>\$ 73,930,175</u>

**Liabilities**

Installment purchase debt	\$ 4,453,021
Judgments and claims payable	8,604,539
Compensated absences	2,398,590
Due to retirement systems	591,280
Due to other governments	442,634
Bonds and capital notes payable	43,665,000
Other post-employment benefits	<u>13,775,111</u>
Total Liabilities	<u>\$ 73,930,175</u>

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

### *A. Financial Reporting Entity*

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

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



## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### *A. Financial Reporting Entity (Continued)*

GASB Statement No. 14 defines the financial reporting entity for the City to include all funds, account groups, agencies, boards, commissions, and authorities where the elected officials (the Mayor and/or the City Council, respectively) are financially accountable. The following terms are used to describe the components of a reporting entity:

- Primary Government

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

- Component Unit

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

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

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

- Blended Component Units

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### A. *Financial Reporting Entity (Continued)*

- Blended Component Units (Continued)

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

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

The Schenectady Local Development Corporation (SLDC) was chartered for the purpose of furthering economic development in the City of Schenectady. The board is comprised of the Mayor and two Schenectady City Council members who then elect eight other members. The day-to-day operations are performed by City of Schenectady personnel.

These blended component units' financial statements were audited as of and for the year ended December 31, 2011 by other auditors whose reports expressed unqualified opinions.

### B. *Basis of Presentation*

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

#### 1. Governmental Funds

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*B. Basis of Presentation (Continued)*

1. Governmental Funds (Continued)

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

Water Fund - used to account for water district operations.

Sewer Fund - used to account for sewer district operations.

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

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

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

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

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

2. Fiduciary Fund Types

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

3. Account Group

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

*The Non-Current Government Liability Account Group* is used to account for general obligation bonds and other forms of long-term debt not required to be recorded in other funds. The bonds are backed by the full faith and credit of the City and are supported by general revenues to be provided for in future budgets. Other obligations include: compensated absences, amounts due to employee retirement systems, 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 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, with the exception of property taxes, water and sewer rents in which a sixty day collection period is utilized.

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. Inventory is valued at cost utilizing the first-in, first-out method.
- d. Non-current government liabilities are recorded at the par value of the principal amount; no liability is recorded for interest payable to maturity.

*D. Excluded from the Financial Reporting Entity*

The following component units have been excluded from the regulatory basis of reporting because they are not required to be included.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*D. Excluded from the Financial Reporting Entity (Continued)*

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 not subject to Federal or State income taxes and is not required to file Federal or State income tax returns.

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

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

b. City of Schenectady Industrial Development Agency

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

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

The following organization is 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. Property Taxes and Collections*

City property taxes are levied annually on January 1<sup>st</sup> 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.

*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 funds, except for the Special Grant Fund.
- b. After public hearings are conducted to obtain taxpayer comments, but no later than November 1<sup>st</sup>, 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 general fixed assets account group and the amount that should be recorded in this account group is not known .

H. *Estimates*

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

The significant estimates included in the regulatory basis financial statements include the estimated incurred but not recorded ("IBNR") liability for workers' compensation, health insurance and the realizable value of the taxes receivable. It is at least reasonably possible that the estimate of the effect on the regulatory basis financial statements of 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

The City pays health insurance on a cost-reimbursement basis. The plan allows for a 20% coinsurance by the employee/subscriber. Each fund is responsible for the claims incurred for their employees. In 2011, the City is self-insured up to \$75,000 per individual, and is commercially insured for claims exceeding \$75,000 up to \$925,000 per subscriber per year. Individual claims exceeding \$925,000 per subscriber per year are self-insured. The risk of future claims is retained by the City.

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



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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:

	<b><u>Workers' Compen- sation</u></b>	<b><u>Health Insurance</u></b>	<b><u>Risk Retention</u></b>
Unpaid Claims and Claims Adjustment Expenses at Beginning of Year	\$ 7,197,552	\$ 318,660	\$ 449,954
Provision for (Recoveries of) Incurred Claims Expenses for Events of the Current and Prior Years	2,148,650	4,997,024	603,865
Payments Made During the Current Year	<u>(1,553,924)</u>	<u>(4,974,766)</u>	<u>(47,303)</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	<u>\$ 7,792,278</u>	<u>\$ 340,918</u>	<u>\$ 1,006,516</u>
Reflected as Follows:			
General Fund	\$ 1,714,301	\$ 340,918	\$ 449,954
Non-Current Government Liability Account Group	<u>6,077,977</u>	<u>-</u>	<u>556,562</u>
	<u>\$ 7,792,278</u>	<u>\$ 340,918</u>	<u>\$ 1,006,516</u>

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

**Capital Projects Fund**

Capital projects had deficits totaling \$40,555,466 at December 31, 2011, which was caused by the temporary financing of project costs through the issuance of bond anticipation notes (BANs). This portion of 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.

**2. STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY**

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

Capital Projects Fund (Continued)

Measures will have to be taken in ensuing years budgets to reduce the deficits, through the issuance of debt or transfers from other funds.

K. *Subsequent Events*

Management has evaluated subsequent events or transactions as to potential material impact on operations or financial position occurring through May 3, 2012, the date the financial statements were available to be issued. No such events or transactions were noted.

**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 at 102 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of any state and its municipalities and school districts.

At December 31, 2011, the book amount of the primary government's deposits (excluding \$6,900 in petty cash) was \$30,091,191 and the bank balances were \$32,059,724. The insured and collateral status of the year-end bank balances was as follows:

	<u>Amount</u>
Covered by federal deposit insurance	\$ 888,064
Covered by FDIC's Transaction Account Guarantee Program	1,271,000
Collateralized with securities held by a third party custodian for the benefit of the City, pursuant to a three-party custody agreement.	<u>33,867,691</u>
Total	<u>\$ 36,026,755</u>

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

**A. Assets (Continued)**

*Cash and Investments (Continued)*

For the year ended December 31, 2011, the SLDC may at times have had operating cash accounts held by banks in excess of federally insured limits. No amount was subject to credit risk at December 31, 2011. Their Board seeks to minimize any potential credit risk by carefully monitoring the strength of the financial institutions it uses. The book amount was \$77,310 and the bank balances were \$80,310.

For the year ended December 31, 2011, the SURA's book amount and bank balance was \$19,993.

For the year ended December 31, 2011, the SHDFC's book amount and bank balances were \$14,315.

**B. Cash Restricted**

Cash restricted consists of the following at December 31, 2011:

General Fund

Reserve for Debt	\$ 556,900
Miscellaneous Reserves	51,003
Reserve for Employee Benefits	1,488,876
Reserve for Demolition	50,000
Snow and Ice Removal	200,000
Tax Stabilization	5,857,388
Tax Certiorari	466,000
Litigation and Claims	449,955
	9,120,122

Water Fund

Reserve for Debt	78,253
Reserve for Capital	1,194,869
Reserve for Deficit Funding Repayment	1,896,500
	3,169,622

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

**B. Cash Restricted (Continued)**

Sewer Fund

Reserve for Capital	\$ 2,223,880
Reserve for Repairs	219,956
Reserve for Debt	227,673
Reserve for Deficit Funding Repayment	<u>614,000</u>
	<u>3,285,509</u>

Recreation Fund

Reserve for Debt	5,523
Reserve for Capital	405,944
Reserve for Deficit Funding Repayment	<u>177,500</u>
	<u>588,967</u>

Total Cash - Restricted \$ 16,164,220

**C. Property Taxes**

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

At December 31, 2011, the total real property tax asset of \$18,527,092 is reduced by an allowance for uncollectible and unavailable taxes in the amount of \$17,163,025 resulting in net realizable taxes receivable of \$1,364,067.

The above-mentioned net realized taxes receivable at December 31, 2011 also include the amount of taxes the City must collect on behalf of the Schenectady City School district.

During March 2011, the City sold a majority of its property tax liens to a third party, generating approximately \$3.7 million, including interest, which was included in revenues for the year ended December 31, 2010.

**D. Other Receivables and Deferred Revenue**

A majority of the other receivables and deferred revenue in the City's Special Grant Fund is comprised of the following loan activities at December 31, 2011.

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

**D. Other Receivables and Deferred Revenue (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, 2011 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, 2011 is follows:

Total Loans Outstanding	\$ 578,906
Less Allowance for Uncollectible Accounts	<u>(270,000)</u>
Net Loans Receivable	<u>\$ 308,906</u>

Deferred revenue represents the amount of the outstanding loans receivable that, when repaid, would become available for additional loans. 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 revenue is made in the same period, the effect of which is to reduce the overall amount of funds available for future loans.

*Schenectady Local Development Corporation (a blended component unit)*

The SLDC 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 loan commitments and revenue is recognized when the draw down request is approved by the City.

Loans made are recorded as a receivable with a corresponding entry to deferred revenue. As loans are repaid, the principal is recognized as revenue, to be used for future economic development loans. As funds are reloaned, a corresponding expenditure is recorded. The amount of deferred revenue represents the amount of the outstanding loans receivable that are expected to be repaid and become available for additional loans. When a loan is written off as uncollectible, a corresponding decrease reduces the overall amount of funds available for future loans. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

In keeping with the SLDC's stated purposes, some of these loans may be made to start-up companies and/or established businesses experiencing cash flow problems. Accordingly, many of these loans are subject to a higher than normal risk of default. The SLDC obtains personal guarantees and, where possible, collateral to help reduce the risk of nonpayment.

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

**D. Other Receivables and Deferred Revenue (Continued)**

Loans receivable consist of the following at December 31, 2011:

Loans receivable, January 1	\$ 712,156
Add new loans made	40,134
Less principal payments received	(81,223)
Write-offs and adjustments	<u>(67,000)</u>
Total Loans Receivable, December 31	604,067
Less allowance for uncollectible accounts	<u>(236,412)</u>
Net Loans Receivable, December 31	<u>\$ 367,655</u>

***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 revenue. 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, 2011:

Loans receivable, January 1	\$ 60,701
Add new loans made	14,562
Less principal payments received	(27,920)
Write-offs and adjustments	<u>(4,118)</u>
Loans Receivable, December 31	<u>\$ 43,225</u>

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

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

#### E. Liabilities

##### 1. Pension Plans

###### A. New York State

###### *Plan Description*

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

###### *Funding Policy*

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July, 1976 who contribute 3% of their salary until such time as they obtain ten years of service credit and employees who joined on or after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

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

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

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

**E. Liabilities (Continued)**

1. Pension Plans (Continued)

**A. New York State (Continued)**

*Change in Payment Due Date*

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

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

	<u>ERS</u>	<u>PFRS</u>	<u>Total</u>
2011	\$ 2,651,400	\$ 5,058,999	\$ 7,710,399
2010	\$ 1,505,142	\$ 3,780,652	\$ 5,285,794
2009	\$ 1,016,129	\$ 4,206,970	\$ 5,223,099

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

Pursuant to the Chapter 260 of the Laws of 2002, the state legislature authorized local governments to make available retirement incentive programs. Additional retirement incentive programs were authorized in 2004 and 2007.

The costs of these programs are being billed and paid over ten years beginning December 15, 2002, 2004 and 2007, respectively and include interest at 8.75%.

The outstanding balance as of December 31, 2011 for these liabilities was \$591,280.

**B. Deferred Compensation**

The City offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit them to defer a portion of their current salary (up to \$16,500) until future years. During the past year, the employees contributed approximately \$1,312,000. The deferred compensation amounts are not available to the employees until termination, retirement, death, or unforeseeable emergency.



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

**E. Liabilities (Continued)**

1. Pension Plans (Continued)

**B. Deferred Compensation (Continued)**

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 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 both GASB Statements No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans."

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

2. Compensated Absences

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

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.

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

**E. Liabilities (Continued)**

2. Compensated Absences (Continued)

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

3. Short-Term Debt

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

At December 31, 2011, BANs outstanding of \$50,305,594 are reflected in the Capital Projects Fund, are used to fund various improvements and have maturity dates with interest from 1.14-2.0%.

The following is a summary of changes in short-term debt for the year ended December 31, 2011:

	<b><u>Payable at</u></b> <b><u>January 1, 2011</u></b>	<b><u>Issued</u></b>	<b><u>Redeemed</u></b>	<b><u>Payable at</u></b> <b><u>December 31, 2011</u></b>
Bond anticipation notes	<u>\$ 54,580,594</u>	<u>\$ 9,490,000</u>	<u>\$ 13,765,000</u>	<u>\$ 50,305,594</u>

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

**E. Liabilities (Continued)**

4. Long -Term Debt

At December 31, 2011 the total outstanding serial bonds and capital notes indebtedness of the primary government aggregated \$43,655,000.

Serial Bonds - The local government, like most governmental units, borrows money in order to acquire land or equipment or construct buildings and improvements. This policy enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of these capital assets. These long-term liabilities, which are full faith and credit debt of the local government, are recorded in the Non-Current Government Liability Account Group. The provision to be made in future budgets for capital indebtedness represents the amount, exclusive of interest, authorized to be collected in future years from taxpayers and others for liquidation of the long-term liabilities.

Other Long-Term Debt - In addition to the above long-term debt the City has the following noncurrent liabilities:

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

Due to Employees' Retirement Systems - Represents amounts accrued primarily for early retirement incentives adopted by the City Council.

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 and claims and tax certiorari proceedings that have been or will probably be settled against the City. See Note 4D and 4E. 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 1J.

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

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

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

**E. Liabilities (Continued)**

4. Long -Term Debt (Continued)

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

	<u>Payable at</u> <u>January 1, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Other</u> <u>Decrease</u>	<u>Payable at</u> <u>December 31, 2011</u>
Capital Notes Payable	\$ 925,000	\$ -	\$ 145,000	\$ -	\$ 780,000
Serial Bonds	35,265,000	12,565,000	4,945,000	-	42,885,000
Due to Employees'					
Retirement Systems	856,162	-	264,882	-	591,280
Compensated Absences	2,659,001	-	-	(260,411)	2,398,590
Installment Purchase Debt	5,229,077	188,756	964,812	-	4,453,021
Judgment and Claims					
Payable	7,398,164	1,206,375	-	-	8,604,539
Other Liability	464,749	-	22,115	-	442,634
Post-employment Benefits	<u>6,262,135</u>	<u>14,781,976</u>	<u>7,269,000</u>	<u>-</u>	<u>13,775,111</u>
Total	<u>\$ 59,059,288</u>	<u>\$ 28,742,107</u>	<u>\$ 13,610,809</u>	<u>\$ (260,411)</u>	<u>\$ 73,930,175</u>

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

**E. Liabilities (Continued)**

**4. Long-Term Debt (Continued)**

<u>Payable From/ Description</u>	<u>Issued</u>	<u>Original Amounts</u>	<u>Interest Rate (%)</u>	<u>Final Maturity</u>	<u>Balance Outstanding 2011</u>
General Fund					
General Purpose	1997	\$ 6,178,500	5.25%-5.35%	2012	\$ 584,400
General Purpose	2002	4,184,925	4.00%-4.125%	2017	1,350,000
General Purpose	2007	4,973,643	3.29%-4.25%	2026	4,225,150
General Purpose	2008	3,985,323	4.00%-4.5%	2030	3,640,430
General Purpose	2010	3,768,600	2.00%-3.00%	2019	3,001,600
General Purpose	2011	3,769,500	4.375%-5.00%	2038	3,769,500
Water Fund					
Water Fund	1996	849,750	5.25%-5.60%	2011	-
Water Fund	1997	3,507,600	5.25%-5.35%	2012	330,600
Water Fund	2002	1,231,344	4.00%-4.125%	2017	570,000
Water Fund	2007	1,012,300	3.29%-4.25%	2026	859,950
Water Fund	2008	1,891,941	4.00%-4.25%	2030	1,728,212
Water Fund	2010	3,220,000	2.00%-3.00%	2019	2,559,500
Water Fund	2011	1,884,750	4.375%-5.00%	2038	1,884,750
Sewer Fund					
Sewer Fund	1996	923,600	5.25%-5.60%	2011	-
Sewer Fund	1997	843,900	5.25-5.35%	2012	80,000
Sewer Fund	2002	1,314,731	4.00%-4.125%	2017	580,000
Sewer Fund	2007	3,343,000	3.29%-4.25%	2026	2,839,900
Sewer Fund	2008	5,500,708	4.00%-4.5%	2030	5,024,673
Sewer Fund	2010	3,492,800	2.00%-3.00%	2019	2,789,600
Sewer Fund	2011	6,910,750	4.375%-5.00%	2038	6,910,750
Recreation Fund					
Golf Course	2002	153,000	4.9%-5.0%	2017	60,000
Golf Course	2008	67,528	4.00%-4.5%	2030	61,685
Golf Course	2010	68,600	2.00%-3.00%	2019	<u>34,300</u>
Total Serial Bonds					<u>\$ 42,885,000</u>

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

**E. Liabilities (Continued)**

4. Long-Term Debt (Continued)

The following is a schedule of capital notes payable at December 31, 2011 and 2010:

New York State Environmental Facilities Corporation, interest 3.40%-5.65%, maturing in 2016.	\$ 570,000
New York State Environmental Facilities Corporation, interest 3.60%-5.90%, maturing in 2016.	210,000
Total Capital Notes Payable	\$ 780,000

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

	<u>Serial Bonds</u>	<u>Capital Notes</u>	<u>Interest</u>
2012	\$ 4,495,000	\$ 150,000	\$ 1,713,914
2013	3,065,000	155,000	1,568,676
2014	2,965,000	155,000	1,456,727
2015	2,960,000	160,000	1,344,257
2016	2,435,000	160,000	1,237,050
Thereafter	26,965,000	-	11,075,044
Total	\$ 42,885,000	\$ 780,000	\$ 18,395,668

Installment Purchase Debt

Minimum future lease payments are:

2012	\$ 1,138,076
2013	719,955
2014	645,424
2015	920,631
2016	503,476
Thereafter	1,106,606
Total Payments	5,034,168
Less: amount representing interest	(581,147)
Total Minimum Lease Payments	\$ 4,453,021

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

**E. Liabilities (Continued)**

4. Long-Term Debt (Continued)

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

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

	<u>Principal</u>	<u>Interest</u>
2012	\$ 279,844	\$ 16,159
2013	77,859	-
2014	77,859	-
2015	77,859	-
2016	77,859	-
	<u>\$ 591,280</u>	<u>\$ 16,159</u>

5. Post Employment Benefits Payable

As of December 31, 2011, the liability for post-employment benefits payable calculated in accordance with Government Accounting Standards Board No. 45 ("GASB 45") is \$191,521,924. The City has elected to amortize this liability over 30 years as permitted by GASB 45, therefore the liability appearing in December 31, 2011 financial statements is \$13,775,111.

A. <i>Present Value of Future Benefits</i>		
1. Retirees		\$ 133,973,646
2. Active employees		57,548,278
3. Total		<u>\$ 191,521,924</u>
B. <i>Calculation of Amortization of UAL (open level dollar method)</i>		
1. Unfunded Actuarial Accrued Liability ("UAL") at beginning of year		\$ 191,521,924
2. Amortization Period		30
3. Present Value Factor at the beginning of the year		17.9837
4. Amortization Payment at the beginning of the year		<u>\$ 10,649,751</u>
C. <i>Calculation of Annual Required Contribution for the 2011 fiscal year</i>		
1. Normal Cost		\$ 3,671,049
2. Amortization Payment		10,649,751
3. Interest to end of fiscal year at 4.00%		572,832
4. Annual Required Contribution ("ARC")		<u>\$ 14,893,632</u>
D. <i>Calculation of ARC Adjustment</i>		
1. Net OPEB Obligation/(Asset) as of the beginning of year		\$ 6,262,135
2. Amortization Period		30
3. Present Value Factor at the end of the year		17.2920
4. Amortization Amount at the end of the year ("ARC Adjustment")		<u>\$ 362,141</u>

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

**E. Liabilities (Continued)**

**5. Post Employment Benefits Payable (Continued)**

E. <i>Calculation of OPEB Expense</i>	
1. ARC	\$ 14,893,632
2. Interest at 4.00% on Net OPEB Obligation/(Assets) as of the beginning of year	250,485
3. ARC Adjustment	(362,141)
3. OPEB	<u>\$ 14,781,976</u>
F. <i>Reconciliation of Net OPEB Obligation</i>	
1. Net OPEB Obligation at the beginning of the year	\$ 6,262,135
2. OPEB Expense	14,781,976
3. Net OPEB Contributions made during the fiscal year	(7,269,000)
4. Net OPEB Obligation at the end of the year	<u>\$ 13,775,111</u>
5. Percentage of Expense Contributed	49.2%
G. <i>Schedule of Funding Progress</i>	
1. Currently retired liability	\$ 133,973,646
2. Actives eligible to retire	13,289,326
3. Actives not yet eligible	44,258,952
4. Actuarial Accrued Liability	\$ 191,521,924
5. Actuarial Value of Assets	-
6. Unfunded Actuarial Accrued Liability	<u>\$ 191,521,924</u>
H. <i>Schedule of Participants</i>	
1. Currently retired participants	535
2. Active participants	485
3. Total Participants	<u>\$ 1,020</u>
I. <i>Schedule of Employer Contributions</i>	
Contributions	<u>\$ 7,269,000</u>
J. <i>Actuarial Assumptions</i>	
1. Funding Interest Rate	4.0%
2. Trend Rates 2011	7.5-10.0%
3. Ultimate Trend Rate	3.0-5.0%
4. Fiscal Year Ultimate Trend Rates Reached	2015



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

**E. Liabilities (Continued)**

6. Deferred Revenue

Deferred revenue at December 31, 2011 consists of the following:

<u>General Fund</u>	
Real property taxes (See Note 3 C)	\$ 166,852
Parking fees and unpaid municipal voucher billings	<u>376,976</u>
	<u>\$ 543,828</u>
<u>Water Fund</u>	
Water rents	<u>\$ 91,950</u>
<u>Sewer Fund</u>	
Sewer rents	<u>\$ 235,990</u>
<u>Special Grant Fund</u>	
Community Development Agency State Aid	\$ 61,612
Community Development Agency loans (see Note 1 A)	308,906
Community Development Agency Program Income	2,708
Schenectady Local Development Corporation loans (see Note 3 D)	367,655
Schenectady Housing Development Fund Corporation (see Note 3 D)	43,225
Miscellaneous Grants	92,489
Home Investment Partnership Program	360
Home Shop Program	<u>30,866</u>
Total	<u>\$ 907,821</u>

**F. Interfund Receivables**

Interfund receivables and payables at December 31, 2011 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 1,809,889	\$ -
Special Grant	-	1,264,286
Capital Projects	<u>53,949</u>	<u>599,552</u>
Total	<u>\$ 1,863,838</u>	<u>\$ 1,863,838</u>

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

**G. Fund Equity and Reserves**

As of December 31, 2011, the City 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 \$1,950,312 in prepaid expenses at December 31, 2011.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either extremely 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, 2011:

	<b>General Fund</b>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Recreation Fund</b>
Employee Benefits	\$ 1,488,876	\$ -	\$ -	\$ -
Snow and Ice Removal	200,000	-	-	-
Tax Stabilization	5,857,388	-	-	-
Bonded Debt	556,900	78,253	227,673	5,523
Tax Certiorari	466,000	-	-	-
Litigation	449,955	-	-	-
Demolition	50,000	-	-	-
Miscellaneous	51,003	-	-	-
Capital Reserve	-	1,194,869	2,223,880	405,944
Repair Reserve	-	-	219,956	-
Deficit Funding Repayment	-	1,896,500	614,000	177,500
	<u>\$ 9,120,122</u>	<u>\$ 3,169,622</u>	<u>\$ 3,285,509</u>	<u>\$ 588,967</u>

*Tax Stabilization*

In accordance with General Municipal Law 6-e the City has established a tax stabilization reserve to offset anticipated revenue shortfalls budgeted in 2011 in the General Fund.

- **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, 2011.

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

**G. Fund Equity and Reserves (Continued)**

- **Assigned** fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the City or designated by the City for ensuing year's budget. Assigned fund balance includes the following:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Recreation Fund</u>	<u>Special Grant</u>	<u>Capital Projects</u>
Encumbrances, Assigned for:						
General Government						
Support	\$ 50,654	\$ -	\$ -	\$ -	\$ -	\$ 186,828
Public Safety	31,286	-	-	-	-	4,818
Transportation	128,767	-	-	-	-	720,432
Culture and Recreation	49	-	-	1,353	-	-
House and Community Services	7,982	70,009	348,497	-	2,202,174	251,676
	<u>\$ 218,738</u>	<u>\$ 70,009</u>	<u>\$ 348,497</u>	<u>\$ 1,353</u>	<u>\$ 2,202,174</u>	<u>\$ 1,163,754</u>

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

**4. COMMITMENTS AND CONTINGENCIES**

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

The Metroplex agreed to assume the outstanding principal balance of the Broadway Garage serial bond amounting to \$4,645,000. In addition to assuming the debt, Metroplex has received the rights to any and all bonded debt service reserves which were \$900,487 at December 31, 2003.

#### 4. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 \$442,634, calculated using an assumed rate of interest of 6%, has been recorded in the non-current government liability account group at December 31, 2011.

- C. The City entered into a 10-year contract effective January 1, 2002 with U.S. Filter Operations Services, Inc. (USFOS) (taken over by Veolia Water) to manage and operate the wastewater treatment, compost and related facilities, and to implement an advanced odor control program. All grounds, equipment and vehicles owned by the City or acquired by the City remain the property of the City. The City pays an annual fee to USFOS plus capital expenditures not included in the contract and repairs and maintenance in excess of an annual limit agreed to by the City and USFOS. The fee for 2011 is \$3,696,107. The fee is increased or decreased in succeeding years based on the consumer price index.

The contract provides for other fees and costs to be paid to the management company if certain circumstances are encountered.

The City did not renew this contract and will manage and operate these facilities starting January 1, 2012.

- D. Tax review cases are pending against the City for reductions in the assessed value of property. The petitions are for taxes collected in 1991 through 2011. Management believes that the likelihood of reductions is probable. Provision for losses for cases settled after December 31, 2011, and the City's estimate of losses for cases unsettled to date of \$2,000,000, are included in the non-current government liability group of accounts in the judgments and claims payable line item.
- E. The City has been named defendant in various actions. A review of these actions with the City's Attorney indicates that the risk of loss to the City is probable for certain cases, reasonably possible for other cases or unable to assess risk of loss. The remaining cases are either fully covered by insurance or without substantial merit. Provision for losses for these cases that have a probable risk of loss and those that are reasonably possible for which a range of loss has been estimated is included in the miscellaneous reserves in the General Fund, at December 31, 2011.
- F. 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, 2011, no additional amount was owed.

**4. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

G. The City of Schenectady has been notified by the New York State Department of Justice that the City Court does not meet certain facility standards. The City is unable to estimate the anticipated costs and potential funding available to bring the facility up to standards.

H. The City entered into a five year contract through 2007 with Northeast Turf & Irrigation for maintenance at the municipal golf course for a total amount of \$977,250. The City renewed this contract in March 2008 for another five years with Northeast Turf & Irrigation for a total amount of \$1,398,648. The future payments due under the contract, by calendar years, are as follows:

2012	\$	300,081
2013	\$	50,336

I. The City is the lead agency for a Consortium consisting of the City of Troy and the Town of Colonie and is responsible for the administration of the HOME Investment Partnership Program Grant (HOME) awarded to the Consortium by the U.S. Department of Housing and Urban Development. The City of Troy was not able to commit the funds as required by the grant. To prevent the loss of HOME Grant, the City acting in its fiduciary capacity on behalf of the Consortium, prudently and lawfully recaptured the sum of \$1,108,519 allocated to Troy for fiscal year 2004 and reallocated to the Town of Colonie and the City. For ten years commencing 2016, the City will pay the City of Troy \$100,000 each year from the City's HOME Grant.

J. *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, 2011, the City is not aware of any significant environmental problems that should be disclosed in the financial statements.

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

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Civil Service Employees Association - Local 1037	December 31, 2011
Empire State Regional Council of Carpenters	December 31, 2011
Electrical Workers - Local 236	December 31, 2011
Schenectady Police Benevolent Association	December 31, 2013
City Fire Fighters Union	December 31, 2014
Trade Unions	December 31, 2011
Operating Engineers	December 31, 2011

L. *Constitutional Debt Limit* - As of the City of Schenectady's latest borrowing in May 2011, the City had exhausted 49.2% of its constitutional debt limit.

## 5. JOINT VENTURES

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

### A. Intermunicipal Watershed Rules and Regulations Board

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

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

The following is an unaudited summary of financial information included in financial statements issued for the joint venture for the years ended November 1, 2011:

Total Assets	\$ 38,207
Total Liabilities	\$ 10,184
Joint Venture Equity	\$ 28,023
Total Revenues	\$ 1,518
Total Expenses	\$ 11,184

### 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.

**5. JOINT VENTURES (CONTINUED)**

The following is an unaudited summary of financial information included in financial statements issued for the joint venture for the years ended December 31, 2011:

Total Assets	\$ 185,130
Joint Venture Equity	\$ 185,130
Total Revenues	\$ 462
Total Expenses	\$ -

**6. SALES TAX**

The City entered into a sales tax agreement with the County of Schenectady which initially took effect December 1, 1999 and continued through November 1, 2008 wherein the County imposed a 3.5% county-wide sales tax to be allocated among the initial 3% and additional .5%. In December 2008 the City renegotiated this agreement as follows:

**3% Sales Tax Revenues Distribution**

<u>Sales Tax Period</u>	<u>City</u>
1/11/09 - 12/31/12	<u>\$ 11,000,000</u>

The agreement includes a base amount of \$11,000,000 plus an additional \$25,000 per year for the four year period above. The City agreed to give up all rights to sharing the excess sales tax revenue the county may generate as detailed in the original agreement that ended in 2008.

**7. DEFERRED COMPENSATION PLAN**

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

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