# Municipal Assistance Corporation for the City of Troy

Financial Report

December 31, 2013 and 2012

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## Independent Auditor's Report

Board of Directors
Municipal Assistance Corporation
for the City of Troy
New York, New York

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund for the Municipal Assistance Corporation for the City of Troy (Corporation) (a New York public benefit corporation) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of December 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, during 2013, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). The provisions of GASB No. 65 are retroactive, and the Corporation has restated certain prior period amounts to conform to the presentation requirements.

***Other Matters***

*Prior Year Financial Statements*

The financial statements of the Corporation, as of and for the year ended December 31, 2012, were audited by Bollam, Sheedy, Torani & Co. LLP which merged with Sax Macy Fromm & Co., PC to form SaxBST LLP as of January 1, 2014. Bollam, Sheedy, Torani & Co. LLP's report dated March 21, 2013, expressed an unmodified opinion on those statements.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 and 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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. We have applied certain limited procedures to the required supplementary information for 2013 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. In their report dated March 21, 2013, Bollam, Sheedy, Torani & Co. LLP did not express an opinion on the required supplementary information for 2012.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the Corporation's basic financial statements. The schedule of debt service funding requirement on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of debt service funding requirement 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 schedule of debt service funding requirement is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

SaxBST LLP

Albany, New York
March 21, 2014

# Municipal Assistance Corporation for the City of Troy

Management's Discussion and Analysis
December 31, 2013 and 2012

This section of the report presents a discussion and analysis of the financial performance of the Municipal Assistance Corporation for the City of Troy (Corporation) for the fiscal years ended December 31, 2013 and 2012. Please read it in conjunction with the basic financial statements that appear on pages 6 through 21 of this report.

**Overview of the Financial Statements**

The financial statements consist of three parts - management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements consist of two statements that present different views of the Corporation:

- The governmental fund financial statements that focus on individual activities of the Corporation and report how its operations were financed in the short term as well as what remains available for future spending.
- The government-wide financial statements that provide both long-term and short-term information about the Corporation's overall financial status.

For most governmental entities, the two types of financial statements are presented separately. However, for financial reporting purposes, the Corporation is considered to be a special-purpose government engaged in a single governmental program. As permitted by accounting principles generally accepted in the United States of America (U.S. GAAP), the governmental fund and government-wide financial statements of the Corporation are presented together and include a reconciliation of the amounts reported in each. The financial report also includes notes that explain some of the information in the financial statements in more detail.

**Financial Analysis of the Corporation**

The deficit decreased by approximately $3,951,000, $899,000, and $4,054,000 for the years ended December 31, 2013, 2012, and 2011, respectively, as follows:

**Condensed Statement of Net Position**
**(in Thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2013 vs. 2012 | 2012 | 2012 vs. 2011 | 2011 |
| Current assets | $ 8,843 | 1.62% | $ 8,702 | -23.63% | $ 11,394 |
| Long-term assets | 176 | 0.00% | 176 | -15.94% | 176 |
| Total assets | $ 9,019 | 1.59% | $ 8,878 | -23.40% | $ 11,570 |
| Current liabilities | $ 5,525 | -1.99% | $ 5,637 | 1.88% | $ 5,533 |
| Long-term liabilities | 36,565 | -9.18% | 40,263 | -8.41% | 43,958 |
| Total liabilities | 42,090 | -8.30% | 45,900 | -7.26% | 49,491 |
| Net position | (33,071) | -10.67% | (37,022) | -2.24% | (37,921) |
| Total liabilities and net position | $ 9,019 | 1.59% | $ 8,878 | -23.40% | $ 11,570 |

## Financial Analysis of the Corporation - Continued

### Condensed Statement of Net Activities
### (in Thousands)

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2013 vs. 2012 | 2012 | 2012 vs. 2011 | 2011 |
| Revenues | $ 6,091 | 90.52% | $ 3,197 | -51.35% | $ 6,572 |
| Expenses | 2,140 | -6.88% | 2,298 | -9.08% | 2,518 |
| Net revenues | 3,951 | 339.49% | 899 | -78.82% | 4,054 |
| Net position, *beginning of year* | (37,022) | -2.37% | (37,921) | -9.55% | (41,975) |
| Net position, *end of year* | $ (33,071) | -10.67% | $ (37,022) | -2.24% | $ (37,921) |

## Concerning the Corporation's Financial Management

The financial report is designed to provide the citizens, taxpayers, customers, investors, and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the revenues it receives. If you have any questions about this report or need additional financial information, contact the Corporation at 123 William Street, Floor 23, New York, New York 10038.

Jeffrey Sommer, Executive Director

Jewel Douglas, Deputy Director of Finance

# Municipal Assistance Corporation for the City of Troy

## Governmental Funds Balance Sheet and Government-Wide Statement of Net Position

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Debt Service Fund | Debt Service Reserve Fund | Total Governmental Funds | Reconciliation Adjustments | Total Governmental Activities |
| **ASSETS** | | | | | | |
| Cash | $ 21,638 | $ 877 | $ - | $ 22,515 | $ - | $ 22,515 |
| Investment in securities | - | 5,717,786 | 3,232,475 | 8,950,261 | - | 8,950,261 |
| Accrued interest on securities | - | 26,405 | 16,650 | 43,055 | - | 43,055 |
| Prepaid expense | 2,916 | - | - | 2,916 | - | 2,916 |
| Total assets | 24,554 | 5,745,068 | 3,249,125 | 9,018,747 | - | 9,018,747 |
| **LIABILITIES** | | | | | | |
| Accrued interest on bonds | - | 261,074 | - | 261,074 | - | 261,074 |
| Accounts payable | 5,836 | - | - | 5,836 | - | 5,836 |
| Accrued liabilities | - | - | - | - | 28,867 | 28,867 |
| Bonds and loans payable | | | | | | |
| Due within one year | - | - | - | - | 5,229,095 | 5,229,095 |
| Due after one year | - | - | - | - | 36,565,073 | 36,565,073 |
| Total liabilities | 5,836 | 261,074 | - | 266,910 | 41,823,035 | 42,089,945 |
| **FUND BALANCE** | | | | | | |
| Nonspendable | 2,916 | - | - | 2,916 | (2,916) | - |
| Restricted | - | 5,483,994 | 3,249,125 | 8,733,119 | (8,733,119) | - |
| Unassigned | 15,802 | - | - | 15,802 | (15,802) | - |
| Total fund balance | 18,718 | 5,483,994 | 3,249,125 | 8,751,837 | (8,751,837) | - |
| **Total liabilities and fund balance** | **$ 24,554** | **$ 5,745,068** | **$ 3,249,125** | **$ 9,018,747** | | |
| **Total net position** | | | | | **$ (33,071,198)** | **$ (33,071,198)** |

*See accompanying Notes to Financial Statements.*

# Municipal Assistance Corporation for the City of Troy

## Statement of Activities and Government Fund Revenues, Expenditures, and Changes in Fund Balance

| | Year Ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Debt Service Fund | Debt Service Reserve Fund | Total Governmental Funds | Reconciliation Adjustments | Governmental Activities |
| **PROGRAM REVENUES** | | | | | | |
| Income from investments, net | $ - | $ 2,626 | $ 181,288 | $ 183,914 | $ 104,562 | $ 288,476 |
| Draws on pledge revenues | - | 5,802,474 | - | 5,802,474 | - | 5,802,474 |
| Other | - | - | - | - | - | - |
| Total program revenue | - | 5,805,100 | 181,288 | 5,986,388 | 104,562 | 6,090,950 |
| **EXPENDITURES/EXPENSES** | | | | | | |
| Debt service | | | | | | |
| Principal paid on bonds | - | 5,210,000 | - | 5,210,000 | (5,210,000) | - |
| Interest and accretion on bonds | - | 568,470 | - | 568,470 | 1,531,494 | 2,099,964 |
| Debt administration | 6,771 | - | - | 6,771 | - | 6,771 |
| General administration | 33,275 | - | - | 33,275 | - | 33,275 |
| Total expenditures | 40,046 | 5,778,470 | - | 5,818,516 | (3,678,506) | 2,140,010 |
| **Excess (deficiency) of revenues over expenditures/expenses** | **(40,046)** | **26,630** | **181,288** | **167,872** | **3,783,068** | **3,950,940** |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers (from) to operating fund | 50,000 | (50,000) | - | - | - | - |
| Transfers (from) to debt service | - | 180,960 | (180,960) | - | - | - |
| **Excess of revenues and other financing sources over expenditures/expenses and other financing uses** | **9,954** | **157,590** | **328** | **167,872** | **3,783,068** | **3,950,940** |
| **FUND BALANCE/NET POSITION,** ***beginning of year*** | 8,764 | 5,326,404 | 3,248,797 | 8,583,965 | (45,606,103) | (37,022,138) |
| **FUND BALANCE/NET POSITION,** ***end of year*** | **$ 18,718** | **$ 5,483,994** | **$ 3,249,125** | **$ 8,751,837** | **$ (41,823,035)** | **$ (33,071,198)** |

*See accompanying Notes to Financial Statements.*

# Municipal Assistance Corporation for the City of Troy

## Governmental Funds Balance Sheet and Government-Wide Statement of Net Position

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Debt Service Fund | Debt Service Reserve Fund | Total Governmental Funds | Reconciliation Adjustments | Total Governmental Activities |
| **ASSETS** | | | | | | |
| Cash | $ 14,176 | $ 275 | $ - | $ 14,451 | $ - | $ 14,451 |
| Investment in securities | - | 5,606,742 | 3,226,881 | 8,833,623 | - | 8,833,623 |
| Accrued interest on securities | - | 7,565 | 21,916 | 29,481 | - | 29,481 |
| Prepaid expense | 167 | - | - | 167 | - | 167 |
| Total assets | 14,343 | 5,614,582 | 3,248,797 | 8,877,722 | - | 8,877,722 |
| **LIABILITIES** | | | | | | |
| Accrued interest on bonds | - | 288,178 | - | 288,178 | - | 288,178 |
| Accounts payable | 5,579 | - | - | 5,579 | - | 5,579 |
| Accrued liabilities | - | - | - | - | 23,220 | 23,220 |
| Bonds and loans payable | | | | | | |
| Due within one year | - | - | - | - | 5,320,209 | 5,320,209 |
| Due after one year | - | - | - | - | 40,262,674 | 40,262,674 |
| Total liabilities | 5,579 | 288,178 | - | 293,757 | 45,606,103 | 45,899,860 |
| **FUND BALANCE** | | | | | | |
| Nonspendable | 167 | - | - | 167 | (167) | - |
| Restricted | - | 5,326,404 | 3,248,797 | 8,575,201 | (8,575,201) | - |
| Unassigned | 8,597 | - | - | 8,597 | (8,597) | - |
| Total fund balance | 8,764 | 5,326,404 | 3,248,797 | 8,583,965 | (8,583,965) | - |
| **Total liabilities and fund balance** | **$ 14,343** | **$ 5,614,582** | **$ 3,248,797** | **$ 8,877,722** | | |
| **Total net position** | | | | | **$ (37,022,138)** | **$ (37,022,138)** |

*See accompanying Notes to Financial Statements.*

# Municipal Assistance Corporation for the City of Troy

## Statement of Activities and Government Fund Revenues, Expenditures, and Changes in Fund Balance

| | Year Ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Operating Fund | Debt Service Fund | Debt Service Reserve Fund | Total Governmental Funds | Reconciliation Adjustments | Governmental Activities |
| **PROGRAM REVENUES** | | | | | | |
| Income from investments, net | $ - | $ 3,485 | $ 181,232 | $ 184,717 | $ 140,605 | $ 325,322 |
| Draws on pledge revenues | - | 2,863,749 | - | 2,863,749 | - | 2,863,749 |
| Other | - | 8,353 | - | 8,353 | - | 8,353 |
| Total program revenue | - | 2,875,587 | 181,232 | 3,056,819 | 140,605 | 3,197,424 |
| **EXPENDITURES/EXPENSES** | | | | | | |
| Debt service | | | | | | |
| Principal paid on bonds | - | 5,055,000 | - | 5,055,000 | (5,055,000) | - |
| Interest and accretion on bonds | - | 626,745 | - | 626,745 | 1,624,954 | 2,251,699 |
| Amortization of bond issuance costs | - | - | - | | - | - |
| Debt administration | 5,000 | - | - | 5,000 | - | 5,000 |
| General administration | 42,315 | | - | 42,315 | - | 42,315 |
| Total expenditures | 47,315 | 5,681,745 | - | 5,729,060 | (3,430,046) | 2,299,014 |
| **Excess (deficiency) of revenues over expenditures/expenses** | **(47,315)** | **(2,806,158)** | **181,232** | **(2,672,241)** | **3,570,651** | **898,410** |
| **OTHER FINANCING SOURCES (USES)** | | | | | | |
| Transfers (from) to operating fund | 50,600 | (50,600) | - | - | - | - |
| Transfers (from) to debt service | - | 181,462 | (181,462) | - | - | - |
| **Excess (deficiency) of revenues and other financing sources over expenditures/ expenses and other financing uses** | **3,285** | **(2,675,296)** | **(230)** | **(2,672,241)** | **3,570,651** | **898,410** |
| **FUND BALANCE/NET POSITION,** ***beginning of year as restated*** | 5,479 | 8,001,700 | 3,249,027 | 11,256,206 | (49,176,754) | (37,920,548) |
| **FUND BALANCE/NET POSITION,** ***end of year*** | **$ 8,764** | **$ 5,326,404** | **$ 3,248,797** | **$ 8,583,965** | **$ (45,606,103)** | **$ (37,022,138)** |

*See accompanying Notes to Financial Statements.*

## Note 1 - Organization and Summary of Significant Accounting Policies

*a. Organization and Functions of the Corporation*

The Municipal Assistance Corporation for the City of Troy (Corporation) is a corporate governmental agency and instrumentality of the State of New York, constituting a public benefit corporation. The Corporation was created on July 19, 1995, under Titles I, II, and IV of Article 10 of the Public Authorities Law of the State (Act). Titles may be amended from time to time for purposes of providing financing assistance and fiscal oversight for the City of Troy, New York (City). To carry out such purposes, the Corporation was authorized to sell bonds and notes to provide funds for various purposes, including the repayment of certain of the City's obligations.

The Corporation is administered by a seven-member Board of Directors, five of whom are appointed by the Governor, one by the Majority Leader of the Senate, and one by the Speaker of the Assembly. The Chairman is designated by the governor from among his appointees. There are currently three directors of the Corporation. The remaining four seats are vacant.

The Act provides that the Corporation shall continue for a term of one year after all its liabilities have been fully paid and discharged.

*b. Basis of Accounting and Financial Statement Presentation*

The Corporation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for governmental accounting and financial reporting. The Corporation is considered to be a special-purpose government engaged in a single governmental program.

In accordance with the Act, the Corporation's fiscal year is the same as the City's, whose fiscal year is the calendar year.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for on the modified accrual basis using a current financial resources focus. With this measurement focus, generally only current assets and current liabilities are included on the governmental fund balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, governmental fund revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be reasonably determined, and "available" means the related cash resources are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

*c. Reconciliation Adjustments*

The reconciliation adjustment columns in the accompanying financial statements present the items necessary to convert the "fund" financial statements to the "government-wide" financial statements. For the years ended December 31, 2013 and 2012, the entries recorded in the "government-wide" financial statements are the Corporation's General Resolution bonds which are not recorded in the "fund" financial statements under the modified accrual basis of accounting. Further, the entries convert fund balances reported in the "fund" financial statements to net position balances reported in the "government-wide" financial statements; record the bond premium, bond issuance costs, and the related amortization, as well as the accrual of the arbitrage rebate liability.

## Note 1 - Organization and Summary of Significant Accounting Policies - Continued

*d. Estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

*e. Investments in Securities*

Investments in securities in the Debt Service Reserve Fund are carried at amortized cost. Investments in securities in the Debt Service Fund are carried at the lower of cost or market value. Investments, if any, in securities in the Operating Fund are carried at the lower of cost or market value. Investments may consist of direct obligations of, or obligations guaranteed by, the State of New York or the United States of America, repurchase agreements pursuant to master agreements with certain authorized financial institutions, certain obligations of U.S. Government agencies, and certain other investment obligations, as permitted under the Corporation's General Bond Resolution.

*f. Bonds and Loans Payable*

The Corporation's debt (except for capital appreciation bonds) is recorded at the principal amount of the obligations outstanding. Capital appreciation bonds are recorded at their accreted values. Original issue discounts on current-interest bonds are charged to the Debt Service Fund as incurred and become part of the funding requirement. The amount required for the payment of debt service due on January 15 is accounted for as if paid on the immediately preceding December 31, if by that date such amount has been segregated for that purpose by the Trustee under the Corporation's General Bond Resolution. The deficit of the Corporation reported in the statement of activities does not include future requirements for the payment of interest or future accretions in the values of capital appreciation bonds. Nor does such requirement include accrued but unpaid supplementary interest on the Corporation's Series 1996C Bonds.

Bond premiums on the Corporation's Series 1996B, 1996C, and 2010A Bonds are being amortized over the life of the bond using the effective interest rate method. The annual amortization is offset against interest expense over the life of the bond.

Bond issuance costs, other than prepaid insurance costs, are expensed as incurred.

*g. Fund Balance*

The Corporation accounts for and reports its fund balances into specifically defined classifications. Fund balance classifications are based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five fund balance classifications fall into two categories, Restricted and Unrestricted, and are as follows:

<u>Restricted Fund Balance</u>

*Nonspendable* - Amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. The Corporation's nonspendable fund balance consists of amounts for prepaid expenses.

## Note 1 - Organization and Summary of Significant Accounting Policies - Continued

*g. Fund Balance* - Continued

*Restricted* - Amounts that have restraints that are either (a) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Corporation's restricted fund balance consists of amounts for debt service requirements.

Unrestricted Fund Balance

*Committed* - Amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action, such as legislation, resolution, or ordinance by the government's highest level of decision-making authority. The Corporation had no committed funds at December 31, 2013 or 2012.

*Assigned* - Amounts that are constrained only by the government's *intent* to be used for a specified purpose, but are not restricted or committed in any manner. The Corporation had no assigned funds at December 31, 2013 or 2012.

*Unassigned* - The residual amount in the general fund after all of the other classifications have been established.

*h. Tax Status*

The Authority is exempt from federal income taxes, under Internal Revenue Service Code Section 115, and state taxes.

*i. Revenue Recognition*

In the Debt Service Fund, draws on pledge revenues are derived from sales tax and State aid and are recorded when received. Interest income from investments and interest expense on the Corporation's debt are recorded in the month they are earned or paid. Income from investments includes realized gains and losses from sales of investments. With respect to the Debt Service and the 1996 Debt Service Reserve Fund, income from investments is net of any accrued rebate due to the United States of America for certain excess earnings. Income from investments, if any, in the Debt Service Fund will include unrealized losses on investments. Income from investments includes the accrual of the federal arbitrage rebate and amortization of the bond premium.

*j. New Accounting Pronouncements*

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements.

## Note 1 - Organization and Summary of Significant Accounting Policies - Continued

*j. New Accounting Pronouncements* - Continued

GASB Statement No. 66, *Technical Corrections*. This statement establishes clarifications on two recently issued statements, No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement resolves conflicting guidance created as a result of the issuance of these two statements.

The Corporation adopted GASB Statements No. 65 and No. 66 as of January 1, 2013 (Note 10).

*k. Subsequent Events*

The Corporation has evaluated subsequent events for potential recognition or disclosure through March 21, 2014, the date the financial statements were available to be issued.

## Note 2 - Investments in Securities

| | December 31, 2013 | | |
|---|---|---|---|
| | Principal | Market | Cost |
| Marketable Securities | | | |
| Debt Service Fund | | | |
| U.S. Treasury obligations maturing in less than one year | $ 5,716,000 | $ 5,717,786 | $ 5,741,057 |
| Debt Service Reserve Fund | | | |
| U.S. Treasury obligations maturing in less than one year | $ 3,056,000 | $ 3,057,314 | $ 3,056,475 |
| U.S. Treasury obligations maturing in five years or greater | 176,000 | 176,000 | 176,000 |
| Total | $ 3,232,000 | $ 3,233,314 | $ 3,232,475 |

| | December 31, 2012 | | |
|---|---|---|---|
| | Principal | Market | Cost |
| Marketable Securities | | | |
| Debt Service Fund | | | |
| U.S. Treasury obligations maturing in less than one year | $ 5,606,000 | $ 5,606,742 | $ 5,610,488 |
| Debt Service Reserve Fund | | | |
| U.S. Treasury obligations maturing in less than one year | $ 3,056,000 | $ 3,057,314 | $ 3,050,881 |
| U.S. Treasury obligations maturing in five years or greater | 176,000 | 176,000 | 176,000 |
| Total | $ 3,232,000 | $ 3,233,314 | $ 3,226,881 |

## Note 3 - Bonds and Loans Payable

*a. Debt Authority*

The Act authorizes the Corporation to provide financing assistance to the City by issuing bonds and notes for specified purposes in an aggregate principal amount of up to $71 million. The Act further authorizes the Corporation to issue up to $2 million of bonds and notes to fund City capital projects and to issue up to $2 million of notes to fund City operating expenses. The principal amounts of bonds and notes issued to pay costs of issuance, to fund reserve funds, and to refund outstanding bonds are excluded from the Act's dollar limits. Through December 31, 2013, the Corporation had issued approximately $68 million of bonds and notes of the $71 million authorized under the Act.

The $2 million of capital borrowing authority expired on December 31, 1999. After that date, no bonds may be issued, except for the purpose of refunding. No bond or note of the Corporation may mature later than January 1, 2030.

*b. 2010A Refunding Bonds*

On November 30, 2010, the Corporation refunded the Series 1996A Bonds and a portion of the Series 1999B Bonds with Series 2010A General Resolution Refunding Bonds in the principal amount of $15.620 million. Substantially all of the net proceeds, together with other monies of the Corporation, were used to refund $14.080 million and $1.955 million of those original issues. The sale generated budgetary savings totaling $831,125 over the life of the refunding bonds, which will be passed on to the City. The 2010A Refunding Bonds bear interest at rates ranging from 3 percent to 4.75 percent payable semi-annually. Principal is payable on an annual basis in amounts ranging from $390,000 to $2,045,000 with a final maturity of January 15, 2022.

*c. Capital Appreciation Bonds*

The Corporation's remaining Series 1996B and 1996C Capital Appreciation Bonds are payable at maturity value on an annual basis through January 2022. Interest on the bonds accretes through the stated maturity dates and is payable semi-annually.

*d. EFC Loans*

On June 27, 1997, the Corporation entered into a Project Financing and Loan Agreement with the New York State Environmental Facilities Corporation (EFC) providing for the EFC to make periodic short-term loans to the Corporation not to exceed $7,087,800 in aggregate principal amount. The proceeds of these loans were used to finance the closure of the City's landfill.

On May 27, 2010, the Corporation revised the Project Financing and Loan Agreement with the EFC, and the remaining balance of the original loans was refinanced to realize interest rate savings from the refunding of corresponding bonds that the EFC sold to the public. The EFC loans bear interest at rates ranging from 1.242 percent to 3.382 percent, payable semiannually and require annual principal repayments ranging from $285,000 to $330,000 with a final maturity of January 2019. The EFC provides a semi-annual subsidy credit, which reduces the debt service cost over the life of the loan. The amount of subsidy received from the EFC was $23,618 and $25,599 during the years ended December 31, 2013 and 2012, respectively.

**Note 3 - Bonds and Loans Payable - Continued**

*e. Debt Service Payment and Funding Requirements*

A summary of the Corporation's bonds and loans payable is as follows:

| | Balance at December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Series 1996B Capital Appreciation Bonds | $ 9,594,684 | $ 10,939,124 |
| Series 1996C Capital Appreciation Bonds | 864,600 | 864,600 |
| Series 1999A EFC loans | 1,855,000 | 2,140,000 |
| Series 2010A Refunding Bonds | 12,535,000 | 14,150,000 |
| | 24,849,284 | 28,093,724 |
| Bond accretion - Series 1996B and 1996C | 16,748,197 | 17,182,263 |
| Bond premium - Series 2010A | 196,687 | 306,896 |
| | $ 41,794,168 | $ 45,582,883 |

A summary of future annual debt service payments on the Corporation's bonds and loans, based on the bonds' and loans' year ending, is as follows:

| | Principal * | Interest ** | Total |
|---|---|---|---|
| For the year ending January 15, | | | |
| 2014 | $ 5,155,000 | $ 568,224 | $ 5,723,224 |
| 2015 | 5,480,000 | 502,889 | 5,982,889 |
| 2016 | 5,565,000 | 414,761 | 5,979,761 |
| 2017 | 5,670,000 | 322,841 | 5,992,841 |
| 2018 | 6,075,000 | 236,140 | 6,311,140 |
| 2019 through 2022 | 22,645,000 | 269,891 | 22,914,891 |
| | $ 50,590,000 | $ 2,314,746 | $ 52,904,746 |

* Includes Series 1996B and 1996C capital appreciation bonds at their maturity values, with future bond accretion of $8,329,559.

** Net of anticipated interest subsidies on EFC loans.

**Note 3 - Bonds and Loans Payable - Continued**

*e. Debt Service Payment and Funding Requirements* - Continued

The Corporation's Series 2010A refunding bonds were sold at a net premium of $640,444. Unamortized premiums are included in the carrying amount of the bonds. The premium costs are being amortized over the life of the bonds as follows:

| For the year ending December 31, | |
|---|---|
| 2014 | $ 79,095 |
| 2015 | 53,196 |
| 2016 | 32,746 |
| 2017 | 18,075 |
| 2018 | 8,404 |
| 2019 through 2020 | 5,170 |
| | $ 196,687 |

A summary of future annual funding requirements for these debt service payments is provided in Exhibit 1.

The changes in long-term liabilities were as follows:

| | Balance at December 31, 2012 | Bond Accretion | Payments/ Amortization | Balance at December 31, 2013 |
|---|---|---|---|---|
| Bonds and loans payable | $ 45,275,987 | $ 1,531,494 | $ 5,210,000 | $ 41,597,481 |
| Bond premium | 306,896 | - | 110,209 | 196,687 |
| | $ 45,582,883 | $ 1,531,494 | $ 5,320,209 | $ 41,794,168 |

| | Balance at December 31, 2011 | Bond Accretion | Payments | Balance at December 31, 2012 |
|---|---|---|---|---|
| Bonds and loans payable | $ 48,706,033 | $ 1,624,954 | $ 5,055,000 | $ 45,275,987 |
| Bond premium | 453,149 | - | 146,253 | 306,896 |
| | $ 49,159,182 | $ 1,624,954 | $ 5,201,253 | $ 45,582,883 |

## Note 4 - Funding Methods

*a. Sales Tax and State Aid*

The Corporation has no taxing power. Its debt service requirements and operating expenses are funded primarily from the City's share of certain sales taxes imposed by Rensselaer County (County) and from State aid payments designated for the City. The State Comptroller deposits the City's share of the County imposed sales tax in the Municipal Assistance Tax Fund and State aid in the Municipal Assistance State Aid Fund for the benefit of the Corporation. The Corporation periodically certifies to the State Comptroller the amount of funding it requires, and, provided the State Legislature has enacted the necessary appropriations, the State Comptroller disburses to the Corporation the amounts it has certified. Collections of sales taxes and deposits of State aid in excess of the Corporation's needs are remitted to the City by the State Comptroller.

The amount of sales tax allocable to the City in each of the State fiscal years ended March 31, 2012, 2013, and 2014, was (will be) $14,664,737, $14,810,991, and $15,072,695, respectively.

The City agreed to repay $165,000 of the $330,000 balance remaining with respect to the $440,000 obligation due to the County by the City pursuant to the sales tax agreement between the parties dated November 23, 1982. Such payment was deducted by the County in its March 15, 2005, sales tax payment made to the City. After the March 15, 2005, payment, the $165,000 remaining balance is being paid by the City to the County without interest over a period of ten (10) years at $16,500 per year which started March 15, 2006.

The aggregate amount of State aid allocable to the City, which includes Aid and Incentives for Municipalities (AIM), in each of the State fiscal years ended March 31, 2012, 2013, and 2014, was (will be) $12,279,463.

*b. State Coverage Amount*

The Act requires an additional coverage amount in State aid to be provided to the Corporation upon its certification and an annual appropriation by the State Legislature when it is necessary to augment the aggregate amount of sales tax and State aid to meet the minimum debt-service-coverage ratio of 1.5 to 1. Such additional coverage amount is designated to be deposited into the Municipal Assistance State Aid Fund. Based on the Corporation's current funding requirements as well as the sales tax and State aid revenues currently available, the Corporation has not determined a need to certify to the State for a coverage amount.

*c. City Sources*

The Act provides that when the Corporation pays the proceeds of its bonds or notes to the City it shall receive in return City obligations (bonds, notes, and/or repayment agreements). As a general matter, the Corporation does not expect to look to the principal of and interest on the City obligations as a funding source because the Corporation expects its sales tax and State aid revenues will be sufficient to meet its funding needs. The General Bond Resolution provides that in certifying its funding needs to the State, the Corporation shall exclude from consideration any amounts due to be received from the City.

## Note 4 - Funding Methods - Continued

c. *City Sources* - Continued

A supplementary portion of the interest on the Corporation's Series 1996C Bonds is Subordinated Indebtedness under the General Bond Resolution and is not payable from the Corporation's regular funding sources. Pursuant to the Corporation's Certificate of Determination establishing certain terms of the Series 1996C Bonds, this supplementary interest is payable solely from amounts the Corporation receives from the City for the purpose of such payment. The payment of such amounts to the Corporation is conditioned on the City's undesignated general fund balance at the end of any fiscal year exceeding the City's audited expenditures for such year by five percent and is subject to appropriation by the City.

## Note 5 - Debt Service Reserve Fund

The Corporation has established a Debt Service Reserve Fund, which, as provided in the General Bond Resolution, is required to be funded at an amount not less than one-half of the maximum debt service due for any 12 consecutive months commencing January 15 on all outstanding bonds (with certain exceptions that do not currently apply). At December 31, 2013 and 2012, the Debt Service Reserve Fund balance was $3,249,125 and $3,248,797, respectively, an amount that at least equaled the required funding level.

A portion of the interest on the Corporation's Series 1996C Bonds is Subordinated Indebtedness under the General Bond Resolution. Subordinated Indebtedness is not secured by the Debt Service Reserve Fund and, therefore, is not taken into account in calculating the Debt Service Reserve Fund's required funding level.

## Note 6 - Operating Fund

Pursuant to an April 17, 2008 resolution by the Board of the Corporation, the New York State Financial Control Board (New York State FCB) provides staffing and administrative services to the Corporation. The Corporation pays for the costs of such staffing and services from the Operating Fund upon periodic invoices submitted by the New York State FCB. For the years ended December 31, 2013 and 2012, such costs incurred totaled $10,558 and $18,016, respectively.

At December 31, 2013 and 2012, the assets of the Operating Fund included $21,638 and $13,119, respectively, in money market funds that invest in obligations guaranteed by the United States of America, as reflected in cash on the statements of net position. Investments in money market funds are not evidenced by securities that exist in physical or book entry form.

## Note 7 - City of Troy Bonds, Notes, and Repayment Agreements

The Act stipulates that upon providing funds to the City, the Corporation is to receive from the City evidence of the funding. This evidence may be in the form of bonds and/or notes. The evidence may also be in the form of agreements to repay the funds in annual installments that are subject to annual appropriation by the Troy City Council. Under the repayment agreements, the Corporation is authorized to deliver City obligations back to the City for cancellation without receiving payment of principal or interest.

As of December 31, 2013 and 2012, the Corporation held $24,849,251 and $28,093,724, respectively, in principal amounts of repayment agreements and no City bonds or notes. There are no City bonds, notes, or repayment agreements recorded in the Corporation's financial statements.

## Note 8 - Rebates to the United States Government

Under the Internal Revenue Code of 1986, as amended, the Corporation is required to rebate to the United States any excess earnings from the investment of the proceeds of its bonds over the yield on each issue. Under the Code and regulations issued by the Department of the Treasury, the Corporation is required to pay any such excess earnings within 60 days of the end of the fifth year following issuance and each succeeding fifth year for each issue, with a final payment required to be made within 60 days of retirement, maturity, or redemption of each issue. Arbitrage rebate is recorded as a reduction in interest income in the year paid. As of December 31, 2013 and 2012, the Corporation's rebate liability was $28,867 and $23,220, respectively.

## Note 9 - Concentration of Credit Risk

The Corporation maintains cash balances in a financial institution located in New York State. Accounts at the institution are insured, up to certain limits, by the Federal Deposit Insurance Corporation (FDIC). The investments in securities are backed by the full faith and credit of the United States government given the nature of the investments.

## Note 10 - Bond Issuance Costs

Effective January 1, 2013, the Corporation implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In accordance with the standards of GASB No. 65, debt issuance costs, except any portion related to prepaid issuance costs, are recognized as an expense in the period incurred.

## Note 10 - Bond Issuance Costs - Continued

The retroactive adoption of the standard resulted in a reduction of beginning of period (January 1, 2012) bond issuance costs and unrestricted net position as follows:

| | As Previously Reported | Effect of Change | As Currently Reported |
|---|---|---|---|
| December 31, 2012 | | | |
| Statement of net position and governmental fund balance sheet | | | |
| Bond issuance costs | $ 114,332 | $ (114,332) | $ - |
| Net position - unrestricted | $ (36,907,806) | $ (114,332) | $ (37,022,138) |
| Year Ended December 31, 2012 | | | |
| Statement of changes in net position | | | |
| Amortization | $ 54,485 | $ (54,485) | $ - |
| Change in net position | $ 4,740,294 | $ 54,485 | $ 4,794,779 |
| NET POSITION, *beginning of year* | $ (37,751,731) | $ (168,817) | $ (37,920,548) |

## Note 11 - Accounting Pronouncements Issued Not Yet Implemented

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

The scope of this statement also addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics as defined in the statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for periods beginning after June 15, 2014, with early implementation encouraged.

**Note 11 - Accounting Pronouncements Issued Not Yet Implemented - Continued**

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement established accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement provides specific accounting and financial reporting guidance for combinations in this environment and improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement provides financial reporting and disclosure guidance to those governments that extend and receive nonexchange financial guarantees, thereby enhancing comparability of financial statements among governments.

Management estimates that the potential impact of these pronouncements will not be material to the Corporation's future financial statements.

# Municipal Assistance Corporation for the City of Troy

## Supplementary Information - Debt Service Funding Requirement

| | December 31, 2013 |
|---|---|
| For the year ending December 31, | |
| 2014 | $ 5,964,525 |
| 2015 | 5,956,697 |
| 2016 | 6,226,080 |
| 2017 | 6,285,002 |
| 2018 | 6,812,322 |
| 2019 | 5,969,519 |
| 2020 | 5,545,559 |
| 2021 | 3,058,163 |
| | **$ 45,817,867** |

*See Independent Auditor's Report.*

SAXBST

ACCOUNTING / TAX / ADVISORY

**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
Municipal Assistance Corporation
for the City of Troy
New York, New York

We have audited, 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, the financial statements of the governmental activities and each major fund for the Municipal Assistance Corporation for the City of Troy (Corporation) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SaxBST LLP

Albany, New York
March 21, 2014