

*CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY*

FINANCIAL STATEMENTS

DECEMBER 31, 2011

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
FINANCIAL STATEMENTS
DECEMBER 31, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Schenectady
Industrial Development Agency
Schenectady, New York

We have audited the accompanying statement of net assets of the City of Schenectady Industrial Development Agency (the Agency), a New York public benefit corporation, as of December 31, 2011, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Schenectady Industrial Development Agency, as of December 31, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012 on our consideration of the Agency'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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information presented on page 11 is for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis. Such information is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
March 23, 2012

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Assets

Current Assets:	
Cash	\$ 213,465
Accounts Receivable	5,000
Prepaid Expenses	<u>2,084</u>
Total Current Assets	220,549
 Note Receivable	 64,312
 Land	 <u>23,762</u>
	 <u>\$ 308,623</u>

Liabilities and Net Assets

Current Liabilities:	
Accounts Payable	\$ 1,801
Deferred Revenue	<u>1,250</u>
Total Current Liabilities	<u>3,051</u>
 Net Assets, Unrestricted	
Invested in Capital Assets	23,762
Unrestricted	<u>281,810</u>
Total Net Assets	<u>305,572</u>
	 <u>\$ 308,623</u>

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

Revenues:	
Administrative Fees	\$ 71,476
NYS Administrative Services Assessment Refund	5,128
Interest Income	794
Rental Income	3,000
Elimination of Payable	<u>76,996</u>
Total Revenues	<u>157,394</u>
 Expenses:	
Project Expense	12,393
Management Fees	24,000
Professional Fees	17,000
Repairs and Maintenance	2,300
Dues and Subscription	3,060
Insurance	240
Miscellaneous	<u>375</u>
Total Expenses	<u>59,368</u>
 Change in Net Assets	98,026
 Net Assets, at Beginning of Year	<u>207,546</u>
 Net Assets, at End of Year	<u><u>\$ 305,572</u></u>

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows Provided by Operating Activities:	
Receipts from Customers	\$ 66,851
NYS Administrative Assessment Refund	5,128
Rental Income	3,000
Interest Income	794
Payments to Vendors	<u>(72,396)</u>
Cash Provided by Operating Activities	3,377
Cash Flows Used in Financing Activities:	
Payment on Loan Payable	<u>(72,975)</u>
Net Decrease in Cash	(69,598)
Cash at Beginning of Year	<u>283,063</u>
Cash at End of Year	<u>\$ 213,465</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Change in Net Assets	\$ 98,026
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Change in Operating Assets and Liabilities	
Accounts Receivable	(4,625)
Accounts Payable	<u>(90,024)</u>
	<u>\$ 3,377</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The City of Schenectady Industrial Development Agency (the Agency) was created during 1977 by the City Council of the City of Schenectady (the City), 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. The Agency, although established by the City Council of the City, is a separate entity and operates independently of the City.

The Agency's function is to authorize the issuance of industrial revenue bonds for industrial development projects and to assist businesses in acquiring or constructing various facilities in order to provide job opportunities and increase economic welfare. In return for its efforts, the Agency receives application and closing fees related to this business financing.

A summary of the significant accounting policies applied in the accompanying financial statements follows.

Accounting Method

The Agency's financial statements are prepared using the accrual basis in accounting with accounting principles generally accepted in the United States of America (GAAP) for public authorities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Agency is determined by its measurement focus. The transactions of the Agency are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated into restricted and unrestricted components, as follows:

- *Invested in capital assets* consists of capital assets, net of accumulated depreciation, and
- *Unrestricted net assets* consist of assets and liabilities that do not meet the definition of "restricted net assets" or "invested in capital assets, net of related debt."

Revenues are recognized when earned and expenses are recognized when incurred.

Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

The Agency's investment policy and statutes authorize the Agency to maintain deposits with FDIC-insured commercial banks located within the state. The Agency is authorized to use demand accounts, money market accounts, and certificates of deposit. Collateral is required for all deposits not covered by federal deposit insurance. As of December 31, 2011, all of the Agency's deposits were fully insured or collateralized.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables, if any, based on a review of all outstanding amounts on a monthly basis. The Agency determines an allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. No allowance was deemed necessary at December 31, 2011.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets are reported at the lower of cost or expected realizable value. All capital assets held by the Agency are nondepreciable assets. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repairs costs are expensed as incurred. The Agency uses a capitalization threshold of \$1,000 to analyze expenditures for capitalization. When capital assets are retired or disposed of, the appropriate accounts are relieved of costs and any resultant gain or loss is credited to operations.

The Authority evaluated prominent events or changes in circumstances affecting capital assets to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude, and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Industrial Revenue Bonds and Note Transactions

Certain industrial development revenue bonds and notes issued by the Agency are secured by property which is leased to companies and is retired by these payments. The bonds and notes are not obligations of the Agency, the City, or New York State. The Agency does not record the assets or liabilities resulting from completed bonds and notes issued in its accounts since its primary function is to arrange the financing between the borrowing companies and the bond note holders, and funds arising therefrom, are controlled by trustees or banks acting as fiscal agents. For providing this service, the Agency receives bond administration fees from the borrowing companies. Such administrative fees income is recognized immediately upon issuance of bonds and notes. Industrial bonds issued and outstanding at December 31, 2011 was \$65,729,677.

Tax Status

The Agency is exempt from federal, state, and local income taxes.

Subsequent Events

In preparing the financial statements and notes thereto, the Agency considered subsequent events through March 23, 2012, the date the financial statements were available to be issued. No such events were identified.

2. NOTE RECEIVABLE

During 2001, the Agency entered into a \$79,000 lease agreement for a parcel of land with JK, LLC. The term of the lease is twenty years commencing the 10th day of the calendar month following the month in which permanent Certification of Occupancy is issued for the project facility. The Agency issued a note receivable to JK, LLC, related to this lease requiring principal payments of \$2,525 and interest at 7%. During 2011, the Board of Directors approved two six month forbearance agreements so that JK, LLC could become current on rent payments or find another tenant.

3. CAPITAL ASSETS/LAND

The Agency has been developing and renovating various areas to promote future economic growth and to revitalize the City with development costs summarized as follows:

Brandywine Industrial Park	\$ 7,956
Peek Street	<u>15,806</u>
	<u>\$ 23,762</u>

4. LOANS PAYABLE - CITY OF SCHENECTADY

During 2000, the Agency entered into a \$400,000 loan agreement with the City to finance the site acquisition for the NYSDOT Region 1 Office Building Project.

During 2000, the City transferred title of property on 510 Union Street to the Agency on a condition that when the property was sold, the City would receive the proceeds less any costs associated with maintaining the property. During 2002, the property was sold for \$187,179, and a loan payable to the City was established.

During February 2007, the loans described above and their remaining balances were combined and a new promissory note of \$334,475 was issued at 0% interest. An initial principal payment of \$161,500 was paid on July 1, 2007, and annual payments of \$25,000 are due the 1st day of July in each of the years 2007 through and including 2010. The remaining principal balance of \$72,975 was paid on July 1, 2011.

5. COMMITMENTS AND CONTINGENCIES

Canal Square

During 2001, the Agency transferred title to various properties in the City known as “Canal Square” to the Schenectady Metroplex Development Agency (the Authority). On the date of the property transfer, the Authority assumed landlord responsibilities for the leased properties. As part of the transfer, the Agency indemnified the Authority from any and all claims, suits, charges, liens, and/or actions brought by existing tenants of properties plus any outstanding utility billings. A liability for unpaid utility bills of \$76,996 had been included in accounts payable until 2011 when it was determined to reduce the estimated liability to zero.

Litigation

The Agency is involved in a claim. It is the opinion of management and counsel that the liabilities that may arise from the claim would not result in a loss that would materially affect the financial position of the Agency or the results of its operations.

5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Environmental Risks

Certain facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Agency expect such compliance to have, any material effect upon the capital expenditures or functional condition of the Agency. Management believes that its current practices and procedures for control and disposition of regulated wastes comply with applicable federal, state and local requirements.

6. ADMINISTRATIVE SERVICE AGREEMENT

During 2002, the Agency entered into an administrative service agreement with the Schenectady Metroplex Development Authority (the Authority), an unrelated party. In accordance with the agreement, the Authority provides general administrative functions and other requested services for the Agency. During 2011, the Agency paid the Authority a monthly fee of \$2,000 for these services. Effective 2012, the Agency amended the agreement with the Authority to pay 30% of the administrative fees collected at closings of projects rather than the \$2,000 monthly fee.

SUPPLEMENTAL INFORMATION

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF INDEBTEDNESS
 DECEMBER 31, 2011

<u>Project Description</u>	<u>Original Issue Date</u>	<u>Current Interest Rate</u>	<u>Outstanding January 1, 2011</u>	<u>Issued During 2011</u>	<u>Principal Payments 2011</u>	<u>Outstanding December 31, 2011</u>	<u>Final Maturity Date</u>
Fortitech Holding Corp.	11/95	1.84%	\$ 865,000	\$ -	\$ 160,000	\$ 705,000	01/16
Schaffer Heights Housing Corp. 2000A	09/00	5.25%	7,010,000	-	120,000	6,890,000	11/35
L&S Realty	12/00	7.50%	673,983	-	673,983	-	01/16
Union College Project 2003A	12/03	4.75%	16,415,000	-	-	16,415,000	07/33
Union College Project 2005	12/05	3.19%	4,201,190	-	487,202	3,713,988	01/16
Union College Project 2006	11/06	5.00%	31,710,000	-	-	31,710,000	07/31
BencheMark Printing, Inc.	12/07	4.59%	1,244,231	-	283,542	960,689	01/15
Union Graduate College 2008A&B	01/08	2.30%	<u>5,435,000</u>	<u>-</u>	<u>100,000</u>	<u>5,335,000</u>	09/37
			<u>\$ 67,554,404</u>	<u>\$ -</u>	<u>\$ 1,824,727</u>	<u>\$ 65,729,677</u>	

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

Board of Directors
City of Schenectady
Industrial Development Agency
Schenectady, New York

We have audited the financial statements of the City of Schenectady Industrial Development Agency (the Agency), as of and for the year ended December 31, 2011, and have issued our report thereon dated March 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of members and management of the Agency and the New York State Office of the State Comptroller and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than the specified parties.



CUSACK & COMPANY, CPA'S LLC

Albany, New York
March 23, 2012

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

No findings noted.