

*CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY*

*FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION*

DECEMBER 31, 2012

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY

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CUSACK & COMPANY
Certified Public Accountants LLC
7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: INFO@CUSACKCPA.COM
WWW.CUSACKCPA.COM

CLIFTON PARK/HALFMOON OFFICE
(518) 664-7063
FAX (518) 541-3083

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Schenectady Industrial Development Agency (the "Agency") which comprise the statement of net assets as of December 31, 2012, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of December 31, 2012, and the changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the Agency's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information on page 10 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information on page 10 is fairly stated, in all material respects, in relation to the basic financial statements 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 the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013 on our consideration of the entity'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 the 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
March 20, 2013

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
DECEMBER 31, 2012

Assets

Current Assets:

Cash	\$ 374,948
Accounts Receivable	2,500
Prepaid Expenses	<u>2,094</u>
Total Current Assets	379,542

Land	<u>23,762</u>
	<u>\$ 403,304</u>

Liabilities and Net Assets

Current Liabilities:

Accounts Payable	\$ 9,600
Deferred Revenue	<u>1,250</u>
Total Current Liabilities	<u>10,850</u>

Net Assets, Unrestricted

Invested in Capital Assets	23,762
Unrestricted	<u>368,692</u>
Total Net Assets	<u>392,454</u>
	<u>\$ 403,304</u>

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

Revenues:	
Administrative Fees	\$ 185,858
Interest Income	1,385
Rental Income	<u>3,000</u>
Total Revenues	<u>190,243</u>
Expenses:	14,181
Project Expense	54,407
Management Fees	31,457
Professional Fees	252
Insurance	<u>3,064</u>
Miscellaneous	<u>103,361</u>
Total Expenses	86,882
Change in Net Assets	<u>305,572</u>
Net Assets at Beginning of Year	<u>\$ 392,454</u>
Net Assets at End of Year	<u><u>392,454</u></u>

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

Cash Flows Provided by Operating Activities:	
Receipts from Customers	\$ 188,358
Rental Income	3,000
Interest Income	1,385
Payments to Vendors	<u>(95,572)</u>
Cash Provided by Operating Activities	97,171
Cash Flows Used in Financing Activities:	
Payment on Loan Payable	<u>64,312</u>
Net Increase in Cash	161,483
Cash at Beginning of Year	<u>213,465</u>
Cash at End of Year	<u><u>\$ 374,948</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Change in Net Assets	\$ 86,882
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Change in Operating Assets and Liabilities	
Accounts Receivable	2,500
Prepaid Expenses	(10)
Accounts Payable	<u>7,799</u>
	<u><u>\$ 97,171</u></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, 2012, 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, 2012.

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 repair 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, 2012.

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 fee income is recognized immediately upon issuance of bonds and notes. Industrial bonds issued and outstanding at December 31, 2012 were \$48,061,640.

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 or transactions as to any potential material impact on operations or financial position occurring through March 20, 2013, 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%. The note was repaid in 2012.

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. COMMITMENTS AND CONTINGENCIES

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.

5. ADMINISTRATIVE SERVICE AGREEMENT

Effective 2012, 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 at 30% of the administrative fees collected at closing of projects. The management fee was \$54,407 for the year ended December 31, 2012.

SUPPLEMENTARY INFORMATION

CITY OF SCHENECTADY
INDUSTRIAL DEVELOPMENT AGENCY
 STATEMENT OF INDEBTEDNESS
 DECEMBER 31, 2012

<u>Project Description</u>	<u>Original Issue Date</u>	<u>Current Interest Rate</u>	<u>Outstanding January 1, 2012</u>	<u>Issued During 2012</u>	<u>Principal Payments 2012</u>	<u>Outstanding December 31, 2012</u>	<u>Final Maturity Date</u>
Fortitech Holding Corp.	11/95	1.84%	\$ 705,000	-	\$ 160,000	\$ 545,000	01/16
Schaffer Heights Housing Corp.							
2000A	09/00	5.25%	6,890,000	-	130,000	6,760,000	11/35
Union College Project 2003A	12/03	4.75%	16,415,000	-	16,415,000	-	07/33
Union College Project 2005	12/05	3.19%	3,713,988	-	487,202	3,226,786	01/16
Union College Project 2006	11/06	5.00%	31,710,000	-	80,000	31,630,000	07/31
BencheMark Printing, Inc.	12/07	4.59%	960,689	-	295,835	664,854	01/15
Union Graduate College 2008A&B	01/08	2.30%	5,335,000	-	100,000	5,235,000	09/37
			<u>\$ 65,729,677</u>	<u>\$ -</u>	<u>\$ 17,668,037</u>	<u>\$ 48,061,640</u>	