

CITY OF TROY, NEW YORK

**Financial Statements – Other Basis of Accounting
as of and for the year ended December 31, 2017**

**Together with
Independent Auditor's Report
and
Other Required Reports**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

September 27, 2018

To the City Council of the
City of Troy, New York:

Report on the Financial Statements

We have audited the accompanying financial statements of City of Troy, New York (City), which comprise the balance sheet – all fund types and non-current government liability account group – other basis as of December 31, 2017, and the statements of revenues, expenditures and changes in fund balance – governmental fund types – other basis and the related notes to the financial statements, which collectively comprise the City's 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 an other basis of accounting as allowed by the New York State Office of the State Comptroller as described in Note A; this includes determining that the other basis of accounting is an acceptable basis under the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

Basis for Adverse Opinion on Financial Statements in Accordance with U.S. Generally Accepted Accounting Principles

As described in Note A, the financial statements are prepared by the City on an other basis of accounting, in accordance with financial reporting provisions allowed by the NYS Office of the State Comptroller, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the other basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Financial Statements in Accordance with U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Financial Statements in Accordance with U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City as of December 31, 2017, or the changes in financial position thereof for the year then ended.

Unmodified Opinion on Other Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, deferred outflows, liabilities, deferred inflows and fund balances – all fund types and non-current government liability account group – other basis of the City of Troy, New York as of December 31, 2017, and its revenues, expenditures and changes in fund balances - governmental fund types – other basis - for the year then ended, in accordance with the other basis of accounting, as described in Note A.

Report on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements – other basis. The budgetary comparison information, balance sheet – non-current governmental assets account group, and schedules of funding progress – other post-employment benefits plan, proportionate share of net pension liability and contributions – pension plan are presented for purposes of additional analysis and are not a required part of the basic financial statements – other basis. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements – other basis.

The schedule of expenditures of federal awards 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 – other basis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements – other basis 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 – other basis 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements – other basis as a whole.

(Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

Report on Other Information (Continued)

The budgetary comparison information, balance sheet – non-current governmental assets account group, and schedules of funding progress – other post-employment benefits plan, proportionate share of net pension liability and contributions – pension plan have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CITY OF TROY, NEW YORK

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS - OTHER BASIS OF ACCOUNTING

DECEMBER 31, 2017

	Governmental Funds						Total	Fiduciary	Account	
	Special Revenue Funds							Fund Types	Group	
	General Fund	Special Grant Fund	Water Fund	Sewer Fund	Debt Service Fund	Capital Projects Fund		Combined	Non-current	
								Agency Funds	Governmental Liabilities	
ASSETS										
ASSETS:										
Cash and cash equivalents	\$ 13,819,505	\$ 1,929,906	\$ 5,086,125	\$ 1,629,828	\$ 158,112	\$ 16,938,753	\$ 39,562,229	\$ 1,888,599	\$ -	
Cash with fiscal agent	10,850,507	-	-	-	3,216,205	-	14,066,712	-	-	
Due from other governments	4,794,983	1,009,437	1,203,294	168,731	-	257,671	7,434,116	-	-	
Taxes receivable, net	5,525,744	-	-	-	-	-	5,525,744	-	-	
Other receivables	2,569,437	138,024	973,933	931,222	-	-	4,612,616	-	-	
Due from other funds	1,320,554	177,379	175	-	700,390	2,519,986	4,718,484	-	-	
Prepaid and other assets	138,978	-	22,031	-	-	-	161,009	-	-	
Other current assets	-	-	-	-	-	-	-	36,338	-	
Amounts to be provided for retirement of long-term liabilities	-	-	-	-	-	-	-	-	141,220,222	
TOTAL ASSETS	\$ 39,019,708	\$ 3,254,746	\$ 7,285,558	\$ 2,729,781	\$ 4,074,707	\$ 19,716,410	\$ 76,080,910	\$ 1,924,937	\$ 141,220,222	

(Continued)

See notes to financial statements

CITY OF TROY, NEW YORK

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS - OTHER BASIS OF ACCOUNTING (CONTINUED)
DECEMBER 31, 2017

	Governmental Funds						Total	Fiduciary Fund Types Combined Agency Fund	Account Group Non-current Governmental Liabilities			
	Special Revenue Funds											
	General Fund	Special Grant Fund	Water Fund	Sewer Fund	Debt Service Fund	Capital Projects Fund						
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE												
LIABILITIES:												
Accounts payable	\$ 1,556,455	\$ 742,796	\$ 373,422	\$ 34,667	\$ -	\$ 544,302	\$ 3,251,642	\$ 881,623	\$ -			
Accrued liabilities	7,950,525	-	177,776	50,947	-	-	8,179,248	-	-			
Other liabilities	267,074	-	47,660	-	-	-	314,734	-	6,339,115			
Due to other governments	7,484,679	-	-	-	-	9,556	7,494,235	-	-			
Due to Employee's Retirement System	-	-	-	-	-	-	-	-	8,421,692			
Due to other funds	1,240,422	483,869	77,880	1,772,574	-	100,425	3,675,170	1,043,314	-			
Unearned revenue	-	400,229	18,510	-	-	-	418,739	-	-			
Bonds, BANs and capital leases payable	-	-	-	-	-	18,354,733	18,354,733	-	8,731,517			
Matured bonds	-	-	41,365	-	-	-	41,365	-	-			
Repayment agreements	-	-	-	-	-	-	-	-	24,454,507			
Other post employment benefits	-	-	-	-	-	-	-	-	71,430,425			
Net pension liability	-	-	-	-	-	-	-	-	17,660,646			
Total liabilities	<u>18,499,155</u>	<u>1,626,894</u>	<u>736,613</u>	<u>1,858,188</u>	<u>-</u>	<u>19,009,016</u>	<u>41,729,866</u>	<u>1,924,937</u>	<u>137,037,902</u>			
DEFERRED INFLOWS OF RESOURCES												
Deferred inflows of resources - pensions	-	-	-	-	-	-	-	-	4,182,320			
Deferred taxes	<u>3,386,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,386,786</u>	<u>-</u>	<u>-</u>			
Total deferred inflows of resources	<u>3,386,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,386,786</u>	<u>-</u>	<u>4,182,320</u>			
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>21,885,941</u>	<u>1,626,894</u>	<u>736,613</u>	<u>1,858,188</u>	<u>-</u>	<u>19,009,016</u>	<u>45,116,652</u>	<u>1,924,937</u>	<u>141,220,222</u>			
FUND BALANCES:												
Nonspendable	138,978	-	-	-	-	-	138,978	-	-			
Restricted	14,970,763	-	-	-	4,074,707	-	19,045,470	-	-			
Assigned	225,095	1,627,852	6,548,945	871,593	-	707,394	9,980,879	-	-			
Unassigned	<u>1,798,931</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,798,931</u>	<u>-</u>	<u>-</u>			
Total Fund Balance	<u>17,133,767</u>	<u>1,627,852</u>	<u>6,548,945</u>	<u>871,593</u>	<u>4,074,707</u>	<u>707,394</u>	<u>30,964,258</u>	<u>-</u>	<u>-</u>			
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 39,019,708</u>	<u>\$ 3,254,746</u>	<u>\$ 7,285,558</u>	<u>\$ 2,729,781</u>	<u>\$ 4,074,707</u>	<u>\$ 19,716,410</u>	<u>\$ 76,080,910</u>	<u>\$ 1,924,937</u>	<u>\$ 141,220,222</u>			

CITY OF TROY, NEW YORK

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND TYPES - OTHER BASIS OF ACCOUNTING
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Governmental Fund Types						
	General Fund	Special Grant Fund	Water Fund	Sewer Fund	Debt Service Fund	Capital Projects Fund	Total
REVENUES:							
Real property taxes and tax items	\$ 25,985,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,985,375
Nonproperty tax items	17,360,384	-	-	-	-	-	17,360,384
Departmental income	5,486,830	262,233	11,863,747	4,193,266	-	-	21,806,076
Intergovernmental charges	244,950	-	35,418	-	-	-	280,368
Use of money and property	105,291	715	282,665	391	179,424	17,181	585,667
Licenses and permits	814,086	-	12,590	-	-	-	826,676
Fines and forfeitures	1,333,438	137,666	-	-	-	-	1,471,104
Interfund revenue	1,525,316	-	327,000	-	-	-	1,852,316
Sale of property and compensation for loss	105,071	-	49,389	-	-	-	154,460
Miscellaneous	1,602,133	76,617	96,172	21,944	-	247,342	2,044,208
State aid	14,352,843	153,953	-	-	-	2,329,383	16,836,179
Federal aid	1,250,310	1,817,172	-	-	-	205,067	3,272,549
Total revenues	70,166,027	2,448,356	12,666,981	4,215,601	179,424	2,798,973	92,475,362
EXPENDITURES:							
General governmental support	7,918,772	2,454,055	374,882	-	7,369	-	10,755,078
Public safety	35,513,826	-	-	-	-	-	35,513,826
Public health	180,954	-	-	-	-	-	180,954
Transportation	3,908,319	-	-	-	-	-	3,908,319
Culture and recreation	1,847,883	-	-	-	-	-	1,847,883
Home and community services	3,975,919	-	9,196,372	2,168,368	-	-	15,340,659
Employee benefits	6,454,869	-	-	-	-	-	6,454,869
CAPITAL EXPENDITURES:							
General governmental support	-	-	9,946	-	-	2,741,602	2,751,548
Transportation	-	-	-	-	-	1,565,690	1,565,690
Public safety	-	-	-	-	-	367,528	367,528
Culture and recreation	-	-	-	-	-	209,846	209,846
Home and community services	-	-	-	-	-	3,280,040	3,280,040
DEBT SERVICE:							
Principal	4,303,459	-	378,030	48,890	-	-	4,730,379
Interest	3,013,105	-	181,966	25,790	-	-	3,220,861
Total expenditures	67,117,106	2,454,055	10,141,196	2,243,048	7,369	8,164,706	90,127,480
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,048,921	(5,699)	2,525,785	1,972,553	172,055	(5,365,733)	2,347,882
OTHER FINANCING SOURCES (USES):							
Proceeds from issuance of debt	-	-	-	-	-	1,719,637	1,719,637
BANs redeemed from appropriations	-	-	-	-	-	673,000	673,000
Operating transfers - in	881,742	649,152	1,241,353	-	700,390	4,882,887	8,355,524
Operating transfers - out	(3,090,455)	(67,421)	(902,390)	(1,972,553)	(1,081,352)	(1,241,353)	(8,355,524)
Total other financing sources (uses)	(2,208,713)	581,731	338,963	(1,972,553)	(380,962)	6,034,171	2,392,637
CHANGE IN FUND BALANCE	840,208	576,032	2,864,748	-	(208,907)	668,438	4,740,519
FUND BALANCE - beginning of year	16,293,559	1,051,820	3,684,197	871,593	4,283,614	38,956	26,223,739
FUND BALANCE - end of year	\$ 17,133,767	\$ 1,627,852	\$ 6,548,945	\$ 871,593	\$ 4,074,707	\$ 707,394	\$ 30,964,258

CITY OF TROY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE A – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The City of Troy, New York (The City) was established during 1789 within the County of Rensselaer (County); was incorporated during 1816; and is governed by its Charter, General City Law, other general laws of the State of New York, and various local laws. The Mayor is responsible for overall operations and serves as Chief Executive Officer. The City Comptroller serves as Chief Fiscal Officer. All legislative power of the City is vested in the City Council, whose powers are specified in Section 2.08 of the City Charter.

The City provides multiple services, including general government support, police and fire protection, refuse and garbage collection, water and sewer, and recreation.

Basis of Accounting

The City has elected to prepare its financial statements using an other basis of accounting allowed by the New York State Office of the State Comptroller for annual reports to that office. This basis of accounting is another basis of accounting which varies from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The other basis allowed by the New York State Office of the Comptroller uses the modified accrual basis of accounting for governmental funds and fiduciary funds; accrual basis accounting is used for the account groups. This basis differs from GAAP primarily in that neither government wide financial statements, nor management's discussion and analysis are prepared.

Use of Estimates

In preparing financial statements in conformity with the accounting principles described above, 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 expenditures during the reporting period. Actual results could differ from those estimates.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying basic financial statements follows:

1. Financial Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in reporting to the NYS Office of the State Comptroller. The State Comptroller does not require that component units be included in the City financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. *Financial Reporting Entity* – Continued

The following are a description of entities that are related to the City:

Excluded From the Reporting Entity

Although the following organizations, functions, or activities are related to the City, they are not included in the City reporting entity for the reasons noted previously:

Municipal Assistance Corporation for the City of Troy (MAC)

The Municipal Assistance Corporation for the City of Troy was created during 1995 under the provisions of Section 3053 of the Financial Control Act (see Note I). The MAC is an authority of the State of New York. The members of the authority have complete responsibility for managing the MAC and are not presumed to be a component unit of the City. The enabling legislation creating the MAC was amended June 29, 1995, with an effective date of July 19, 1995, and was again amended August 5, 1996.

City of Troy Supervisory Board

Per the provision of Chapter 721 of the Laws of 1994 as amended by Chapters 187 and 188 of the Laws of 1995 and Chapters 444 and 445 of the Laws of 1996 (see Note I), the State Legislature created the City of Troy Supervisory Board. Per the legislation, the City is to establish a general debt service fund to be overseen by the New York State Office of the State Comptroller. The City does not have any oversight responsibility over the Supervisory Board.

2. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using the modified accrual basis and the fiduciary fund is accounted for using the full accrual basis using a current financial resources focus. With this measurement focus, generally only current assets and current liabilities are included on the 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. The City considers property taxes available if they are collected within 60 days after year-end. Property taxes determined to be collectible after the 60-day period are recorded as deferred revenues. The City uses a 60-day availability period for other significant governmental revenue sources. In addition to property taxes, governmental revenues susceptible to accrual include sales tax, state and federal aid, and certain other significant revenues. Fines, permits, and parking meter revenues are not susceptible to accrual because generally they are not measurable until received. For state and federal grants, if reimbursement of expenditures is the prime factor for determining eligibility, revenues from federal and state grants are accrued when the expenditure is made.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued*

The balance sheet sometimes reports a separate section for deferred outflows and deferred inflows of resources. These separate financial statement elements, deferred outflows and deferred inflows of other resources, represents a consumption of the balance sheet that applies to a future period and so will not be recognized as outflow and inflow of resources until then. The deferred outflows relate to pensions and deferred inflows relate to property taxes and pensions.

Governmental fund expenditures are recorded when the fund liability is incurred except that:

- Payment of prepaid expenses and purchase of inventory type items are recorded as expenditures when the related amounts are due and payable. This method is generally referred to as the purchase method, as opposed to the consumption method used in the government-wide financial statements.
- Principal and interest on indebtedness are recorded as expenditures when the related debt service amounts are due and payable.
- Compensated absences, such as vacation leave and compensation time, which vest or accumulate with eligible employees, are recorded as expenditures in the payroll period that the leave credits are used by employees.
- Current pension costs payable to the New York State Retirement Systems are recorded as expenditures when billed by the Systems.
- Costs of acquiring fixed assets are recorded as expenditures when the related acquisition amounts are due and payable.

3. *Fund Accounting*

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

Fund Types

Governmental Funds are those through which most governmental functions are financed. The acquisition, use, and balances of expendable financial resources, and the related liabilities are accounted for through governmental funds. The City's governmental fund types are as follows:

- a. General Fund is the principal operating fund of the City and accounts for general tax revenues, miscellaneous receipts not allocated by law or contractual agreement to another fund, risk retention operations, and general operating expenditures. This fund operates within the financial limits of an annual budget adopted by the City Council.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. *Fund Accounting* – Continued
- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds of the City include the following:

Special Grant Fund is used principally to account for the use of federal monies received under Community Development and other Department of Housing and Urban Development Funds.

Water Fund is used to report operations of the City's water treatment and supply facilities that provide drinking water to all City residents, as well as to certain other local communities outside the City's corporate boundaries.

Sewer Fund is used to report operations of the City's wastewater treatment facilities and sanitary sewer system that is provided to all City residents.

- c. Debt Service Fund is used to account for the accumulation of resources reserved for future debt payments. Unexpended balances of proceeds and earnings on proceeds of borrowings for capital projects are transferred from the Capital Projects Fund and held until appropriated.
- d. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital assets for governmental activities. Financing is generally provided from proceeds of bonds, notes, federal and state grants, and transfers from other governmental funds.

Fiduciary Funds are used to report resources that are held by the City in a trust or agency capacity for others and cannot be used to support the City's own programs. Fiduciary funds include pension and other employee benefit trust funds, investment trust funds, private purpose trust funds, and agency funds. The City does not maintain any investment or private purpose trust funds, but does maintain the following Fiduciary Funds:

- a. Agency Funds are used to account for monies and property held by the City as agent for others pending disposition to the applicable parties.

In addition to the various funds, the City maintains account groups for the schedules of non-current governmental assets and non-current governmental liabilities. Non-current governmental assets include capital assets used in governmental activities, and non-current governmental liabilities include bonds, state loans, and other long-term debt used to finance governmental activities.

4. *Budgets*

The City's procedures for establishing the budgetary data reflected in the accompanying financial statements are as follows:

- a. Not later than October 10, the City Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1.
- b. The operating budget includes proposed expenditures and the means of financing them.
- c. Public hearings are conducted to obtain taxpayer comments.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Budgets - Continued

- d. No later than December 1, the budget is legally enacted through the passage of a legislative resolution.

Budgetary controls for certain special grants are established in accordance with the applicable grant agreements, which may cover a period other than the City's fiscal year.

The Mayor is authorized to approve all budget transfer requests not exceeding \$500 between the major fund codes within individual departments. Additionally, the Mayor may authorize all budget transfers within major fund codes. All other modifications to the budget must be approved by the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded for budgeting control purposes to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year-end are recorded as reservations of fund balances since the commitments do not constitute expenditures or liabilities. Open encumbrances, after review by the City Council, are added to the subsequent year's budget to provide the modified budget presented in the combining financial statements. Expenditures for such commitments are recorded in the period in which the liability is incurred.

The budget is developed on a basis generally consistent with accounting principles allowed by the NYS Office of the Comptroller. The only significant difference is that the budget treats encumbrances as expenditures, whereas accounting principles allowed by the NYS Office of the Comptroller treat them as reservations of fund balances.

Budgetary controls for the Special Grant Fund are established in accordance with the applicable grant agreements, which cover periods different from the City's fiscal year.

5. Cash and Cash Equivalents

The City's investment policies are governed by State statutes. In addition, the City has its own written investment policy. City monies must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the State. The City Comptroller is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the United States Treasury and United States agencies, repurchase agreements, and obligations of New York State or its localities.

All deposits shall be fully secured by insurance of the FDIC or by obligations of New York State, or obligations of federal agencies, the principal and interest of which is guaranteed by the United States or obligations of New York State local governments.

The written investment policy requires repurchase agreements to be purchased from banks located within the State and that underlying securities must be obligations of the federal government. Underlying securities shall be valued to market at periodic intervals by the City Comptroller or his/her designee.

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. *Interfund Transactions*

During the course of operations, the City processes transactions that affect more than one fund and other transactions between the various funds. Interfund services provided and used are accounted for as revenues in the provider funds and expenditures in the user funds. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Advances or loans from one fund to another are recorded as receivables in the remitting fund and payables in the receiving fund. Other interfund transactions generally represent transfers of resources from one fund to be utilized in another fund and are reported as transfers. Interfund transactions that are unpaid between funds are recorded in the financial statements as due from other funds (receivables) and due to other funds (payables).

7. *Fixed Assets*

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the schedule of non-current governmental assets.

Accounting principles under the other basis require that all purchased fixed assets be valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Fixed assets are not depreciated nor has interest on construction in progress been capitalized.

8. *Compensated Absences*

During 2017, accumulated vacation for the general, water, and sewer funds personnel totaled \$5,307,084, \$272,289 and \$77,741, respectively. The amounts of vested accumulated vacation leave and compensation time are recorded in the schedule of non-current governmental liabilities in other liabilities. No liability is recorded for nonvesting accumulated rights to receive sick and personal pay benefits.

9. *Other Post-Retirement Benefits*

The City provides health insurance coverage and survivors' benefits for retired employees and their survivors. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors' benefits are provided through a self-insurance program or insurance company contracts with premiums based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording total costs as expenditures during the year paid. The retirees' premium contributions are reported as revenue received during the year.

During the year, approximately \$5.3 million was paid on behalf of approximately 470 retirees and survivors and recorded as expenditures in the General Fund. During the year, \$129,416 was collected for premiums from these retirees and survivors and recorded as revenue of the General Fund. See Note H for additional disclosures pertaining to retiree postemployment benefits other than pensions.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Fund Balance

The governmental funds report the following classifications of fund balance:

Nonspendable fund balance – Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at December 31, 2017, by the City are nonspendable in form.

Restricted fund balance – Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – Includes amounts that can be used for the specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision making authority, i.e., the City Council. The City has no committed fund balances as of December 31, 2017.

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.

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the City.

Order of Fund Balance Spending Policy

The City policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the general fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

Reserves represent those portions of fund balance not available for appropriation or legally segregated for a future use. Designated fund balances represent tentative plans for future use of financial resources.

The following reserve funds are utilized by the City. Any capital gains or interest earned on reserve fund resources becomes part of the respective reserve fund. While a separate bank account is not necessary for each reserve fund, a separate identity for each reserve fund must be maintained.

Workers' Compensation Reserve

Workers' compensation reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The City had \$110,369 in general fund workers' compensation reserves at December 31, 2017.

Insurance Reserve

Insurance reserve is used to pay liability, casualty, and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value, and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve may be established pursuant to law (for example, for unemployment compensation insurance).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Order of Fund Balance Spending Policy (Continued)

Insurance Reserve (Continued)

The reserve may be established by board action, and funded by budgetary appropriations, or such other funds as may be legally appropriated.

There is no limit on the amount that may be accumulated in the insurance reserve; however, the annual contribution to this reserve may not exceed the greater of \$33,000, or 5%, of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The City had \$552,261 in general fund insurance reserves at December 31, 2017.

Snow and Ice Removal Reserve

Snow and ice removal reserve (GML §6-f) is used to finance the costs of removal of snow and ice from public thoroughfares and for the repair and maintenance of roadways damaged by the removal of snow and ice. The City had \$345,655 in general fund snow and ice removal reserves at December 31, 2017.

Capital Reserve

Capital reserve (GML §6-c) is used to finance the cost of the purchasing equipment, vehicles, apparatus or other capital assets for the use of the City and the reconstruction, rehabilitation or renovation of City owned buildings and facilities. The City had \$3,663,949 in general fund capital reserves at December 31, 2017.

Reserve for Debt Service

Reserve for debt was established for the purpose of paying MAC debt service becoming due in the current fiscal year and subsequent fiscal years as required pursuant to the agreement of the MAC made with the holders of the bonds or notes issued pursuant to section three thousand fifty-three of the Financial Control Act.

Reserve for Encumbrances

Reserve for encumbrances represents the amount of outstanding encumbrances at the end of the fiscal year.

NOTE B - CASH AND CASH EQUIVALENTS

At December 31, 2017, the City's cash balances were either insured or collateralized with securities held by the pledging financial institution's trust department in the City's name.

	Bank Balance	Carrying Amount
Cash, including trust funds	<u>\$ 41,108,516</u>	<u>\$ 39,562,229</u>
Collateralized with securities held by the financial institution's trust department or agent in the City's name	38,798,438	
Covered by FDIC insurance	<u>1,000,000</u>	
Total	<u>\$ 39,798,438</u>	
Uncollateralized	<u>\$ 1,310,078</u>	

Cash with fiscal agent represents amounts held by the fiscal agent for payment of principal and interest on outstanding obligations held by the MAC in the General and Debt Service Funds.

NOTE C - PROPERTY TAXES

The City's property taxes are levied annually on January 1. The annual City tax levy consists of taxes levied for City purposes based on City budget requirements, County taxes levied within the City for County budget requirements, and relieved unpaid water rents, and sewer rents and recycling container charges. Taxes are due and payable in bi-annual installments on January 1 and July 1. Taxes become delinquent on February 1 and August 1. On November 1, unpaid City and County taxes are enforced through tax liens. Effective January 1, 1995, the City adopted a foreclosure process in accordance with Article 11 of the Real Property Tax Law, as amended by Chapter 602 of the Laws of 1993 and Chapter 532 of the Laws of 1994, whereby unpaid property taxes are allowed to be processed through In-Rem and formal foreclosure proceedings.

The City has established a \$1,711,452 allowance for doubtful accounts based on collection history and a review of accounts by management.

In addition to the City tax levy, the City is responsible for collecting the School Districts' taxes levied on property within the City that has been certified as being uncollected by School District authorities.

The School Districts are paid annually by the City for their portion of school taxes which are more than two years old. The General Fund annually reimburses the Water and Sewer Special Revenue Funds in full for uncollected rents. The City only reimburses the County for taxes collected. In the event the City sells any property it has acquired as a result of the nonpayment of taxes in accordance with the Charter of the City, the City will share with the County all losses and gains proportionate to the liens outstanding.

NOTE D - FIXED ASSETS

The following schedule identifies changes to the City's fixed assets for the year ended December 31, 2017:

	<u>January 1, 2017</u>				<u>December 31, 2017</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>		<u>Balance</u>
Governmental activities:					
Capital assets that are not depreciated:					
Land	\$ 1,623,291	\$ 79,627	\$ -	\$ 1,702,918	
Buildings and land improvements	50,027,978	1,684,800	-	51,712,778	
Machinery and equipment	25,585,409	1,785,743	-	27,371,152	
Infrastructure	<u>152,258,608</u>	<u>4,805,981</u>	<u>-</u>	<u>157,064,589</u>	
	<u>\$ 229,495,286</u>	<u>\$ 8,356,151</u>	<u>\$ -</u>	<u>\$ 237,851,437</u>	

The City has assessed the value of its infrastructure and has elected to record it even though there is no requirement to do so under the accounting principles prescribed by the New York State Office of the State Comptroller.

NOTE E - OTHER RECEIVABLES

Other receivables include:

1. *Special Grant Fund*

The City has made loans to various companies and individuals under the United States Department of Housing and Urban Development programs. The total of commercial and residential rehabilitation loans receivable is \$106,568 as of December 31, 2017. At year-end, the City had reserved (\$52,762) as an allowance for receivables.

NOTE F - INDEBTEDNESS

1. *Short-Term Debt*

Liabilities for Bond Anticipation Notes (BANs) are generally accounted for in the capital projects fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. The City had the following BANs outstanding at December 31, 2017:

	<u>Maturity</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
BAN - Tropical Storm Irene	2/9/2018	1.15%	\$ 1,363,000	\$ -	\$ 71,000	\$ 1,292,000
BAN - Golf Course Improvement	8/3/2018	0.93%	1,355,000	-	75,000	1,280,000
BAN - Various Equipment	8/3/2018	0.93%	988,000	-	115,000	873,000
BAN - Building Demolition	8/3/2018	0.93%	760,000	-	350,000	410,000
BAN - Court Facilities	2/9/2018	1.15%	1,550,000	-	35,000	1,515,000
BAN - Pawling Ave Traffic Signals	8/3/2018	0.93%	1,275,000	-	1,200,000	75,000
BAN - Sea Wall	2/9/2018	1.03%	452,000	-	75,000	377,000
BAN - Various Equipment	2/9/2018	1.03%	825,000	-	27,000	798,000
BAN - Spring Avenue Bridge	2/9/2018	1.03%	900,000	-	300,000	600,000
BAN - Police Vehicles	2/9/2018	1.15%	375,000	-	-	375,000
BAN - Pedestrian Connector	2/9/2018	1.03%	1,125,000	-	-	1,125,000
BAN - Building Demolitions	8/3/2018	1.29%	-	500,000	-	500,000
BAN - Various Vehicles	8/3/2018	1.29%	-	370,000	-	370,000
BAN - Road Construction	8/3/2018	1.29%	-	500,000	-	500,000
BAN - Sea Wall (2nd Phase)	2/9/2018	2.00%	-	4,000,000	-	4,000,000
BAN - Court Facilities (2nd Phase)	2/9/2018	2.00%	-	1,000,000	-	1,000,000
BAN - South Troy Roadway	2/9/2018	2.00%	-	1,100,000	-	1,100,000
BAN - Bike Trail	2/9/2018	2.00%	-	1,489,000	-	1,489,000
BAN - Abatement/Demolition of New Building	2/9/2018	2.00%	-	226,733	-	226,733
BAN - Powers Park Renovation	2/9/2018	2.00%	<u>-</u>	<u>449,000</u>	<u>-</u>	<u>449,000</u>
			<u>\$ 10,968,000</u>	<u>\$ 9,634,733</u>	<u>\$ 2,248,000</u>	<u>\$ 18,354,733</u>

NOTE F – INDEBTEDNESS (Continued)

2. Lease Purchase Agreement – Energy Performance Contracts

On June 2, 2011 the City Council passed a resolution authorizing the City under Article 8 of the New York Energy Law which authorizes municipalities and school districts to enter into contracts (Energy Performance Contracts) for the provisions of energy service, including but not limited to, electricity, heating, ventilation, cooling, steam or hot water, in which a person agrees to install, maintain or manage energy systems or equipment to improve efficiency of, or produce energy in connection with building or facility in exchange for a portion of the energy saving and revenues.

As per Section 9-103 of the Energy Law, the City has evaluated and executed two master agreements with Siemens Building Technologies to develop and implement a performance based energy savings and operation plan. Siemens will provide equipment, capital improvements, repairs, ongoing preventative maintenance and other service to improve the efficiency of various City buildings and to improve the efficiency of the Water Treatment Plan as described in the Energy Audit Report.

This master agreement (lease/purchase) for the City buildings indicates a principal payment of \$1,648,598 at an interest rate of 4.547% with annual payments to commence on October 1, 2012 and end on July 1, 2029. The master agreement (lease/purchase) for the Water Treatment Plant calls for a principal payment of \$946,746 at an interest rate of 4.288% with annual payments to, also, commence on October 1, 2012 and ending July 1, 2027. The master agreement also provides an assurance guarantee that if energy savings do not meet the annual lease payment then the City would not be liable for the annual payment for the year.

3. Lease Purchase Agreement – Purchase of Fire Equipment

On December 1, 2011, the City Council passed a resolution authorizing the execution and delivery of a lease purchase agreement to finance the cost of the purchase of a new fire ladder truck for the City of Troy in the amount not to exceed \$888,648.

The purchase contract obligated the lessee to expend a \$150,000 down payment to be paid from the 2012 City Budget and to pay \$738,648 at an interest rate of 4.23% with repayments to commence on March 1, 2013 and end March 1, 2027.

4. Repayment Agreements

The repayment agreements between the City and the MAC represent the 1996 capital appreciation bonds refinancing of the 1992 Lease Revenue Bonds in the original amount of \$55,589,262, the 1997 refinancing of the 1990 Installment Purchase Debt (Certificate of Participation) in the original amount of \$3,425,000, the 1999 issuance for the closing of the City's landfill in the original amount of \$5,364,156 (Series 1999A), and the 1999 issuance to provide funds to repay the City's bond anticipation notes to meet the debt service fund requirement and to pay certain costs of issuance in the original amount of \$5,205,000 (Series 1999B).

5. State Clean Water Program

The City has entered into loan agreements with the New York State Environmental Facilities Corporation (EFC) to finance the cost of improvements to the City's sewer system which were necessary to eliminate the discharge of untreated sewage into the Hudson River. The general obligation serial bonds shown above under the Sewer Fund represent the unpaid balance of these bonds at December 31, 2017.

NOTE F – INDEBTEDNESS (Continued)

6. State Drinking Water Program

The City has also entered into loan agreements with EFC to help finance recent improvements to the City's water system. The general obligation serial bonds shown above under Water Fund represent the unpaid balance of these bonds at December 31, 2017.

7. Maturity Information

The annual debt service requirements to maturity, including principal and interest, for the City's general obligation bonds as of December 31, 2017, are as follows:

	<u>Original Date Issued</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Final Maturity</u>	<u>December 31, 2017</u>
<u>General Fund</u>					
Capital Lease	09/11	1,648,598	4.55%	07/29	\$ 1,274,857
Capital Lease	03/12	738,648	4.23%	03/27	541,172
					<u>1,816,029</u>
<u>Water Fund</u>					
General Obligation	09/99	855,297	0.00%	12/19	100,000
NYS EFC Obligation	12/01	3,390,000	3.25%	12/22	1,067,828
NYS EFC Obligation	07/07	3,136,180	4.63%	09/36	2,260,000
Capital Lease	09/11	946,746	4.29%	07/27	709,701
Drawdowns on debt not closed	2017	1,234,200	-	-	<u>1,234,200</u>
					<u>5,371,729</u>
<u>Sewer Fund</u>					
NYS EFC Obligation	09/04	1,625,890		04/34	1,058,320
Drawdowns on debt not closed	2017	485,439			<u>485,439</u>
					<u>1,543,759</u>
Total general obligation bonds and leases payable					<u>\$ 8,731,517</u>

The annual debt service requirements to maturity, including principal and interest, for the long-term obligations and leases as of December 31, 2017, are as follows:

<u>Fiscal Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 582,268	\$ 164,664	\$ 746,932
2019	610,675	152,911	763,586
2020	586,485	140,580	727,065
2021	618,871	127,970	746,841
2022	643,941	114,172	758,113
2023-2027	2,293,013	441,004	2,734,017
2028-2032	1,366,559	263,770	1,630,329
2033-2036	<u>2,029,705</u>	<u>71,359</u>	<u>2,101,064</u>
	<u>\$ 8,731,517</u>	<u>\$ 1,476,430</u>	<u>\$ 10,207,947</u>

NOTE F – INDEBTEDNESS (Continued)

8. *Debt Service Payment and Funding Requirements – Repayment Agreements*

A summary of the City's bonds and loans payable (Repayment Agreements) with the Municipal Assistance Corporation for the City of Troy as of December 31, 2017 is as follows:

Series 1996B Capital Appreciation Bonds	\$ 4,844,289
Series 1196C Capital Appreciation Bonds	864,600
Series 1999A EFC Loans	650,000
Series 2010A Refunding Bonds	<u>5,115,000</u>
	11,473,889
Bond accretion - Series 1996B and 1996C	12,967,043
Bond premium - Series 2010A	<u>13,575</u>
	<u><u>\$ 24,454,507</u></u>

A summary of future annual debt service payments on the Repayment Agreements with the Municipal Assistance Corporation for the City of Troy bonds and loans based on the bonds' and loans' year ending is as follows:

<u>Principal**</u>	<u>Interest *</u>	<u>Total</u>	<u>Fiscal Year Ending December 31</u>
\$ 6,075,000	\$ 236,140	\$ 6,311,140	2018
6,165,000	146,939	6,311,939	2019
5,915,000	63,838	5,978,838	2020
5,930,000	41,562	5,971,562	2021
<u>4,635,000</u>	<u>17,550</u>	<u>4,652,550</u>	2022
<u><u>\$ 28,720,000</u></u>	<u><u>\$ 506,029</u></u>	<u><u>\$ 29,226,029</u></u>	

*Net of anticipated interest subsidies on EFC loans.

**Includes Series 1996B and 1996C Capital Appreciation Bonds at their maturity values, with future bond accretion of \$4,446,029.

The changes in long-term liabilities of the Repayment Agreements were as follows:

	<u>Beginning Balance</u>	<u>Bond Accretion/Amortization</u>	<u>Payments</u>	<u>Ending Balance</u>
Bonds and loans payable	\$ 29,367,822	\$ 1,083,110	\$ 6,010,000	\$ 24,440,932
Bond premium	<u>31,650</u>	<u>(18,075)</u>	<u>-</u>	<u>13,575</u>
	<u><u>\$ 29,399,472</u></u>	<u><u>\$ 1,065,035</u></u>	<u><u>\$ 6,010,000</u></u>	<u><u>\$ 24,454,507</u></u>

Total interest paid in 2017 was \$3,220,861

NOTE F - INDEBTEDNESS (Continued)

9. Non-Current Governmental Liabilities

The following is a summary of the City's non-current governmental liabilities:

	Beginning Balance	Issued	Retirement / Adjustments	Ending Balance
Government activities				
Bonds and notes payable:				
General obligation debt:				
Serial bonds payable - Water Fund	\$ 145,000	\$ -	\$ 45,000	\$ 100,000
NYS EFC payable - Water Fund	1,261,004	-	193,176	1,067,828
NYS EFC payable - Water Fund	2,355,000	-	95,000	2,260,000
NYS EFC payable - Sewer Fund	1,107,210	-	48,890	1,058,320
Drawdowns on debt not closed	-	1,234,200	-	1,234,200
Drawdowns on debt not closed	-	485,439	-	485,439
	<u>4,868,214</u>	<u>1,719,639</u>	<u>382,066</u>	<u>6,205,787</u>
Capital leases payable:				
Capital lease payable - General Fund	583,994	-	42,822	541,172
Capital lease payable - General Fund	1,339,741	-	64,884	1,274,857
Capital lease payable - Water Fund	754,555	-	44,854	709,701
	<u>2,678,290</u>	<u>-</u>	<u>152,560</u>	<u>2,525,730</u>
Total bonds and capital leases payable	<u>7,546,504</u>	<u>1,719,639</u>	<u>534,626</u>	<u>8,731,517</u>
Repayment agreements (a)	<u>29,399,472</u>	<u>663,578</u>	<u>5,608,543</u>	<u>24,454,507</u>
Other liabilities:				
Judgments and claims payable	48,000	-	16,000	32,000
Landfill closure	330,000	320,000	-	650,000
Retirement debt (c)	8,580,428	-	158,736	8,421,692
Retirement obligation - 2016 (d)	476,171	-	476,171	-
Compensated absences	5,377,301	279,814	-	5,657,115
Net pension liability	27,911,874	-	10,251,228	17,660,646
Other post employment benefits (b)	<u>62,390,010</u>	<u>9,040,415</u>	<u>-</u>	<u>71,430,425</u>
Total other liabilities	<u>105,113,784</u>	<u>9,640,229</u>	<u>10,902,135</u>	<u>103,851,878</u>
Total long-term liabilities	<u>\$142,059,760</u>	<u>\$ 12,023,446</u>	<u>\$ 17,045,304</u>	<u>\$137,037,902</u>

NOTE F - INDEBTEDNESS (Continued)

- (a) Repayment agreements include Capital Appreciation Bonds and accreted interest of \$15,350,099.
- (b) Postemployment health insurance liability at December 31, 2017, has been adjusted to actuarial computations as prescribed under GASB No. 45. See Note H.
- (c) Represents debt for 2010 (2011), 2011 (2012), 2012 (2013), 2013 (2014) and 2014 (2015) amortization for participation in the 2010 Contribution Stabilization Program.
- (d) Represents retirement obligation for 2017.

NOTE G – NEW YORK STATE RETIREMENT SYSTEMS

1. Plan Description

The City participates in the New York State and Local Employees' Retirement System (NYSERS), 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 other information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12244.

2. Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, and prior to January 1, 2010, who contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For employees who joined after January 1, 2010, employees in NYSERS contribute 3% of their salary throughout their active membership. All employees hired on or after April 1, 2012 are in Tier 6. Tier 6 requires all employees to contribute 3% of gross earnings during fiscal year 2012-13. On April 1, 2013, they will be required to contribute a specific percentage on gross income ranging from 3% to 6% for all years of public service after date of membership. Under authority of the NYSRSSL, the New York State Comptroller annually certifies the rates expressed used in computing the employers' contributions. The required contributions for the current year and two preceding years were:

	<u>ERS</u>	<u>PFRS</u>
2017	\$ 2,181,251	\$ 5,875,063
2016	\$ 2,366,579	\$ 6,007,795
2015	\$ 2,288,470	\$ 4,864,254

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

2. *Funding Policy* - Continued

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

- Requires minimum contributions by employers of 4.5 percent of payroll every year, including years in which the investment performance would make a lower contribution possible.
- Changes 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 1st (e.g., billings due February 2009 would be based on the pension value as of March 31, 2008).

Chapter 260 of the Laws of 2004 of the State of New York was enacted and allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State Fiscal Year (SFY) 2004-05, the amount in excess of 7% of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5% of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5% of employees' covered pensionable salaries.

The City of Troy has also elected to participate in the Employer Contribution Stabilization Program per Part II of Chapter 57, Laws of 2010, which was signed into law on August 11, 2010. This program gives localities the option to amortize a portion of their annual pension cost. The amortized will be paid in equal installments over a ten-year period and may be prepaid at any time. The portion of the retirement bill that the City has elected to amortize for 2010 (2011) \$156,607 for the ERS Retirement System and \$316,334 for the Police and Fire Retirement System with a current balance of \$5,587 and \$152,529 at December 31, 2017, respectfully. The City for 2011 (2012) elected to amortize \$964,232 for Police and Fire Employees and \$639,484 for the ERS Retirement Systems with a current balance of \$362,178 and \$546,102 at December 31, 2017, respectfully. The City for 2012 (2013) elected to amortize \$814,579 for the ERS System and \$1,687,033 for Police and Fire with a current balance of \$532,826 and \$1,103,509 at December 31, 2017 respectfully. The City for 2013 (2014), elected to amortize \$855,721 for the ERS Retirement System and \$2,143,704 for the Police and Fire Retirement System, with a current balance of \$653,681 and \$1,637,566 at December 31, 2017, respectfully. The City for 2014 (2015) also elected to amortize an additional \$721,055 for the ERS System and \$1,587,399 for the Police and Fire Retirement System, with a balance of \$612,875 and \$1,349,239 at December 31, 2017, respectfully. The City 2015 (2016) also elected to amortize an additional \$249,650 for the ERS System and \$615,639 for the Police and Fire Retirement System with a current balance of \$235,405 and \$580,508 at December 31, 2017, respectfully. The City 2016 (2017) also elected to amortize an additional \$721,386 for the Police and Fire Retirement System with a current balance of \$649,687 at December 31, 2017. The amortization for 2010 (2011), 2011 (2012), 2012 (2013), 2013 (2014), 2014 (2015), 2015 (2016), and 2016 (2017) are all included in the financial statements as Non-Current Governmental Liabilities.

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

2. *Funding Policy* - Continued

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

At December 31, 2017, the City reported a net pension liability of \$4,784,440 and \$12,876,206 for its proportionate share of the ERS and PFRS net pension liability, respectively. The net pension liability was measured as of March 31, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as April 1, 2016. The City's proportion of the net pension liability was based on a projection of The City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2017, the City's proportionate share was .0509188% and .6212430% for ERS and PFRS, respectively, which was a change from the proportionate share at December 31, 2015 of .0035104% and .0264171% for ERS and PFRS, respectively. At December 31, 2017, the City recognized deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
ERS		
Differences between expected and actual experience	\$ 119,894	\$ 726,544
Changes of assumptions	1,634,540	-
Net difference between projected and actual earnings on pension plan investments	955,647	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	430,819
Contributions subsequent to the measurement date	1,635,938	-
Total	<u>\$ 4,346,019</u>	<u>\$ 1,157,363</u>
 PFRS		
Differences between expected and actual experience	\$ 1,689,136	\$ 2,224,723
Changes of assumptions	6,343,565	-
Net difference between projected and actual earnings on pension plan investments	1,923,042	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,633	800,234
Contributions subsequent to the measurement date	<u>4,406,297</u>	-
Total	<u>\$ 14,370,673</u>	<u>\$ 3,024,957</u>

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

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

2. *Funding Policy* - Continued

For the year ended December 31, 2017, the City recognized pension expense of \$2,603,765 and \$7,379,641 for ERS and PFRS, respectively.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense for ERS and PFRS, respectively:

Plan's Year Ended March 31:		Plan's Year Ended March 31:	
2018	\$ 768,727	2018	\$ 2,358,970
2019	768,727	2019	2,358,970
2020	711,027	2020	2,215,442
2021	(695,763)	2021	(252,170)
2022	-	2022	258,207
Thereafter	-	Thereafter	-
	<u>\$ 1,552,718</u>		<u>\$ 6,939,419</u>

Actuarial Assumptions

The total pension liability at March 31, 2017 was determined by using an actuarial valuation as of April 1, 2016, with update procedures used to roll forward the total pension liability to March 31, 2017.

The actuarial valuation used the following actuarial assumptions for both the ERS and PFRS:

Actuarial cost method:	Entry age normal
Inflation:	2.50%
Salary scale:	3.8% ERS, 4.5% PFRS, indexed by service
Projected COLAs:	1.3% annually
Decrements:	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement:	Society of Actuaries Scale MP-2014
Investment Rate of Return:	7.0% compounded annually, net of investment expenses

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic of real rates of return for each major asset class are summarized as of March 31, 2017 in the following table:

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

Actuarial Assumptions (Continued)

Asset Type	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	36.0%	7.3%
International Equity	14.0%	8.6%
Private Equity	10.0%	11.0%
Real Estate	10.0%	8.3%
Absolute Return Strategies	2.0%	6.0%
Opportunistic Portfolio	3.0%	8.6%
Real Assets	3.0%	8.7%
Bonds & Mortgages	17.0%	4.0%
Cash	1.0%	2.3%
Inflation-indexed bonds	4.0%	4.0%
	<u>100%</u>	

Discount Rate

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

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

The following presents The City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what The City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease	Current Discount	1% Increase
ERS	<u>6%</u>	<u>7%</u>	<u>8%</u>
Proportionate Share of Net Pension Liability (Asset)	\$ 15,280,553	\$ 4,784,440	\$ (4,090,004)
PFRS	<u>6%</u>	<u>7%</u>	<u>8%</u>
Proportionate Share of Net Pension Liability (Asset)	\$ 36,503,296	\$ 12,876,206	\$ (6,941,139)

NOTE G - NEW YORK STATE RETIREMENT SYSTEMS (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption (Continued)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employer as of March 31, 2017, were as follows:

	Pension Plan's Fiduciary Net Position	City's Proportionate Share of Plan's Fiduciary Net Position	City's Allocation Percentage As Determined By the Plan
ERS			
Total pension liability	\$ 177,400,586,000	\$ 90,330,250	0.0509188%
Net position	(168,004,363,000)	(85,545,810)	0.0509188%
Net pension liability (asset)	\$ 9,396,223,000	\$ 4,784,440	0.0509188%
ERS net position as a percentage of total pension liability		94.70%	94.70%
PFRS			
Total pension liability	\$ 31,670,483,000	\$ 196,750,659	0.6212430%
Net position	(29,597,831,000)	(183,874,452)	0.6212430%
Net pension liability (asset)	\$ 2,072,652,000	\$ 12,876,206	0.6212430%
ERS net position as a percentage of total pension liability		93.50%	93.50%

NOTE H - OTHER POSTEMPLOYMENT BENEFITS

Plan Description. The City administers a single-employer defined benefit healthcare plan (the Plan). The Plan provides for continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of City subject to applicable collective bargaining and employment agreements. Employees covered include the employees of the CSEA, UFA, PBA, Command and non-represented employees. The plan is open to new entrants. The plan is subject to good faith collective bargaining between City and these covered employees. The Plan does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy. The obligations of the plan members, employers and other entities are established by action of the City pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement. The employer currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the plan are paid by City. For the year ended December 31, 2017, the City contributed \$6,478,509 to the Plan. Some Plan members receiving benefits contribute a percent of their premium costs. Total member contributions were \$129,416 for the year ended December 31, 2017.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE H - OTHER POSTEMPLOYMENT BENEFITS (Continued)

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 16,631,344
Interest on net OPEB obligation	2,495,600
Adjustment to annual required contribution	<u>(3,608,020)</u>
Annual OPEB cost	15,518,924
Contributions made	<u>6,478,509</u>
Increase in net OPEB obligation	9,040,415
Net OPEB obligation, beginning of year	<u>62,390,010</u>
Net OPEB obligation, end of year	<u>\$ 71,430,425</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ended December 31, 2017, was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2017	\$ 16,631,344	39.0%	\$ 71,430,425
12/31/2016	\$ 17,568,903	34.7%	\$ 62,390,010
12/31/2015	\$ 15,152,775	37.4%	\$ 51,843,564

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Measurement Date – January 1, 2016.

Retirement Age For Active Employees - Based on the historical average retirement age for the covered group according to the NY State Retirement System schedule, active plan members were assumed to retire as early as age fifty-five.

Marital Status - 80% of employees are assumed married. Females are assumed to be three years younger than males. Actual spouse coverage information was used for retirees where available.

NOTE H - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Mortality – The sex-distinct RP-2014 Mortality Tables for employees and healthy annuitants, adjusted backward to 2006 with Scale MP-2014, and then adjusted for mortality improvements with Scale MP-2016 mortality improvement scale on a fully generational basis.

Turnover and Retirement Rates - The turnover and retirement rates were updated to use rates from the 2010 NYS Retirement System valuation was used as the basis for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the several insurance providers. A rate of 10% initially, reduced to an ultimate rate of 5% after four years, was used.

Health Insurance Premiums - 2016 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Payroll Growth Rate - No salary increases were assumed since benefits are not based on compensation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4% was used. In addition, the projection unit credit cost method was used. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at December 31, 2017, was thirty years.

NOTE I – INTERFUND TRANSACTIONS

Interfund transactions for the period ended December 31, 2017 are as follows:

	Interfund Activity				
	<u>Due From</u>	<u>Due To</u>	<u>Revenue</u>	<u>Expenditures</u>	
Governmental Funds:					
General	\$ 1,320,554	\$ 1,240,422	\$ 881,742	\$ 3,090,455	
Special Grant	177,379	483,869	649,152		67,421
Water	175	77,880	1,241,353		902,390
Sewer	-	1,772,574			1,972,553
Debt Service	700,390	-	700,390		1,081,352
Capital Projects	2,519,986	100,425	4,882,887		1,241,353
Fiduciary:					
Trust and Agency	-	1,043,314	-		-
	<u>\$ 4,718,484</u>	<u>\$ 4,718,484</u>	<u>\$ 8,355,524</u>		<u>\$ 8,355,524</u>

NOTE J - CITY AND STATE ACTIONS

During 1994, State legislation (1994 Act) was adopted which allowed the City to sell notes or bonds for the purpose of liquidating cumulative and projected deficits in the City's General Fund under certain conditions contained in the 1994 Act. The 1994 Act also created a Supervisory Board to review and make recommendations on certain financial practices of the City. The five-member Board is headed by the State Comptroller.

The State Legislature amended the 1994 Act (the 1994 Act, as amended during 1995, is referred to as the "Original Financial Control Act") to provide the Supervisory Board with control over the City's financial situation.

During July 1996, the State Legislature adopted Chapters 444 and 445 of the Laws of 1996, which further amended the Original Financial Control Act. The principal purposes of Chapters 444 and 445 were to allow the City to restructure its annual debt services requirements, to reinforce existing controls over the City's authority to contract indebtedness or enter into other long-term financing arrangements, and to strengthen the credit of the MAC. The Original Financial Control Act, as amended by Chapters 444 and 445 of the Laws of 1996, is hereinafter referred to as the "Financial Control Act."

During 1995, the State Legislature created the MAC.

1. The MAC is a corporate governmental agency and instrumentality of the state constituting a public benefit corporation. The MAC Board is made up of five members, three appointed by the Governor, one by the Senate Majority Leader, and one by the Speaker of the State Assembly.
2. The MAC was established for the purpose of providing financing assistance and fiscal monitoring for the City. The Financial Control Act authorized the MAC to provide financing assistance to the City if the Mayor certified to the MAC that funds are required by the City to enable it (1) to pay for any item which is permitted by law to be included in the City's capital budget for the fiscal year for which such certification is made, including payments to reimburse the General Fund for monies advanced and expended for any such item, (2) to pay operating expenses, (3) to liquidate all or a portion of the City's deficits for the years 1993 through 1995, both inclusive, or to pay, at maturity, or on the redemption date, the principal of and interest on obligations of the City issued for such purposes, (4) to acquire, or cause to be acquired, all or a portion of the real or personal property leased by the City pursuant to one or more lease agreements between the City and the LDC, including the financing of the payment of any judgments or comprised or settled claims against the City relating to such real or personal property, (5) to pay at maturity, or on the redemption date, the principal and interest of obligations of the City previously issued to finance any item in the current or any prior fiscal year, and (6) to pay for the costs of the closure of the City's landfill. The Financial Control Act authorized the MAC to issue bonds and notes in an aggregate principal amount of up to \$71 million for the purposes set forth in items (1), (3), (4), (5), and (6) just mentioned.

NOTE J - CITY AND STATE ACTIONS (Continued)

3. The refinancing obligations will be general obligations of the MAC payable from the sources described below. Amounts will be subject to a lien including the following:
 - a. Amounts to be derived from the sales tax, after those amounts have been appropriated by the state from the Municipal Assistance Tax Fund where they are first deposited, and transferred to the MAC or a trustee;
 - b. Amounts to be derived from state aid, after those amounts have been appropriated by the state from the Municipal Assistance State Aid Fund (State Aid Fund) where they are first deposited, and transferred to the MAC or a trustee;
 - c. Amounts to be derived from payments made by the State for the purpose of providing a minimum debt coverage ratio of 1.5 to 1, after those amounts have been appropriated by the State from the State Aid Fund where they are first deposited, and transferred to the MAC or a trustee; and,
 - d. Any monies or securities held in the funds established under a general resolution (other than (i) the operating fund and (ii) the rebate fund).

The amounts described in a., b., and c. above are required to be paid to the MAC from two special funds established under the State Finance Law and held in the custody of the Comptroller, the Municipal Assistance Tax Fund, and the State Aid Fund. The Financial Control Act requires the Comptroller to make payments from those special funds to the MAC, in accordance with a schedule to be delivered by the MAC annually, as required under the Act and the General Resolution. That schedule, which may be revised from time to time, sets forth the MAC's cash requirements, including debt service payments and amounts required to meet the 1.5:1 debt-service-coverage requirement.

NOTE K - LANDFILL

During November 1993, directives were issued by the state and federal governments ordering the City to discontinue receiving solid waste at their landfill facility. In addition to the stop order, the City was ordered to close the facility and initiate a program to both maintain and monitor the closed site for the following thirty years. The City utilized the services of the MAC to obtain the financing necessary to close the landfill (project) and fund the costs associated with the monitoring requirements. The project was completed during March 1999, and long-term financing has been disclosed under Note F, repayment agreements.

As a means of recognizing the potential cost to the City for the monitoring of the landfill, the City has recorded a non-current governmental liability based on annual projections prepared by its consulting engineers. The amount currently projected is \$30,000 per year for the next ten years, for a total of \$300,000.

NOTE L - COMMITMENTS AND CONTINGENCIES

1. Sales and Use Tax

On April 15, 2015 The City and County entered into a renewed agreement whereby it:

- a. Extended the term of the agreement from March 1, 2015 through February 28, 2021;
- b. Receive 18.07% of the 3% (Original Tax) local share county wide sales tax distribution for the year 2015-2016 (March 1, 2015 – February 28, 2016) and for the sales tax year 2016-2017(March 1, 2016 – February 28, 2017);
- c. Receive 24.37% of the 1%, Additional tax that went into effect September 1, 1994, for the sales tax year 2015-2016 (March 1, 2015 – February 28, 2016) and for the sales tax year 2016-2017(March 1, 2016-February 28, 2017);
- d. For the remaining years and as long as the County has the right and authority to impose the additional tax, the City shall receive:
 - a. 19.65% of the first \$80,000,000, plus 14.35% of sales tax receipts in excess of \$80,000,000.00 for the sales tax years 2017-20189 (March 1, 2017– February 28, 2018),
 - b. 19.65% of the first 80,000,000, plus 11.70% of sales tax receipts in excess of \$80,000,000.00 for the sales tax years 2018-2019 (March 1, 2018 – February 28, 2019),
 - c. 19.65% of the first \$80,000,000, plus 11.10% of sales tax receipts in excess of \$80,000,000.00 for the sales tax years 2019-2020 (March1, 2019- February 28, 2020),
 - d. 19.65% of the first \$80,000,000, plus 9% of sales tax receipts in excess of \$80,000,000.00 for the sales tax years 2020-2021 (March 1, 2020 – February 28, 2021).
 - e. If during said agreement should the County lose its right and authority to impose the additional tax, the City will receive 18.07% of sales tax receipt.

2. Due to Other Governments

Due to other governments includes:

General Fund

- a. The City acts as a tax collection agent for delinquent school taxes for the two School Districts, as well as tax and sewer rents for the County. A liability of \$2,839,793 and \$4,024,887 respectively, represents the amount owed to these entities at December 31, 2017.
- b. The amount of uncollected 1985-2016 County taxes totaling \$2,778,222, and the amount of uncollected sewer rent at December 31, 2017, totaling \$1,246,665, will be paid only after they have been collected.

NOTE L - COMMITMENTS AND CONTINGENCIES (Continued)

3. Self-Insurance

The City has established self-insurance programs for workers' compensation, unemployment, health benefits, and personal injury. The purpose of establishing various self-insurance programs was to minimize the total insurance costs to the City. Management budgets the expenditures in the related funds to the extent they can be projected.

The City uses an outside administrator to process and pay claims made under the health insurance and workers' compensation programs. The health administrator receives \$35.23 per contract per month of claims and a \$43.11 for individual and \$106.49 for family pooling (stop loss) charge per contract per month for health and \$3.45 per contract per month for dental. The City also pays a fee of \$2,775 per month for medical consulting services and \$4,084 per month for workers' compensation consulting services. The health insurance program covers all eligible City employees and their covered dependents up to \$150,000 per year per covered individual.

4. Lawsuits

The City is party to various legal proceedings which normally occur in governmental operations. The outcome of these proceedings is not expected to have a material effect on the financial condition of the City and management considers its reserves for judgements and claims to be adequate.

5. Grant Programs

The City participates in a number of grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. The City believes, based upon its review of current activity and prior experience, the amount of disallowances resulting from these audits, if any, will not be significant to the City's financial position or results of operations.

6. Housing Trust Fund Corporation

The City has several program agreements with the State of New York Housing Trust Fund Corporation (HTFC). Under these program agreements, HTFC funds are awarded to the City on a conditional basis. The City and its subrecipients must satisfy certain conditions prior to HTFC granting a forgiveness of these conditional awards. Until HTFC grants this forgiveness, a contingent liability exists. The City believes that the conditions set forth in the program agreement will be satisfied, resulting in no significant adverse effects on the City's financial position or results of operations.

7. Federal Loan Guarantee Program

The City has obtained funds from the United States Department of Housing and Urban Development (HUD) under a federally-sponsored loan guarantee program. The City has loaned these funds for the purpose of community development activities and expects to receive repayment in the future. The City is responsible for repayment to HUD and has pledged future community development block grants to secure repayment.

NOTE L - COMMITMENTS AND CONTINGENCIES (Continued)

8. City Hall Lease Agreement

At a meeting of the City Council on June 7, 2012, the City Council authorized the Mayor to negotiate and enter into an agreement with First Columbia, 433 River Street LLC d/b/a Hedley Park Place for the lease of a portion of the Hedley Building for use as City Hall. The terms of said lease is for ten years commencing October 2012 throughout the full term of the lease, but subject to adjustments as provided (i) an annual base rent of \$362,892 (being \$9.96 x \$36,435 rentable square feet) payable \$30,241 per month plus (ii) the additional rent. The base rent and the additional rent is to be paid in equal monthly installments in advance of the first day of each month during the term of the lease. The additional rent, when due, the City's "pro rata share" of the landlord's actual increases in landlord's "operating expenses" during any "comparison year" exceeding such operating expenses for the "base year". The parties have agreed that the "pro rata share" percentage to be used is 14.29% (the 36,435 rented space divided by the total building square footage of 254,992). The term "base year" shall mean the calendar year 2012. The City may upon written notice to the landlord not less than two (2) years prior to expiration of the initial term, shall have the option to renew the lease for one (1) successive term of five years upon the same terms and conditions set forth for the initial term, except the base rent for the renewal term shall be equal to ninety-five (95%) percent of the then prevailing market rental rate.

9. Employee Unions

The City workforce is predominately represented by the following unions:

Troy Police Benevolent Association (PBA)
Command Officers Association Troy (COATS)
Civil Service Employees Association (CSEA)
Uniformed Firefighters Association (UFA)
Uniformed Fire Chiefs Association (UFCA)
United Public Service Employees Union (UPSEU)

The status of these collective bargaining agreements is as follows:

<u>Union</u>	<u>Contract Expired</u>	<u>Settled</u>
PBA	12/31/2017	
CSEA	12/31/2011	2/1/2018
UFA	12/31/2016	
UFCA	12/31/2010	
UPSEU	12/31/2014	4/5/2018
COATS	12/31/2017	

NOTE M – PROPERTY TAX ABATEMENT

Payments in Lieu of Taxes Agreements

The City has 32 real property tax abatement agreements entered into by the City of Troy Industrial Development Agency (IDA) and Rensselaer County IDA under Article 18-A of the real property tax law. These agreements provide for abatement of real estate property taxes in exchange for a payment in lieu of taxes (PILOT) in compliance with the IDA's Uniform Tax Exemption Policy. In accordance with the policy, the IDA grants PILOTs in accordance with various activities such as new construction, purchasing of an existing facility, or the improvement or expansion of an existing facility. The IDA also has policies for recapture of PILOTs should the applicant not meet certain criteria. All policies are available from the IDA.

The following information relates to the PILOT agreements entered into under the agreements for the year ended December 31, 2017:

Agreement	Assessed Value	Tax Rate	Tax Value	485B Exemption	PILOT Received	City Tax Abated
Rensselaer County IDA	\$ 38,340,000	13.82851	\$ 530,185	\$ -	\$ 197,778	\$ 332,407
City of Troy IDA	\$ 96,938,000	13.82851	\$ 1,340,508	\$ -	\$ 475,874	\$ 864,634

Property Tax Agreement with Housing Development and Redevelopment Companies

The City has seven real property tax abatement agreements with housing development and redevelopment companies organized pursuant to Article V or Article XI of the Private Housing Finance law of the State of New York (PHFL) for the purpose of creating or preserving affordable housing in the City.

Generally, these agreements provide for a 100 percent abatement of real property taxes in exchange for a payment in payment in lieu of taxes (PILOT) based on a percentage of shelter rents, and continue until the property no longer provides the required affordable housing or no longer complies with the requirements of the PHFL.

The following information relates to the PILOT agreements entered into under the agreements for the year ended December 31, 2017:

Agreement	Assessed Value	Tax Rate	Tax Value	485B Exemption	PILOT Received	City Tax Abated
City of Troy	\$ 23,845,200	13.82851	\$ 329,744	\$ -	\$ 151,127	\$ 178,617

NOTE N - ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – a replacement of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to establish standards for recognizing and measuring liabilities, expenditures and deferred inflows of resources related to other postemployment benefit plans (OPEB). In regards to defined benefit OPEB plans, this statement defines the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employment service. This Statement also details recognition and disclosure requirements for employers with payables to defined benefit OPEB plans administered through trusts and for employers whose employees are provided with defined contribution OPEB plans. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018, with early adoption encouraged.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes criteria and focuses on governments that control assets by fiduciary activities, as well as, the beneficiaries with whom a fiduciary relationship exists. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018. Earlier adoption is encouraged.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that were identified during the implementation and application of certain GASB Statements, including but not limited to the measurement and application of postemployment benefits. The City is required to adopt the provisions of this Statement for the year ending December 31, 2018. Earlier adoption is encouraged.

The City has not assessed the impact of these statements on its future financial statements.

Management is not able to estimate the extent of the potential impact of these Statements on the City's financial statements.

NOTE O - SUBSEQUENT EVENTS

On January 11, 2018, the City Council passed a resolution authorizing the issuance of \$3,500,000 in serial bonds to finance the cost of the reconstruction of the city water system.

On January 11, 2018, the City Council passed a resolution authorizing the issuance of \$1,105,000 in serial bonds to finance the purchase of capital improvements and public safety projects.

On February 1, 2018, the City Council passed an ordinance authorizing and ratifying the Memoranda of Agreements by and between the City of Troy and the Civil Service Employees Association, Local 1000, City of Troy unit of the Rensselaer County Local 842 (CSEA – Troy).

On February 1, 2018, the City Council passed a resolution authorizing the issuance of an additional \$7,340,000 in serial bonds to finance the cost of the reconstruction of a sea wall.

On April 5, 2018, the City Council passed an ordinance authorizing and ratifying the employment memorandum of agreement by and between the City of Troy and the United States Public Service Employee Union (UPSEU).

On April 5, 2018, the City Council passed a resolution adopting the Sewer Fund Balance Policy for the Combined Sewer Overflow Long Term Control Plan.

On September 6, 2018, the City Council passed a resolution authorizing the issuance of \$40,000,000 in serial bonds to finance the cost of the reconstruction of the city water system.

On September 6, 2018, the City Council amending resolution 4 passed by the Troy City Council on September 4, 1997.

OTHER INFORMATION (UNAUDITED)

CITY OF TROY, NEW YORK

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

OTHER BASIS OF ACCOUNTING (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2017

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
REVENUE:					
Real property taxes and tax items	\$ 25,666,503	\$ 25,666,503	\$ 25,985,375	\$ -	\$ 318,872
Nonproperty tax items	16,535,000	16,535,000	17,360,384	-	825,384
Departmental income	5,280,000	5,630,000	5,486,830	-	(143,170)
Intergovernmental charges	265,315	265,915	244,950	-	(20,965)
Use of money and property	74,500	74,500	105,291	-	30,791
Licenses and permits	1,019,000	1,019,000	814,086	-	(204,914)
Fines and forfeitures	1,153,500	1,153,500	1,333,438	-	179,938
Interfund revenues	1,726,106	1,726,106	1,525,316	-	(200,790)
Sale of property and compensation for loss	35,000	86,565	105,071	-	18,506
Miscellaneous local sources	1,240,000	1,249,000	1,602,133	-	353,133
State aid	13,829,463	14,870,754	14,352,843	-	(517,911)
Federal aid	<u>893,434</u>	<u>1,257,196</u>	<u>1,250,310</u>	<u>-</u>	<u>(6,886)</u>
Total revenue	<u>67,717,821</u>	<u>69,534,039</u>	<u>70,166,027</u>	<u>-</u>	<u>631,988</u>
EXPENDITURES:					
General governmental support	9,080,314	8,775,624	7,918,772	44,711	812,141
Public safety	36,208,935	37,018,366	35,513,826	176,199	1,328,341
Public health	178,074	178,074	180,954	-	(2,880)
Transportation	3,539,368	3,688,255	3,908,319	-	(220,064)
Culture and recreation	1,838,574	1,890,247	1,847,883	4,185	38,179
Home and community services	4,276,675	4,320,174	3,975,919	-	344,255
Employee benefits	6,192,314	6,292,314	6,454,869	-	(162,555)
Debt service - principal	4,232,460	4,232,460	4,303,459	-	(70,999)
Debt service - interest	<u>3,013,107</u>	<u>3,013,107</u>	<u>3,013,105</u>	<u>-</u>	<u>2</u>
Total expenditures	<u>68,559,821</u>	<u>69,408,621</u>	<u>67,117,106</u>	<u>225,095</u>	<u>2,066,420</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(842,000)</u>	<u>125,418</u>	<u>3,048,921</u>	<u>(225,095)</u>	<u>2,698,408</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	2,222,000	2,222,000	881,742	-	(1,340,258)
Operating transfers out	<u>(1,380,000)</u>	<u>(2,465,590)</u>	<u>(3,090,455)</u>	<u>-</u>	<u>(624,865)</u>
Total other financing sources (uses)	<u>842,000</u>	<u>(243,590)</u>	<u>(2,208,713)</u>	<u>-</u>	<u>(1,965,123)</u>
NET CHANGE IN FUND BALANCE	-	(118,172)	840,208	(225,095)	733,285
FUND BALANCE - beginning of year	<u>16,293,559</u>	<u>16,293,559</u>	<u>16,293,559</u>	<u>-</u>	<u>-</u>
FUND BALANCE - end of year	<u>\$ 16,293,559</u>	<u>\$ 16,175,387</u>	<u>\$ 17,133,767</u>	<u>\$ (225,095)</u>	<u>\$ 733,285</u>

CITY OF TROY, NEW YORK

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - WATER FUND

OTHER BASIS OF ACCOUNTING (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2017

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
REVENUE:					
Departmental income	\$ 12,428,000	\$ 12,428,000	\$ 11,863,747	\$ -	\$ (564,253)
Intergovernmental charges	35,000	35,000	35,418	-	418
Use of money and property	210,000	210,000	282,665	-	72,665
Licenses and permits	12,000	12,000	12,590	-	590
Interfund revenue	-	-	327,000	-	-
Sale of property and compensation for loss	51,000	51,000	49,389	-	(1,611)
Miscellaneous local sources	91,000	91,000	96,172	-	5,172
Total revenue	12,827,000	12,827,000	12,666,981	-	(487,019)
EXPENDITURES:					
General governmental support	474,158	1,815,511	384,828	-	1,430,683
Home and community services	12,119,846	12,094,209	9,196,372	7,857	2,889,980
Debt service - principal	378,030	378,030	378,030	-	-
Debt service - interest	181,966	181,966	181,966	-	-
Total expenditures	13,154,000	14,469,716	10,141,196	7,857	4,320,663
EXCESS OF REVENUES OVER EXPENDITURES	(327,000)	(1,642,716)	2,525,785	(7,857)	3,833,644
OTHER FINANCING SOURCES (USES):					
Operating transfers in	327,000	1,568,353	1,241,353	-	(327,000)
Operating transfers out	-	(202,000)	(902,390)	-	(700,390)
Total other financing sources (uses)	327,000	1,366,353	338,963	-	(1,027,390)
NET CHANGE IN FUND BALANCE	-	(276,363)	2,864,748	(7,857)	2,806,254
FUND BALANCE - beginning of year	3,684,197	3,684,197	3,684,197	-	-
FUND BALANCE - end of year	\$ 3,684,197	\$ 3,407,834	\$ 6,548,945	\$ (7,857)	\$ 2,806,254

CITY OF TROY, NEW YORK

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SEWER FUND

OTHER BASIS OF ACCOUNTING (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2017

	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual (Budgetary Basis)</i>	<i>Encumbrances</i>	<i>Final Budget Variance with Budgetary Actual</i>
REVENUE:					
Departmental income	\$ 4,269,502	\$ 4,669,502	\$ 4,193,266	\$ -	\$ (476,236)
Intergovernmental charges	100	100	-	-	(100)
Use of money and property	500	500	391	-	(109)
Miscellaneous sources	26,600	26,600	-	-	(26,600)
Sale of property	-	-	21,944	-	21,944
Total revenue	4,296,702	4,696,702	4,215,601	-	(481,101)
EXPENDITURES:					
General governmental support	-	-	-	-	-
Home and community services	2,729,484	2,583,327	2,168,368	68,076	346,883
Debt service - principal	48,890	48,890	48,890	-	-
Debt service - interest	25,760	25,760	25,790	-	(30)
Total expenditures	2,804,134	2,657,977	2,243,048	68,076	346,853
EXCESS OF REVENUES OVER EXPENDITURES	1,492,568	2,038,725	1,972,553	(68,076)	(134,248)
OTHER FINANCING SOURCES:					
Operating transfers out	(1,492,568)	(2,092,568)	(1,972,553)	-	120,015
Total other financing sources (uses)	(1,492,568)	(2,092,568)	(1,972,553)	-	120,015
NET CHANGE IN FUND BALANCE	-	(53,843)	-	(68,076)	(14,233)
FUND BALANCE - beginning of year	871,593	871,593	871,593	-	-
FUND BALANCE - end of year	\$ 871,593	\$ 817,750	\$ 871,593	\$ (68,076)	\$ (14,233)

CITY OF TROY, NEW YORK

**BALANCE SHEET - NON-CURRENT GOVERNMENTAL ASSETS ACCOUNT GROUP (UNAUDITED)
(OTHER BASIS OF ACCOUNTING)
DECEMBER 31, 2017**

General
Fixed Assets

ASSETS

General fixed assets \$ 237,851,437

Total assets \$ 237,851,437

LIABILITIES

Total noncurrent governmental assets \$ 237,851,437

Total liabilities \$ 237,851,437

CITY OF TROY, NEW YORK

**SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS PLAN (UNAUDITED)
(OTHER BASIS OF ACCOUNTING)
FOR THE YEAR ENDED DECEMBER 31, 2017**

Actuarial Valuation Date	Fiscal Year Ended	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a percentage of Covered Payroll
January 1, 2016	12/31/2017	\$ -	\$ 189,729,217	\$ 189,729,217	0%	\$ 30,526,076	621.5%
January 1, 2015	12/31/2016	\$ -	\$ 198,539,783	\$ 198,539,783	0%	\$ 31,083,702	638.7%
January 1, 2014	12/31/2015	\$ -	\$ 168,600,944	\$ 168,600,944	0%	\$ 32,676,319	516.0%

CITY OF TROY, NEW YORK

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)
(OTHER BASIS OF ACCOUNTING)
FOR THE YEAR ENDED DECEMBER 31, 2017

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS										
Proportion of the net pension liability (asset)	0.0509188%	0.0544292%	0.0556690%							
Proportionate share of the net pension liability (asset)	\$ 4,784	\$ 8,736	\$ 1,881							
Covered-employee payroll	\$ 12,146	\$ 12,551	\$ 12,756							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.39%	69.60%	14.75%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	94.70%	90.70%	97.95%							
Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.										
NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN - PFRS										
Proportion of the net pension liability (asset)	0.6212430%	0.6476601%	0.6390066%							
Proportionate share of the net pension liability (asset)	\$ 19,675	\$ 19,655	\$ 1,759							
Covered-employee payroll	\$ 18,380	\$ 18,532	\$ 17,628							
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	107.05%	106.06%	9.98%							
Plan fiduciary net position as a percentage of the total pension liability (asset)	93.50%	90.20%	99.00%							
Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.										

CITY OF TROY, NEW YORK

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN - ERS										
Contractually required contribution	\$ 2,181	\$ 2,367	\$ 2,288							
Contributions in relation to the contractually required contribution	<u>2,181</u>	<u>2,367</u>	<u>2,288</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Covered-employee payroll	\$ 12,146	\$ 12,551	\$ 12,756							
Contributions as a percentage of covered-employee payroll	17.96%	18.86%	17.94%							
Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.										
NEW YORK STATE POLICE AND FIRE RETIREMENT SYSTEM PLAN - PFRS										
Contractually required contribution	\$ 5,875	\$ 6,008	\$ 4,864							
Contributions in relation to the contractually required contribution	<u>5,875</u>	<u>6,008</u>	<u>4,864</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Covered-employee payroll	\$ 18,380	\$ 18,532	\$ 17,628							
Contributions as a percentage of covered-employee payroll	31.96%	32.42%	27.59%							
Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.										

REQUIRED REPORTS UNDER UNIFORM GUIDANCE

**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**

September 27, 2018

To the City Council of
City of Troy, New York:

We have audited, in accordance with the 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, which comprise the balance sheet – all fund types and non-current governmental liabilities account group – other basis as of December 31, 2017 of City of Troy, New York (City), and the statements of revenues, expenditures and changes in fund balance – all governmental fund types – other basis as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018. An adverse opinion was issued on the City's financial statements in accordance with generally accepted accounting principles. Unmodified opinions were reported on the financial statements in accordance with the other basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

(Continued)

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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

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

September 27, 2018

To the City Council of the
City of Troy, New York:

Report on Compliance for Each Major Federal Program

We have audited City of Troy, New York's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CITY OF TROY, NEW YORK

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identification Number</u>	<u>Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Housing and Urban Development				
Direct Awards:				
Community Development Block Grants - Entitlement Grant	14.218	B-00MC-36-0109	\$ 1,329,744	\$ -
Emergency Solutions Grants Program	14.231	S-00MC-36-0007	139,419	139,418
City of Schenectady/ HOME Investment Partnership Program	14.239	M-16-DC-360510	335,493	288,870
Community Development Block Grants - Brownfield Economic Development Initiative - Section 108 Loan Guarantees	14.248	B-00MC-36-0109	<u>1,664,000</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>3,468,656</u>	<u>428,288</u>
U.S. Department of Justice				
Direct Awards:				
Edward Byrne Memorial Justice Assistant Grant Program	16.738	Various	<u>72,967</u>	<u>-</u>
Passed through NYS Department of Criminal Justice Services:				
Violence Against Women Formula Grant	16.588	2013-WE-AX-0062	<u>151,467</u>	<u>-</u>
Total U.S. Department of Justice			<u>224,434</u>	<u>-</u>
U.S. Department of Transportation				
Passed through NYS Department of Transportation:				
Highway Planning and Construction	20.205	NYS-PIN-Various	205,067	-
NYS Gov Traffic Safety State and Community Highway Safety	20.600	PD-00198-042	266	-
NYS Gov Traffic Safety State and Community Highway Safety	20.600	PD-00373-042	<u>14,594</u>	<u>-</u>
Subtotal CFDA #20.600			<u>14,860</u>	
Total U.S. Department of Transportation			<u>219,927</u>	<u>-</u>
U.S. Department of Homeland Security				
Direct Awards:				
Assistance to Firefighters Grant	97.044	EMW-2013-FO-2076	347,870	-
Assistance to Firefighters Grant	97.044	N/A	<u>281,019</u>	<u>-</u>
Subtotal CFDA #97.044			<u>628,889</u>	
Passed through City of Albany, NY:				
NYS Homeland Security Grant Program	97.067	Various	<u>125,743</u>	<u>-</u>
Total U.S. Department of Homeland Security			<u>754,632</u>	<u>-</u>
Total expenditures of federal awards			<u>\$ 4,667,649</u>	<u>\$ 428,288</u>

See notes to schedule of expenditures of federal awards

See independent auditor's report

CITY OF TROY, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial Statements are prepared in accordance with GAAP:	Adverse	
Type of auditor's report issued on whether the financial statements present fairly in accordance with an other basis of accounting:	Unmodified	
Internal control over financial reporting:		
Material weakness (es) identified?	Yes	<input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	Yes	<input checked="" type="checkbox"/>
Noncompliance material to financial statements noted?	Yes	<input checked="" type="checkbox"/>

Federal Awards

Internal control over major programs:		
Material weakness (es) identified?	Yes	<input checked="" type="checkbox"/>
Significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/>	Yes
Type of auditor's report issued on compliance for major programs:		
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	<input checked="" type="checkbox"/>	Yes
Identification of major programs:		
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>	
14.248	CDBG – Brownfield Economic Development Initiative - Section 108 Loan Guarantees	
14.218	Community Development Block Grants – Entitlement Grants	
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/>	Yes

CITY OF TROY, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Section I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial Statements are prepared in accordance with GAAP:	Adverse		
Type of auditor's report issued on whether the financial statements present fairly in accordance with an other basis of accounting:	Unmodified		
Internal control over financial reporting:			
Material weakness (es) identified?	Yes	<input checked="" type="checkbox"/>	No
Significant deficiencies identified not considered to be material weaknesses?	Yes	<input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statements noted?	Yes	<input checked="" type="checkbox"/>	No

Federal Awards

Internal control over major programs:				
Material weakness (es) identified?	Yes	<input checked="" type="checkbox"/>	No	
Significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/>	Yes	No	
Type of auditor's report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	Yes	<input checked="" type="checkbox"/>	No	
Identification of major programs:				
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>			
14.248	CDBG – Brownfield Economic Development Initiative - Section 108 Loan Guarantees			
14.218	Community Development Block Grants – Entitlement Grants			
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000			
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

CITY OF TROY, NEW YORK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) YEAR ENDED DECEMBER 31, 2017

Section II—Financial Statement Findings

None.

Section III—FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Finding 2017-001 Community Development Block Grants/Entitlement Grants (CDBG), CFDA #14.218; Grant Period – Year ended December 31, 2017; Finding First Reported as 2016-001

Condition: The City has not updated its cost allocation plan since 2009.

Criteria: The City should update its indirect cost allocation plan to determine indirect costs to be allocated to certain federal programs.

Cause: The City allocated indirect costs to its CDBG grant absent a recent indirect cost allocation plan.

Effect: The City is unable to justify indirect costs allocated to CDBG.

Questioned Costs: Could not be determined.

Auditor's Recommendation: We recommend the City update its indirect cost allocation plan.

Office of the Comptroller Response: The City of Troy contracted with a consultant to prepare a cost allocation plan.

Section IV – Summary Schedule of Prior Audit Findings

Condition: The City has not updated its cost allocation plan since 2009.

Auditor's Recommendation: We recommend the City update its indirect cost allocation plan.

Office of the Comptroller Response/Current Status: The City of Troy contracted with a consultant to prepare a cost allocation plan. This finding was repeated as 2017-001.